

MCAFEE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(Unaudited)

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Assets:		
Cash and marketable securities	\$ 593,725	\$ 1,318,802
Accounts receivable, net	322,986	232,056
Prepaid expenses, income taxes and other current assets	255,091	158,995
Property and equipment, net	114,435	94,670
Deferred taxes	614,806	577,530
Goodwill, intangibles and other long term assets, net	1,551,747	1,004,471
Total assets	<u>\$ 3,452,790</u>	<u>\$ 3,386,524</u>
Liabilities:		
Accounts payable	\$ 41,529	\$ 45,858
Accrued liabilities	292,912	302,587
Deferred revenue	1,293,110	1,044,513
Accrued taxes and other long term liabilities	72,751	88,241
Total liabilities	<u>1,700,302</u>	<u>1,481,199</u>
Stockholders' Equity:		
Common stock	1,812	1,732
Treasury stock	(819,861)	(303,270)
Additional paid-in capital	2,053,245	1,810,290
Accumulated other comprehensive income	(18,992)	32,498
Retained earnings	536,284	364,075
Total stockholders' equity	<u>1,752,488</u>	<u>1,905,325</u>
Total liabilities and stockholders' equity	<u>\$ 3,452,790</u>	<u>\$ 3,386,524</u>

MCAFEE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(Unaudited)

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2008	2007	2008	2007
Net revenue	\$ 423,987	\$ 356,526	\$ 1,600,065	\$ 1,308,220
Cost of net revenue (1)	89,066	75,456	326,717	270,454
Amortization of purchased technology and patents	16,284	10,986	56,811	35,290
Gross profit	<u>318,637</u>	<u>270,084</u>	<u>1,216,537</u>	<u>1,002,476</u>
Operating costs:				
Research and development (1)	66,592	53,616	250,908	213,000
Sales and marketing (1)	142,147	108,847	525,309	387,411
General and administrative (1)	42,980	53,909	183,919	178,612
Amortization of intangibles	9,992	4,386	26,470	13,583
In-process research and development	19,500	-	19,500	-
Legal settlement	-	-	9,000	-
Acquisition related costs	2,981	2,781	7,430	8,295
Investigation-related and other costs	4,054	7,867	5,989	32,952
Loss on sale/disposal of assets and technology	111	65	193	41
Restructuring (benefits) charges	(2,284)	5,611	(1,752)	8,769
Total operating costs	<u>286,073</u>	<u>237,082</u>	<u>1,026,966</u>	<u>842,663</u>
Income from operations	<u>32,564</u>	<u>33,002</u>	<u>189,571</u>	<u>159,813</u>
Interest and other income, net	5,726	16,280	51,168	69,391
Impairment of marketable securities	(3,607)	-	(18,533)	-
Income before provision for income taxes	34,683	49,282	222,206	229,204
Provision for income taxes	(10,723)	37,097	49,997	62,224
Net income	<u>\$ 45,406</u>	<u>\$ 12,185</u>	<u>\$ 172,209</u>	<u>\$ 166,980</u>
Net income per share - basic	<u>\$ 0.30</u>	<u>\$ 0.08</u>	<u>\$ 1.10</u>	<u>\$ 1.04</u>
Net income per share - diluted	<u>\$ 0.29</u>	<u>\$ 0.07</u>	<u>\$ 1.08</u>	<u>\$ 1.02</u>
Shares used in per share calculation - basic	<u>152,792</u>	<u>159,871</u>	<u>156,205</u>	<u>159,819</u>
Shares used in per share calculation - diluted	<u>155,378</u>	<u>165,073</u>	<u>159,406</u>	<u>164,126</u>

(1) Cash and non-cash stock-based compensation charges are included as follows:

Cost of net revenue	\$ 1,099	\$ 565	\$ 3,701	\$ 3,130
Research and development	5,440	3,006	18,476	14,023
Sales and marketing	10,523	4,945	32,625	21,756
General and administrative	7,087	7,169	22,079	20,108
	<u>\$ 24,149</u>	<u>\$ 15,685</u>	<u>\$ 76,881</u>	<u>\$ 59,017</u>

MCAFEE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Twelve Months Ended	
	December 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 172,209	\$ 166,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	123,894	84,427
Impairment of marketable securities	18,533	-
Acquired in-process research and development	19,500	-
Non-cash restructuring (benefits) charges	(7,471)	6,035
Deferred income taxes	(10,724)	151
(Decrease) increase in fair value of options accounted for as liabilities	(5,483)	8,745
Non-cash stock-based compensation expense	76,662	56,132
Excess tax benefits from stock-based awards	(17,693)	(1,092)
Other non-cash items	(3,688)	(5,076)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(68,208)	(33,295)
Prepaid expenses, prepaid taxes and other assets	(72,209)	(34,655)
Accounts payable	(7,775)	6,769
Accrued taxes and other liabilities	(38,584)	47,413
Deferred revenue	129,359	90,881
Net cash provided by operating activities	<u>308,322</u>	<u>393,415</u>
Cash flows from investing activities:		
Purchase of marketable securities	(252,031)	(927,257)
Proceeds from sales of marketable securities	587,587	404,106
Proceeds from maturities of marketable securities	466,101	458,142
Acquisitions, net of cash acquired	(550,648)	(333,377)
(Increase) decrease in restricted cash	(2,036)	379
Purchase of patents	-	(9,300)
Purchase of property and equipment	(48,747)	(33,568)
Proceeds from the sale of assets and technology	-	4,105
Net cash provided by (used in) investing activities	<u>200,226</u>	<u>(436,770)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock from stock plans	129,990	9,793
Excess tax benefits from stock-based awards	17,693	1,092
Repurchase of common stock	(516,591)	(196)
Other financing	(3,054)	-
Net cash (used in) provided by financing activities	<u>(371,962)</u>	<u>10,689</u>
Effect of exchange rate fluctuations on cash	<u>(47,442)</u>	<u>37,197</u>
Net increase in cash and cash equivalents	89,144	4,531
Cash and cash equivalents at beginning of period	394,158	389,627
Cash and cash equivalents at end of period	<u>\$ 483,302</u>	<u>\$ 394,158</u>

MCAFEE, INC. AND SUBSIDIARIES
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(in thousands, except per share data)
(Unaudited)

		Three Months Ended		Twelve Months Ended	
		December 31,		December 31,	
		2008	2007	2008	2007
Net revenue:					
GAAP net revenue		\$ 423,987	\$ 356,526	\$ 1,600,065	\$ 1,308,220
Gross profit:					
GAAP gross profit		\$ 318,637	\$ 270,084	\$ 1,216,537	\$ 1,002,476
Non-cash stock-based compensation charges and stock-based compensation charges related to tender offer	(A)	1,099	533	3,722	3,018
Amortization of purchased technology and patents	(B)	16,284	10,986	56,811	35,290
Non-GAAP gross profit		<u>\$ 336,020</u>	<u>\$ 281,603</u>	<u>\$ 1,277,070</u>	<u>\$ 1,040,784</u>
Operating income:					
GAAP operating income		\$ 32,564	\$ 33,002	\$ 189,571	\$ 159,813
Non-cash stock-based compensation charges and stock-based compensation charges related to tender offer	(A)	24,149	14,914	77,263	56,132
Amortization of purchased technology and patents	(B)	16,284	10,986	56,811	35,290
Amortization of intangibles	(B)	9,992	4,386	26,470	13,583
In-process research and development	(C)	19,500	-	19,500	-
Legal settlement	(D)	-	-	9,000	-
Acquisition related costs	(E)	2,981	2,781	7,430	8,295
Investigation-related and other costs	(F)	4,054	7,867	5,989	32,952
Acquired intangible asset expensed to research and development	(G)	-	-	2,000	-
Loss on sale/disposal of assets and technology	(H)	111	65	193	41
Restructuring (benefits) charges	(I)	(2,284)	5,611	(1,752)	8,769
Change in fair value of stock-based liability awards	(J)	-	7,050	(5,483)	8,739
Non-GAAP operating income		<u>\$ 107,351</u>	<u>\$ 86,662</u>	<u>\$ 386,992</u>	<u>\$ 323,614</u>
Net income:					
GAAP net income		\$ 45,406	\$ 12,185	\$ 172,209	\$ 166,980
Non-cash stock-based compensation charges and stock-based compensation charges related to tender offer	(A)	24,149	14,914	77,263	56,132
Amortization of purchased technology and patents	(B)	16,284	10,986	56,811	35,290
Amortization of intangibles	(B)	9,992	4,386	26,470	13,583
In-process research and development	(C)	19,500	-	19,500	-
Legal settlement	(D)	-	-	9,000	-
Acquisition related costs	(E)	2,981	2,781	7,430	8,295
Investigation-related and other costs	(F)	4,054	7,867	5,989	32,952
Acquired intangible asset expensed to research and development	(G)	-	-	2,000	-
Loss on sale/disposal of assets and technology	(H)	111	65	193	41
Restructuring (benefits) charges	(I)	(2,284)	5,611	(1,752)	8,769
Change in fair value of stock-based liability awards	(J)	-	7,050	(5,483)	8,739
Impairment of marketable securities	(K)	3,607	-	18,533	-
Provision for income taxes	(L)	(10,723)	37,097	49,997	62,224
Non-GAAP income before provision for income taxes		113,077	102,942	438,160	393,005
Non-GAAP provision for income taxes	(M)	30,531	27,794	118,303	106,111
Non-GAAP net income		<u>\$ 82,546</u>	<u>\$ 75,148</u>	<u>\$ 319,857</u>	<u>\$ 286,894</u>
Net income per share - diluted: *					
GAAP net income per share - diluted		\$ 0.29	\$ 0.07	\$ 1.08	\$ 1.02
Non-cash stock-based compensation charges and stock-based compensation charges related to tender offer adjustment per share	(A)	0.16	0.09	0.48	0.34
Other adjustments per share	(B)-(M)	0.08	0.29	0.44	0.39
Non-GAAP net income per share - diluted *		<u>\$ 0.53</u>	<u>\$ 0.46</u>	<u>\$ 2.01</u>	<u>\$ 1.75</u>
Shares used to compute Non-GAAP net income per share - diluted		<u>155,378</u>	<u>165,073</u>	<u>159,406</u>	<u>164,126</u>

* Non-GAAP net income per share is computed independently for each period presented. The sum of GAAP net income per share and non-GAAP adjustments may not equal non-GAAP net income per share due to rounding differences.

This presentation includes non-GAAP measures. Our non-GAAP measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. For a detailed explanation of the adjustments made to comparable GAAP measures, the reasons why management uses these measures, the usefulness of these measures and the material limitations of these measures, see items (A) through (M).

Items (A) through (M) on the "Reconciliation of GAAP to Non-GAAP Financial Measures" table are listed to the right of certain categories under "Gross profit," "Operating income," "Net income" and "Net income per share - diluted" and correspond to the categories explained in further detail below under paragraphs (A) through (M).

While we currently do not believe a non-GAAP net revenue metric is meaningful, GAAP net revenue has been provided to enable an understanding of the relationships between GAAP net revenue and the GAAP and non-GAAP financial measures included in the table above. As an example, this facilitates non-GAAP expense to revenue analysis. The non-GAAP financial measures are non-GAAP gross profit, non-GAAP operating income, non-GAAP net income and non-GAAP net income per share - diluted, which adjust for the following items: non-cash stock-based compensation charges and stock-based compensation charges related to tender offer, amortization of purchased technology, patents and intangibles, in-process research and development, legal settlement, acquisition related costs, investigation related and other costs, acquired intangible asset expensed to research and development, loss on sale/disposal of assets and technology, restructuring (benefits) charges, change in fair value of stock-based liability awards, impairment of marketable securities, income taxes and certain other items. We believe that the presentation of these non-GAAP financial measures is useful to investors, and such measures are used by our management, for the reasons associated with each of the adjusting items as described below:

- (A) *Non-cash stock-based compensation charges and stock-based compensation charges related to tender offer* consist of non-cash charges relating to stock-based awards issued to employees and outside directors including stock options, restricted stock awards and units, restricted stock units with performance-based vesting and our Employee Stock Purchase Plan determined in accordance with SFAS 123R. Because of varying available valuation methodologies, subjective assumptions and the variety of award types, the Company believes that the exclusion of non-cash stock-based compensation charges allows for more accurate comparisons of our operating results to our peer companies, and for a more accurate comparison of our financial results to previous periods. In addition, the Company believes it is useful to investors to understand the specific impact of the application of SFAS 123R on our operating results. The amount in 2008 also includes stock-based compensation charges related to the tender offer.
- (B) *Amortization of purchased technology, patents, and intangibles* are non-cash charges that can be impacted by the timing and magnitude of our acquisitions. The Company considers its operating results without these charges when evaluating its ongoing performance and/or predicting its earnings trends, and therefore excludes such charges when presenting non-GAAP financial measures. The Company believes the assessment of its operations excluding these costs is relevant to its assessment of internal operations and comparisons to the performance of other companies in its industry.
- (C) *In-process research and development* constitute non-cash charges that vary significantly in size and amount depending on the business combination and, therefore, are disregarded by the Company's management when evaluating its ongoing performance and/or predicting its earnings trends. The Company believes it is useful to investors to understand the specific impact of these charges on its operating results.
- (D) *Legal settlement* is a settlement related to a patent legal matter. The Company's management excludes this settlement when evaluating its ongoing performance and/or predicting its earnings trends, and therefore excludes this amount when presenting non-GAAP financial measures.
- (E) *Acquisition related costs* include expenses associated with integration activities of acquisitions and acquisition retention bonuses and severance. These expenses vary significantly in size and amount and are disregarded by the Company's management when evaluating and predicting earnings trends because these charges are unique to specific acquisitions, and are therefore excluded by the Company when presenting non-GAAP financial measures.
- (F) *Investigation-related and other costs* are charges related to discrete and unusual events where the Company has incurred significant costs which, in the Company's view, are not incurred in the ordinary course of operations. Recent examples of such charges include legal expenses related to the special committee investigation into the Company's past stock option granting practices which was completed in December 2007. The Company's management excludes these costs when evaluating its ongoing performance and/or predicting its earnings trends, and therefore excludes these charges when presenting non-GAAP financial measures. Further, the Company believes it is useful to investors to understand the specific impact of these charges on its operating results.
- (G) *Acquired intangible asset expensed to research and development* is related to the purchase of an intangible asset, which, similar to in-process research and development costs, was expensed immediately. The Company's management excludes this cost when evaluating its ongoing performance and/or predicting its earnings trends, and therefore excludes this cost when presenting non-GAAP financial measures. Further, the Company believes it is useful to investors to understand the specific impact of this cost on its operating results.
- (H) *Loss on sale/disposal of assets and technology* relate to the sale or disposal of assets of the Company. These losses or gains can vary significantly in size and amount. The Company's management excludes these losses or gains when evaluating its ongoing performance and/or predicting its earnings trends, and therefore excludes these items when presenting non-GAAP financial measures. In addition, in periods where the Company realizes gains or incurs losses on the sale of assets and/or technology, the Company believes it is useful to investors to highlight the specific impact of these charges on its operating results.
- (I) *Restructuring (benefits) charges* include excess facility and asset-related restructuring charges and severance costs resulting from reductions of personnel driven by modifications to the Company's business strategy, such as acquisitions or divestitures. These costs may vary in size based on the Company's restructuring plan. In addition, the Company's assumptions are continually evaluated, which may increase or reduce the charges in a specific period. The Company's management excludes these costs when evaluating its ongoing performance and/or predicting its earnings trends, and therefore excludes these charges when presenting non-GAAP financial measures.
- (J) *Change in fair value of stock-based liability awards* constitutes the expense or benefit associated with the change in fair value of stock-based liability awards at the end of the each reporting period. The Company's management excludes these (benefits) costs when evaluating its ongoing performance and/or predicting its earnings trends, and therefore excludes these amounts when presenting non-GAAP financial measures.
- (K) *Impairment of marketable securities* constitutes the "other than temporary" decline in the fair value of the Company's available-for-sale securities. The Company's management excludes this loss when evaluating its ongoing performance and/or predicting its earnings trends, and therefore excludes this loss when presenting non-GAAP financial measures.
- (L) *Provision for income taxes* is our GAAP provision that must be added back to GAAP net income to reconcile to non-GAAP income before taxes.
- (M) *Non-GAAP provision for income taxes* reflects a 27% non-GAAP effective tax rate used by the Company's management to calculate non-GAAP net income. Management believes that the 27% effective tax rate in each respective period is reflective of a long-term normalized tax rate under the global McAfee legal entity and tax structure as of the respective period end.

MCAFEE, INC. AND SUBSIDIARIES
PROJECTED GAAP REVENUE AND RECONCILIATION OF PROJECTED
GAAP NET INCOME PER SHARE TO PROJECTED NON-GAAP NET INCOME PER SHARE
(Unaudited)

	Q1 FY'09
Projected GAAP revenue range	\$440M - \$460M
Projected net income per share reconciliation:	
Projected GAAP net income per share range - diluted	\$0.20 - \$0.24
Add back:	
Projected non-cash stock-based compensation adjustment per share, net of tax (1)	\$0.17 - \$0.21
Projected other adjustments per share, net of tax (2)	\$0.05 - \$0.09
Projected non-GAAP net income per share range - diluted*	\$0.46 - \$0.50

* We believe that providing a forecast of the non-GAAP items set forth above is useful to investors, and such items are used by our management, for the reasons associated with each of the adjusting items as described below.

- (1) *Non-cash stock-based compensation charges* consist of non-cash charges relating to stock-based awards issued to employees and outside directors including stock options, restricted stock awards and units, restricted stock units with performance-based vesting and our Employee Stock Purchase Plan determined in accordance with SFAS 123R. Because of varying available valuation methodologies, subjective assumptions and the variety of award types, the Company believes that the exclusion of non-cash stock-based compensation charges allows for more accurate comparisons of our operating results to our peer companies, and for a more accurate comparison of our financial results to previous periods. In addition, the Company believes it is useful to investors to understand the specific impact of the application of SFAS 123R on our operating results.
- (2) Other adjustments include amortization of purchased technology, patents, and intangibles, investigation-related and other costs, restructuring charges, acquisition related costs, loss/gain on sale/disposal of assets and technology, income taxes and certain other items. We exclude these items because we believe they are not directly related to the operation of our business. A more detailed explanation of the reasons why we exclude these categories from our GAAP net income is contained in paragraphs (B) through (M) above under the table entitled "Reconciliation of GAAP to Non-GAAP Financial Measures."

For Q1 FY'09, this guidance reflects an assumed annual GAAP tax rate of 8% and an annual non-GAAP tax rate of 24%.

MCAFEE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED REVENUE BY PRODUCT GROUPS
(in thousands)
(Unaudited)

	Three Months Ended December 31, 2008		Three Months Ended September 30, 2008		Three Months Ended June 30, 2008		Three Months Ended March 31, 2008		Three Months Ended December 31, 2007	
McAfee Corporate	\$ 260,615	61%	\$ 246,713	60%	\$ 239,998	60%	\$ 216,411	59%	\$ 215,295	60%
McAfee Consumer	163,372	39%	162,966	40%	156,760	40%	153,230	41%	141,231	40%
Total McAfee	<u>\$ 423,987</u>	<u>100%</u>	<u>\$ 409,679</u>	<u>100%</u>	<u>\$ 396,758</u>	<u>100%</u>	<u>\$ 369,641</u>	<u>100%</u>	<u>\$ 356,526</u>	<u>100%</u>