

McAfee, Inc.
Form 10-Q
May 12, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

- ☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008**
- or**
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from to**

Commission file number: 001-31216

McAfee, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

77-0316593

*(I.R.S. Employer
Identification Number)*

3965 Freedom Circle

Santa Clara, California

(Address of principal executive offices)

95054

(Zip Code)

Registrant's telephone number, including area code:

(408) 988-3832

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2008, 160,997,535 shares of the registrant's common stock, \$0.01 par value, were outstanding.

**MCAFEE, INC.
FORM 10-Q**

March 31, 2008

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Table of Contents**PART I: FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****MCAFEE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2008	December 31, 2007
	(In thousands, except share data) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 454,312	\$ 394,158
Short-term marketable securities	349,942	338,770
Accounts receivable, net of allowance for doubtful accounts of \$5,905 and \$4,076, respectively	195,113	232,056
Prepaid expenses and prepaid taxes	196,551	162,574
Deferred income taxes	249,701	256,188
Other current assets	25,909	24,000
Total current assets	1,471,528	1,407,746
Long-term marketable securities	488,830	585,874
Property and equipment, net	93,826	94,670
Deferred income taxes	299,690	321,342
Intangible assets, net	227,275	220,126
Goodwill	804,384	750,089
Other assets	49,651	34,256
Total assets	\$ 3,435,184	\$ 3,414,103
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 40,876	\$ 45,858
Accrued income taxes	72,806	79,553
Accrued compensation	70,899	99,652
Other accrued liabilities	166,824	150,961
Deferred revenue	837,635	801,577
Total current liabilities	1,189,040	1,177,601
Deferred revenue, less current portion	243,109	242,936
Accrued taxes and other long-term liabilities	88,273	88,241

Total liabilities	1,520,422	1,508,778
Commitments and contingencies (Notes 11 and 12)		
STOCKHOLDERS EQUITY		
Preferred stock, \$0.01 par value:		
Authorized: 5,000,000 shares; Issued and outstanding: none in 2008 and 2007		
Common stock, \$0.01 par value:		
Authorized: 300,000,000 shares; Issued: 177,169,508 shares at March 31, 2008 and 173,148,853 shares at December 31, 2007		
Outstanding: 160,760,450 shares at March 31, 2008 and 160,545,422 shares at December 31, 2007	1,772	1,732
Treasury stock, at cost: 16,409,058 shares at March 31, 2008 and 12,603,431 shares at December 31, 2007	(430,445)	(303,270)
Additional paid-in capital	1,899,095	1,810,290
Accumulated other comprehensive income	50,096	32,498
Retained earnings	394,244	364,075
Total stockholders equity	1,914,762	1,905,325
Total liabilities and stockholders equity	\$ 3,435,184	\$ 3,414,103

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**MCAFEE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

	Three Months Ended March 31,	
	2008	2007
	(In thousands, except per share data)	
	(Unaudited)	
Net revenue:		
Service and support	\$ 188,218	\$ 167,605
Subscription	160,974	128,368
Product	20,449	18,905
Total net revenue	369,641	314,878
Cost of net revenue:		
Service and support	14,844	12,393
Subscription	46,590	37,386
Product	14,942	11,905
Amortization of purchased technology and patents	13,560	8,369
Total cost of net revenue	89,936	70,053
Operating costs:		
Research and development	58,625	54,613
Marketing and sales	118,357	93,081
General and administrative	42,689	44,851
SEC and compliance costs	1,376	5,052
Amortization of intangibles	5,340	2,682
Restructuring charges	71	3,126
Total operating costs	226,458	203,405
Income from operations	53,247	41,420
Interest and other income, net	13,035	14,315
Gain on sale of investments, net	2,462	109
Income before provision for income taxes	68,744	55,844
Provision for income taxes	38,575	12,494
Net income	\$ 30,169	\$ 43,350
Other comprehensive income:		
Unrealized (loss) gain on marketable securities, net of reclassification adjustment for gains (losses) recognized on marketable securities during the period and income tax	\$ (937)	\$ 469
Foreign currency translation gain	18,535	436

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Comprehensive income		\$ 47,767	\$ 44,255
Net income per share Basic		\$ 0.19	\$ 0.27
Net income per share Diluted		\$ 0.18	\$ 0.27
Shares used in per share calculation Basic		160,992	159,799
Shares used in per share calculation Diluted		164,867	163,174

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**MCAFEE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended	
	March 31,	
	2008	2007
	(In thousands)	
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 30,169	\$ 43,350
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,489	20,278
Provision for (recovery of) doubtful accounts, net	302	(284)
Non-cash restructuring (benefit) charge	(281)	1,365
Discount amortization on marketable securities	(1,090)	(1,431)
Loss on sale of assets and technology	3	4
Gain on sale of investments	(2,462)	(109)
Deferred income taxes	34,587	6,668
Decrease in fair value of options accounted for as liabilities	(5,483)	
Non-cash stock-based compensation expense	11,657	20,707
Excess tax benefits from stock-based compensation	(9,520)	(12)
Changes in assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	45,321	24,882
Prepaid expenses, prepaid taxes and other assets	(10,823)	(3,223)
Accounts payable	(7,741)	1,102
Accrued taxes and other liabilities	(32,860)	(6,268)
Deferred revenue	(8,894)	(5,248)
Net cash provided by operating activities	71,374	101,781
Cash flows from investing activities:		
Purchase of marketable securities	(178,052)	(167,646)
Proceeds from sales of marketable securities	176,400	95,227
Proceeds from maturities of marketable securities	89,515	59,835
Acquisitions, net of cash acquired	(55,041)	
(Increase) decrease in restricted cash	(12)	352
Purchase of property, equipment and leasehold improvements	(10,493)	(10,150)
Proceeds from the sale of assets and technology		4,105
Net cash provided by (used in) investing activities	22,317	(18,277)
Cash flows from financing activities:		
Proceeds from issuance of common stock from option plans	53,677	
Excess tax benefits from stock-based compensation	9,520	12
Repurchase of common stock	(127,175)	(196)

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Net cash used in financing activities	(63,978)	(184)
Effect of exchange rate fluctuations on cash	30,441	3,932
Net increase in cash and cash equivalents	60,154	87,252
Cash and cash equivalents at beginning of period	394,158	389,627
Cash and cash equivalents at end of period	\$ 454,312	\$ 476,879
Non-cash investing and financing activities:		
Unrealized (loss) gain on marketable securities, net	\$ (937)	\$ 469
Accrual for purchase of property, equipment and leasehold improvements	\$ 1,382	\$ 3,928
Accrual for intangibles	\$	\$ 9,300
Fair value of assets acquired in business combination, excluding cash acquired	\$ 64,274	\$
Liabilities assumed in business combination	\$ 13,973	\$
Accrued purchase price	\$ 1,268	\$
Modification of stock options reclassification from equity to liability	\$	\$ 4,326
Exercise of stock options reclassification from liability to equity awards	\$ 16,994	\$
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 9,155	\$ 10,688
Cash received from income tax refunds	\$ 1,905	\$ 1,113

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

McAfee, Inc. and our wholly owned subsidiaries (we , us or our) are a worldwide security technology company that secures systems and networks from known and unknown threats around the world. Our security solutions are offered primarily to large enterprises, governments, small and medium-sized businesses and consumers through a network of qualified partners. We operate our business in five geographic regions: North America; Europe, Middle East and Africa (EMEA); Japan; Asia-Pacific, excluding Japan; and Latin America.

2. Summary of Significant Accounting Policies and Basis of Presentation

The accompanying condensed consolidated financial statements include our accounts as of March 31, 2008 and December 31, 2007 and for the three months ended March 31, 2008 and March 31, 2007. All intercompany accounts and transactions have been eliminated in consolidation. These condensed consolidated financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The December 31, 2007 condensed consolidated balance sheet was derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. However, we believe that all disclosures are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in our annual report on Form 10-K for the year ended December 31, 2007.

In the opinion of our management, all adjustments (which consist of normal recurring adjustments, except as disclosed herein) necessary to fairly present our financial position, results of operations and cash flows for the interim periods presented have been included. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year or for any future periods.

Significant Accounting Policies

Inventory

Inventory, which consists primarily of finished goods held at fulfillment partner locations and inventory sold into our channel that has not been sold through to the end-user, is stated at the lower of cost or market. Cost is computed using standard cost, which approximates actual cost on a first in, first out basis. Inventory balances are included in other current assets in our condensed consolidated balance sheets and were \$3.8 million as of March 31, 2008 and \$3.0 million as of December 31, 2007.

Deferred Costs of Revenue

Deferred costs of revenue, which consist primarily of costs related to revenue-sharing arrangements and royalty arrangements, are included in prepaid expenses and other assets on our condensed consolidated balance sheets. We only defer direct and incremental costs related to revenue-sharing arrangements and recognize such deferred costs proportionate to the related revenue recognized. At March 31, 2008, our deferred costs were \$99.2 million compared to \$79.0 million at December 31, 2007.

SEC and Compliance Costs

SEC and compliance costs in 2008 include ongoing legal expenses arising as a result of our historical investigation into our stock option granting practices and in 2007 include various expenses related to our historical investigation into our stock option granting practices.

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