AUTOLIV INC
Form 8-K
November 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15 (d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) November 14, 2005

AUTOLIV, INC.

(Exact name of registrant as specified in its chapter)

Delaware	**001-12933**	**51-0378542**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

World Trade Center,
Klarabergsviadukten 70, SE-107 24
Stockholm, Sweden

(Address of principal executive offices)

Registrant's telephone number, including area code **+46-8-587 20 600**

Not Applicable

(Former name or former address, if changed since last report)

Item 1.01 Entry into a Material Definitive Agreement

On November 7, 2005 Autoliv, Inc. signed a Facilities Agreement of US$ 1,100,000,000, which is attached hereto as Exhibit 99.h and is hereby incorporated by reference.

On November 8, 2005, Autoliv, Inc. issued a press release announcing the new credit facility, which is furnished as exhibit 99.1 to this report and is hereby incorporated by reference.

Item 9.01 Financial Statements and Exhibits

(c) EXHIBITS

99.h Facilities Agreement of US$ 1,100,000,000 dated November 7, 2005, among Autoliv, Inc. and the lenders named therein.

99.1 Press Release of Autoliv, Inc. dated November 8, 2005, reporting the new credit facility.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date November 14, 2005	**AUTOLIV, INC.** (Registrant) **/s/Jörgen Svensson** Jörgen Svensson Vice President - Legal Affairs, General Counsel and Secretary

ted to the external competitive landscape.

All of the equity awards granted since 2008 to our employees, including our named executive officers, have been approved by our compensation committee, pursuant to a formal equity granting policy that includes the following policies and procedures:

All new-hire, promotional and retention awards are aggregated for approval on predetermined dates (typically once per quarter following our earnings announcements);

No individual or committee other than the compensation committee or the board of directors is authorized to approve awards;

All awards are approved at a meeting of the compensation committee or the board of directors, and not by written consent;

We determine the exercise price of a stock option based on the fair market value of our common stock on the grant date (unless otherwise legally required for grants of awards to non-US individuals); and

There are detailed written procedures in place for grant approvals and documentation.

D. 2010 Executive Compensation Decisions

1. Overview

This section describes the executive compensation decisions made by our compensation committee for 2010. Except with respect to Mr. Watzinger, none of our executive officers received a base salary increase in 2010. In February 2010, we granted a combination of stock options, PSUs and RSUs to our executive officers.

2. PSU Vesting Criteria for 2010 Performance Period

With respect to the PSUs granted to our named executive officers during 2009 and 2010, the vesting of the maximum number of PSUs allocated to the 2010 performance period was contingent upon the company achieving 2010 non-GAAP earnings per share of $2.85 (based upon target level adjustments described below). The number of PSUs earned adjust downward if performance achievement is below the maximum target level. Based on our 2010 non-GAAP earnings per share performance, the compensation committee certified that approximately 92% of the maximum number of PSUs allocated to the 2010 performance period for the awards made to our named executive officers were earned.

With respect to the PSUs granted to our named executive officers during 2008, the vesting of the PSUs allocated to the 2010 performance period was contingent upon the company achieving 2010 non-GAAP earnings per share of $2.59 (based upon target level adjustments described below). In contrast to the PSUs granted during 2009 and 2010, the PSUs granted during 2008 do not adjust downward as to the number of PSUs earned if performance achievement is below the target level. Based on our 2010 non-GAAP earnings per share performance, the compensation committee certified that the PSUs allocated to the 2010 performance period were fully earned.

In judging the company s achievement against the non-GAAP earnings per share target levels the compensation committee may adjust the target levels for fluctuations in currency exchange rates, mergers and acquisitions and certain one-time charges, as appropriate. In 2010, the compensation committee adjusted the financial target levels for fluctuations in currency exchange rates and also to exclude the financial impact of our acquisitions of Trust Digital, tenCube and InternetSafety.com. The compensation committee did not otherwise adjust the non-GAAP earnings per share financial target levels.

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3. Key Performance Metrics and Cash Bonuses for 2010

Our board of directors approved the company s strategic imperatives for 2010. The compensation committee then established 2010 KPMs for overall company performance as well as individual performance objectives for our chief executive officer based on the company s strategic imperatives for 2010. The compensation committee also identified specific measurement methods for each KPM. Our chief executive officer established 2010 KPMs for the individual performance objectives for our other executive officers, in consultation with those executives, based primarily on the company s strategic imperatives for 2010 and those KPMs are reviewed and approved by the compensation committee. Our chief executive officer also identified specific measurement methods for each KPM.

As described above, the compensation committee determines the amount of the cash bonus each executive earns using the following process. To ensure that the deductibility of bonuses paid to our executive officers is not limited by Section 162(m) of the Internal Revenue Code and as a condition to the payment of any bonus amounts, the compensation committee first determines if the financial performance criteria are satisfied. In January 2010, the compensation committee established financial performance criteria triggering eligibility for maximum cash bonus opportunities for our executive officers with respect to each quarter in 2010 as well as for the full year. The maximum cash bonus opportunities for our executive officers equaled 175% of the individual target cash bonus opportunities. The 2010 financial criteria triggering eligibility to receive the maximum cash bonus opportunities for our executive officers were as follows:

	Q1-2010	**Q2-2010**	**Q3-2010**	**Q4-2010**	**Full Year 2010**
Non-GAAP Earnings Per Share	$ 0.48	$ 0.52	$ 0.55	$ 0.58	$ 2.13

In accordance with Section 162(m), achievement of the objective financial performance criteria was substantially uncertain at the time the compensation committee established the criteria, in particular because of the uncertainty around the severity or length of time that adverse national and global economic and financial market conditions would persist. Our non-GAAP earnings per share performance for each quarter in 2010 as well as for the full year exceeded the performance criteria established by the compensation committee in order to trigger eligibility for the maximum cash bonus opportunities.

Once the compensation committee determined that the executive officers were eligible for the maximum cash bonus opportunity, the compensation committee assessed other financial and operational factors at company-wide and individual levels to determine whether to reduce (or eliminate) the cash bonus awards that each executive officer was eligible to receive. The financial and operational factors considered by the compensation committee included:

Analysis of revenue and change in deferred revenue, non-GAAP earnings per share and operating cash flow; and

Performance against company-wide and individual KPMs as determined by the compensation committee (with input from our chief executive officer regarding other the executive officers).

Following its review of these factors, the compensation committee decided to reduce the bonus payouts to our executive officers to amounts that ranged in the aggregate from 84 to 103% of the individual target cash bonus opportunities. The primary reason for reducing the bonus payouts was to align the bonuses to our financial performance in each measurement period based upon our achievement in revenue and change in deferred revenue, non-GAAP earnings per share and operating cash flow as compared to our internal business plan in each measurement period.

As previously discussed with respect to financial targets for PSUs, in judging the company s achievement against the non-GAAP earnings per share target levels the compensation committee may adjust the target levels for fluctuations in currency exchange rates, mergers and acquisitions and certain one-time charges, as appropriate. In 2010, the compensation committee adjusted the target levels for fluctuations in currency exchange rates and also to exclude the financial impact of our acquisitions of Trust Digital, tenCube and InternetSafety.com. The compensation committee did not otherwise adjust the non-GAAP earnings per share target levels.

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4. Compensation for David G. DeWalt

Mr. DeWalt was hired as our president and chief executive officer in April 2007. Mr. DeWalt did not receive a base salary increase in 2010. The compensation committee believed his 2009 base salary of $950,000 was still appropriate based upon market comparables among our peer companies and because of the uncertainty around the severity or length of time that adverse national and global economic and financial market conditions would persist. For the same reasons, Mr. DeWalt s target cash bonus opportunity remained unchanged at 111% of his base salary. Based on our achievement of our 2010 financial metrics described above and the compensation committee s assessment of his individual performance against agreed upon KPMs, Mr. DeWalt received a cash bonus of $990,969, equal to approximately 94% of his individual target cash bonus opportunity.

In February 2010 Mr. DeWalt was granted 193,000 stock options, 25,150 RSUs, and 97,500 PSUs. The PSUs are eligible to vest in equal tranches in February 2011, 2012 and 2013, subject to achievement of designated performance criteria for the designated performance period. The vesting of the PSUs allocated to the 2010 performance period was based upon achievement of certain 2010 non-GAAP earnings per share targets established by the compensation committee. The size of these awards were based on market comparables among our peer companies, the scope of Mr. DeWalt s responsibilities, his individual executive performance against KPMs and relative compensation comparison among our other executive officers. Based on our 2010 non-GAAP earnings per share performance, the compensation committee certified that all of Mr. DeWalt s PSUs granted in 2008 that were allocated to the 2010 performance period were earned, and approximately 92% of the maximum number of Mr. DeWalt s PSUs granted in 2009 and 2010 that were allocated to the 2010 performance period were earned. As a result, Mr. DeWalt vested as to 108,413 PSUs allocated to the 2010 performance period.

In addition to his letter agreement Mr. DeWalt entered into a change of control and retention agreement with us in December 2008, as amended in January 2009. As noted above, on February 16, 2010 we renewed this agreement for an additional two-year period through February 29, 2012. For a summary of the terms and conditions of this change of control and retention agreement, see Severance and Change of Control Benefits below. In connection with the pending acquisition of McAfee by Intel, Mr. DeWalt entered into an employment agreement with Intel and us. For a summary of the terms and conditions of this employment agreement, see Employment Agreements and Retention Letters with Intel below.

5. Compensation for Jonathan C. Chadwick

Jonathan C. Chadwick was hired as our executive vice president and chief financial officer on June 14, 2010. Mr. Chadwick s initial compensation was set by the compensation committee after receiving advice from Compensia regarding compensation based on market comparables among our peer companies in light of the scope of Mr. Chadwick s responsibilities so that his total compensation was competitive with the market and was sufficient to compel Mr. Chadwick to join the company.

Pursuant to the terms of his offer letter, Mr. Chadwick received an annual base salary of $600,000 and is eligible for a target cash bonus equal to 100% of his base salary. Based on our achievement of our 2010 financial metrics described above and the compensation committee s assessment of his individual performance against agreed upon KPMs, Mr. Chadwick received a prorated cash bonus of $299,803, equal to approximately 95% of his individual target cash bonus opportunity.

Pursuant to the terms of his offer letter, Mr. Chadwick received initial stock option, RSU and PSU grants generally as described below. Mr. Chadwick received 75,000 stock options subject to our standard four-year vesting terms. Mr. Chadwick also received 125,000 RSUs, 75,000 of which are subject to our standard three-year vesting terms and the remaining 50,000 are scheduled to vest in full in August 2011. In addition, Mr. Chadwick received 97,500 PSUs, which are eligible to vest in equal tranches in February 2011, 2012 and 2013, subject to achievement of designated performance criteria for the designated performance period. Based on our 2010 non-GAAP earnings per share performance, the compensation committee certified that approximately 92% of the maximum number of Mr. Chadwick s PSUs that were allocated to the 2010 performance period were earned. As a result, Mr. Chadwick vested as to 30,012 PSUs allocated to the 2010 performance period.

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On June 14, 2010 Mr. Chadwick entered into a change of control and retention agreement with us. For a summary of the terms and conditions of this agreement, see Severance and Change of Control Benefits below. In connection with the pending acquisition of McAfee by Intel, Mr. Chadwick entered into an employment agreement with Intel and us. For a summary of the terms and conditions of this employment agreement, see Employment Agreements and Retention Letters with Intel below.

6. Compensation for Michael P. DeCesare

Mr. DeCesare was hired as our executive vice president, worldwide sales operations in October 2007. Mr. DeCesare did not receive a base salary increase in 2010. The compensation committee believed his 2009 base salary of $600,000 was still appropriate based upon market comparables among our peer companies and because of the uncertainty around the severity or length of time that adverse national and global economic and financial market conditions would persist. For the same reasons, Mr. DeCesare s target cash bonus opportunity remained unchanged from 2009 at 100% of his base salary. Based on our achievement of our 2010 financial metrics described above and the compensation committee s assessment of his individual performance against agreed upon KPMs, Mr. DeCesare received a cash bonus of $504,195, equal to approximately 84% of his individual target cash bonus opportunity.

In February 2010, Mr. DeCesare was granted 43,700 stock options, 4,300 RSUs, and 22,100 PSUs. The PSUs are eligible to vest in equal tranches in February 2011, 2012 and 2013, subject to achievement of designated performance criteria for the designated performance period. The vesting of the PSUs allocated to the 2010 performance period was based upon achievement of certain 2010 non-GAAP earnings per share targets established by the compensation committee. The size of these awards were based on market comparables among our peer companies, the scope of Mr. DeCesare s responsibilities, his individual executive performance against KPMs and relative compensation comparison among our other executive officers. Based on our 2010 non-GAAP earnings per share performance, the compensation committee certified that all of Mr. DeCesare s PSUs granted in 2008 that were allocated to the 2010 performance period were earned, and approximately 92% of the maximum number of Mr. DeCesare s PSUs granted in 2009 and 2010 that were allocated to the 2010 performance period were earned. As a result, Mr. DeCesare vested as to 40,407 PSUs allocated to the 2010 performance period.

Additionally, on December 12, 2008 Mr. DeCesare entered into a change of control and retention agreement with us. As noted above, on February 16, 2010 we renewed this agreement for an additional two-year period through February 29, 2012. For a summary of the terms and conditions of this change of control and retention agreement, see Severance and Change of Control Benefits below. In connection with the pending acquisition of McAfee by Intel, Mr. DeCesare entered into a retention agreement with Intel and us. For a summary of the terms and conditions of this retention agreement, see Employment Agreements and Retention Letters with Intel below.

7. Compensation for Todd W. Gebhart

Mr. Gebhart has served as our executive vice president and general manager, consumer, small and mobile business since 2008. Mr. Gebhart did not receive a base salary increase in 2010. The compensation committee believed his 2009 base salary of $350,000 was still appropriate based upon market comparables among our peer companies and because of the uncertainty around the severity or length of time that adverse national and global economic and financial market conditions would persist. For the same reasons, Mr. Gebhart s target cash bonus opportunity remained unchanged from 2009 at 100% of his base salary. Based on our achievement of our 2010 financial metrics described above and the compensation committee s assessment of his individual performance against agreed upon KPMs, Mr. Gebhart received a cash bonus of $359,734, equal to approximately 103% of his individual target cash bonus opportunity.

In February 2010, Mr. Gebhart was granted 28,500 stock options, 3,900 RSUs, and 14,430 PSUs. The PSUs are eligible to vest in equal tranches in February 2011, 2012 and 2013, subject to achievement of designated performance criteria for the designated performance period. The vesting of the PSUs allocated to the 2010 performance period was based upon achievement of certain 2010 non-GAAP earnings per share targets established by the compensation committee. The sizes of these awards were based on market comparables among our peer companies, the scope of Mr. Gebhart s responsibilities, his individual executive performance against KPMs and relative compensation comparison among our other executive officers. Based on our 2010 non-GAAP earnings per

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share performance, the compensation committee certified that all of Mr. Gebhart s PSUs granted in 2008 that were allocated to the 2010 performance period were earned, and approximately 92% of the maximum number of Mr. Gebhart s PSUs granted in 2009 and 2010 that were allocated to the 2010 performance period were earned. As a result, Mr. Gebhart vested as to 14,176 PSUs allocated to the 2010 performance period.

Additionally, on December 12, 2008 Mr. Gebhart entered into a participation agreement which is subject to a change of control and retention plan. On February 16, 2010 we renewed this agreement and plan for an additional two-year period through February 29, 2012. For a summary of the terms and conditions of this change of control and retention arrangement, see Severance and Change of Control Benefits below. In connection with the pending acquisition of McAfee by Intel, Mr. Gebhart entered into a retention agreement with Intel and us. For a summary of the terms and conditions of this retention agreement, see Employment Agreements and Retention Letters with Intel below.

8. Compensation for Gerhard Watzinger

Gerhard Watzinger joined us in November 2007 as part of our acquisition of SafeBoot Holding BV and serves as our executive vice president, worldwide strategy and business development and general manager data protection. Mr. Watzinger s 2010 base salary was $400,000, which reflected a $50,000 increase from 2009. The compensation committee adjusted Mr. Watzinger s base salary because, unlike the other members of the executive team, Mr. Watzinger s base salary was below the market median as reflected by our peer companies. Mr. Watzinger s performance since joining McAfee had been strong and as a result the compensation committee increased his base salary to between the market median and 75th percentile. Mr. Watzinger s target cash bonus opportunity remained unchanged from 2010 at 100% of his base salary. Based on our achievement of our 2010 financial metrics described above and the compensation committee s assessment of his individual performance against agreed upon KPMs, Mr. Watzinger received a cash bonus of $356,965, equal to approximately 89% of his individual target cash bonus opportunity. In addition to his annual cash bonus, in October 2010 the compensation committee authorized a special cash bonus payment to Mr. Watzinger in the amount of $50,000 in recognition of his leadership and extensive time devoted in connection with the pending acquisition of McAfee by Intel.

In February 2010, Mr. Watzinger was granted 40,000 stock options and 26,000 PSUs. The PSUs are eligible to vest in equal tranches in February 2011, 2012 and 2013, subject to achievement of designated performance criteria for the designated performance period. The vesting of the PSUs allocated to the 2010 performance period was based upon achievement of certain 2010 non-GAAP earnings per share targets established by the compensation committee. The size of these awards were based on market comparables among our peer companies, the scope of Mr. Watzinger s responsibilities, his individual executive performance against KPMs and relative compensation comparison among our other executive officers. Based on our 2010 non-GAAP earnings per share performance, the compensation committee certified that all of Mr. Watzinger s PSUs granted in 2008 that were allocated to the 2010 performance period were earned, and approximately 92% of the maximum number of Mr. Watzinger s PSUs granted in 2009 and 2010 that were allocated to the 2010 performance period were earned. As a result, Mr. Watzinger vested as to 20,019 PSUs allocated to the 2010 performance period.

Additionally, on December 12, 2008 Mr. Watzinger entered into a change of control and retention agreement with us. As noted above, on February 16, 2010 we renewed this agreement for an additional two-year period through February 29, 2012. For a summary of the terms and conditions of this change of control and retention agreement, see Severance and Change of Control Benefits below. In connection with the pending acquisition of McAfee by Intel, Mr. Watzinger entered into a retention agreement with Intel and us. For a summary of the terms and conditions of this retention agreement, see Employment Agreements and Retention Letters with Intel below.

9. Compensation for Albert A. Rocky Pimentel

Albert A. Rocky Pimentel served as our chief financial officer and chief operating officer until June 14, 2010 and served as special advisor to Mr. Chadwick until August 9, 2010. Mr. Pimentel s $500,000 base salary and target cash bonus at 100% of his base salary remained unchanged from 2009. Based on our achievement of our 2010 financial metrics described above and the compensation committee s assessment of his individual performance

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against agreed upon KPMs, Mr. Pimentel received a prorated cash bonus of $52,188, equal to approximately 42% of his individual target cash bonus opportunity.

E. Tax, Accounting and Other Considerations

Tax Deductibility of Compensation Expense. Section 162(m) of the Internal Revenue Code places a limit of $1,000,000 on the amount of compensation to certain executives that we may deduct as a business expense in any tax year unless, among other things, the compensation is performance-based and it is paid under a compensation plan that has been approved by our stockholders. During 2010, we designed our incentive compensation plans so that they qualify as performance-based compensation that is deductible under Section 162(m). We expect that all compensation payments under the bonus plan will be exempt from Section 162(m) and will therefore be tax deductible. Mr. Denend does not qualify as an outside director under Section 162(m) because he is a former executive officer of McAfee (although he is independent from the company under the New York Stock Exchange listing requirements and SEC rules). Mr. Denend abstains from making decisions with respect to compensation that could qualify as exempt from Section 162(m) s limits. With respect to those decisions, the remaining independent members of the compensation committee act.

From time to time, the compensation committee may approve compensation that will not meet these requirements for deductibility to ensure competitive levels of total compensation for its executive officers.

Tax Implications for Executives. Section 409A of the Internal Revenue Code imposes additional income taxes on our employees who receive certain types of deferred compensation if the compensation does not meet the qualification requirements of Section 409A. We generally do not offer deferred compensation programs subject to Section 409A.

Section 4999 of the Internal Revenue Code imposes an excise tax on payments to executives of severance or change of control compensation that exceed the levels specified in Section 280G of the Code. Our named executive officers could potentially receive amounts that exceed the Section 280G limits as severance or change in control payments, but the compensation committee does not consider this potential impact in compensation program design.

Accounting Considerations. The compensation committee also considers the accounting expense and cash flow implications of various forms of executive compensation. For base salary and cash bonuses, we record or accrue compensation expense in our financial statements in an amount equal to the dollar amount of the cash payment. Accounting standards also require us to record an expense in our financial statements for equity awards as well, even though equity awards are not paid to employees in cash. All equity awards (stock options, PSUs and RSUs) result in compensation expense. The compensation committee believes that the advantages of equity awards, as described throughout this compensation discussion and analysis, more than outweigh the non-cash accounting expense associated with them.

Compensation Committee Report on Compensation Discussion and Analysis

The compensation committee of our board of directors has furnished the following report:

The compensation committee has reviewed and discussed the foregoing compensation discussion and analysis with management. Based on that review and discussion, the compensation committee has recommended to our board of directors that the compensation discussion and analysis be included in this annual report.

THE COMPENSATION COMMITTEE

Leslie G. Denend, Chairman

Denis J. O Leary
Jeffrey A. Miller
Anthony Zingale

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Compensation Committee Interlocks and Insider Participation

No member of our compensation committee, other than Mr. Denend as described above, during 2010 has ever been an officer or employee of McAfee or of any of our subsidiaries or affiliates. During 2010, none of our executive officers served on the board of directors or on the compensation committee of any other entity, any officers of which served either on our board of directors or on our compensation committee.

Compensation Policies and Practices as They Relate to Risk Management

In 2010, our management conducted a review of our compensation policies and practices to assess whether such policies and practices as they relate to our employees are reasonably likely to have a material adverse effect on us. This process included the following:

- A review of our compensation programs;
- The identification of program features that could potentially encourage excessive or imprudent risk taking of a material nature; and
- The identification of factors that mitigate these risks.

We paid particular attention to programs that allow for variable payouts where an employee might be able to influence payout factors and programs that involve our executives. During the course of our assessment, we consulted with various persons, including our senior human resources executives, our internal and external legal counsel and the compensation consultant retained by the compensation committee.

Overall, we believe that our compensation programs are designed to create appropriate incentives for employee performance without encouraging excessive risk taking. In this regard, our compensation structure contains the following features intended to mitigate risk.

- We use a balanced compensation structure designed to link an appropriate portion of compensation to our long-term performance.
- We periodically compare our compensation programs and overall compensation structure with our peer companies to assess the competitive market position of our compensation and align with industry practices.
- Cash bonuses are based on multiple performance metrics, including company-wide metrics as well as customer and employee success measures, which are consistent with our short and long-term goals.
- In many cases, management or the compensation committee has discretion to decrease cash bonuses for quality of performance or other negative factors.
- Equity compensation is largely subject to multi-year vesting to provide meaningful retention incentive.
- We have established internal controls and standards of ethics and business conduct, many of which help to support our compensation goals and mitigate compensation risk.
- The compensation committee oversees our compensation policies and practices and is responsible for reviewing and approving executive compensation, incentive compensation plans applicable to senior

management employees and other compensation plans.

In 2009, our board adopted a clawback policy that allows our board of directors to seek to recover bonuses or other incentive-based or equity-based compensation to certain executives in certain circumstances where there has been a restatement of previously issued financial statements.

Based on the assessment described above, we concluded that our compensation policies and practices are not reasonably likely to have a material adverse effect on us. We reviewed the assessment process and our conclusions with the compensation committee.

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SUMMARY COMPENSATION TABLE

This table summarizes the compensation earned by our current named executive officers during 2010.

ame and Principal Position	Year	Salary(1)	Non-Equity Incentive Plan Compensation/ Bonus(2)	Stock Awards(4)	Option Awards(4)	All Other Compensation(6)	Total
avid G. DeWalt	2010	$ 950,000	$ 990,969	$ 4,047,062	$ 2,646,551	$ 1,710	$ 8,636,29
esident and chief executive	2009	950,000	577,501	6,539,799		5,310	8,072,61
ficer	2008	950,000	1,000,000	12,833,666(5)	1,124,498	34,224	15,942,38
nathan C. Chadwick	2010	600,000	299,803	6,598,750	764,228	665	8,263,44
xecutive vice president and							
ief financial officer							
ichael P. DeCesare	2010	600,000	504,195	860,733	599,245	1,710	2,565,88
xecutive vice president	2009	600,000	331,875	2,131,960		4,740	3,068,57
worldwide sales operations	2008	600,000	592,575	3,938,500(5)		1,045	5,132,12
odd W. Gebhart	2010	350,000	359,734	606,150	390,812	4,902	1,711,59
xecutive vice president and							
neral manager, consumer,							
nall and mobile business							
erhard Watzinger	2010	400,000	406,965(3)	808,200	548,508	2,622	2,166,29
xecutive vice president,	2009	350,000	208,906	1,360,692		5,310	1,924,90
orldwide strategy and							
siness development and							
neral manager, data							
otection							

(1) Salary includes amounts deferred under our Section 401(k) plan.

(2) The amounts reported consist of cash incentive compensation earned for services rendered in the respective fiscal years under our executive bonus plan. A description of our executive bonus plan may be found in the Compensation Discussion and Analysis Executive Compensation Design above.

(3) The amount reported includes a special cash bonus payment to Mr. Watzinger in the amount of $50,000 in recognition of his leadership and extensive time devoted in connection with the pending acquisition of McAfee by Intel.

(4) The amounts reported do not reflect the actual economic value realized by the named executive officer. This column reflects the grant date fair values which have been determined based on assumptions described in Note 14 to our consolidated financial statements included in this annual report. For PSUs, the grant date fair value is based on the probable outcome of the performance conditions as of the grant date.

(5) The stock unit awards made by us during 2008 to each of Messrs. DeWalt and DeCesare include awards that would have been made during 2007 in accordance with the terms of their respective 2007 offer letter agreements with us, but for the fact that we were unable to grant equity awards (other than stock options) during 2007

because we were not current in our financial reporting obligations for substantially all of 2007.

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(6) The amounts reported in the All Other Compensation column consisted of the following:

Name	Year	Commuting Expense	Living Allowance	Gifts, Family Travel and Matching Gifts(1)	Group Term Life Insurance Coverage	Company Contributions To 401(k)	Tax Gross-ups(2)	Total
David G. DeWalt	2010	$	$	$	$ 1,710	$	$	$ 1,710
	2009				1,710	3,600		5,310
	2008	11,128	8,013	3,365	540		11,178	34,224
Jonathan C. Chadwick	2010				665			665
Michael P. DeCesare	2010				1,710			1,710
	2009				1,140	3,600		4,740
	2008			341	540		164	1,045
Todd W. Gebhart	2010				4,902			4,902
Gerhard Watzinger	2010				2,622			2,622
	2009				1,710	3,600		5,310

(1) Represents the cost of spousal travel to McAfee events, the cost of token gifts received at McAfee events and company-matching charitable contributions.

(2) The tax gross-up payments reported in this column relate to taxes imposed on our reimbursements of living and commuting expenses (in the case of Mr. DeWalt) and taxes imposed on token gifts received at McAfee events and the cost of spousal travel to McAfee events.

GRANTS OF PLAN-BASED AWARDS

This table shows grants of plan-based awards made by us to our current named executive officers during 2010.

	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Target/Maximum)(1)	Estimated Future Payouts Under Equity Incentive Plan Awards (Threshold/Target/ Maximum)(2)	All Other Stock Awards: Number of Shares of Stock or Units	All Other Stock Awards: Number of Securities Underlying Options(9)	Exercise or Base Price of Option Awards	Gra I Va Sto O Awa
eWalt	2/16/2010		10,000 / 25,000 / 32,500(3)	65,000(3)		$	$ 3,03
	2/16/2010			25,150(8)			1
	2/16/2010				193,000	40.41	2
	1/15/2010	$ 1,050,000 / $1,837,500					
	8/6/2010		10,000 / 25,000 / 32,500(4)	65,000(4)			2,44

	8/6/2010			75,000(8)			2
	8/6/2010			40,000(8)			1
	8/6/2010			10,000(8)			
	8/2/2010				75,000	33.26	
	6/14/2010	600,000 / 1,050,000					
	2/16/2010		2,267 / 5,667 / 7,367(5)	14,733(5)			68
	2/16/2010			4,300(8)			
	2/16/2010				43,700	40.41	
	1/15/2010	600,000 / 1,050,000					
ebhart	2/16/2010		1,480 / 3,700 / 4,810(6)	9,620(6)			44
	2/16/2010			3,900(8)			
	2/16/2010				28,500	40.41	
	1/15/2010	350,000 / 612,500					
atzinger	2/16/2010		2,667 / 6,667 / 8,667(7)	17,333(7)			80
	2/16/2010				40,000	40.41	
	1/15/2010	400,000 / 700,000					

(1) The amounts reported represent cash bonus awards granted during 2010 under our executive bonus plan that could be earned based on 2010 performance. Our executive bonus plan does not provide for threshold payouts, although the compensation committee may reduce or eliminate awards. For a discussion of the performance criteria related to these awards, see the Compensation Discussion and Analysis above.

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(2) The amounts reported represent PSUs granted during 2010 under our 1997 Stock Incentive Plan (except with respect to Mr. Chadwick whose PSUs were granted under our 2010 Equity Incentive Plan) that could be earned based on 2010 performance. For a discussion of the performance criteria related to these awards, see the Compensation Discussion and Analysis above.

(3) On February 16, 2010, Mr. DeWalt was granted 97,500 PSUs, 32,500 (or 1/3) of which were allocated to the 2010 performance period. The remaining 65,000 PSUs are allocated to 2011 and 2012 performance periods.

(4) On August 6, 2010, Mr. Chadwick was granted 97,500 PSUs, 32,500 (or 1/3) of which were allocated to the 2010 performance period. The remaining 65,000 PSUs are allocated to 2011 and 2012 performance periods.

(5) On February 16, 2010, Mr. DeCesare was granted 22,100 PSUs, 7,367 (or 1/3) of which were allocated to the 2010 performance period. The remaining 14,733 PSUs are allocated to 2011 and 2012 performance periods.

(6) On February 16, 2010, Mr. Gebhart was granted 14,430 PSUs, 4,810 (or 1/3) of which were allocated to the 2010 performance period. The remaining 9,620 PSUs are allocated to 2011 and 2012 performance periods.

(7) On February 16, 2010, Mr. Watzinger was granted 26,000 PSUs, 8,667 (or 1/3) of which were allocated to the 2010 performance period. The remaining 17,333 PSUs are allocated to 2011 and 2012 performance periods.

(8) The amounts reported represent RSUs granted under our 1997 Stock Incentive Plan (except with respect to Mr. Chadwick whose RSUs were granted under our 2010 Equity Incentive Plan).

(9) The amounts reported represent stock options granted our 1997 Stock Incentive Plan (except with respect to Mr. Chadwick whose stock options were granted under our 2010 Equity Incentive Plan).

(10) The amounts reported do not reflect the actual economic value realized by the named executive officer. This column reflects the grant date fair values which have been determined based on assumptions described in Note 14 to our consolidated financial statements included in this annual report. The fair value of an option award is determined under ASC 718 using a Black-Scholes option pricing model. For PSUs, the grant date fair value is based on the probable outcome of the performance conditions as of the grant date.

(11) The maximum potential grant date fair value assuming the highest possible outcome of the performance conditions with respect this PSU award is $3,939,975.

(12) The maximum potential grant date fair value assuming the highest possible outcome of the performance conditions with respect this PSU award is $3,173,625.

(13) The maximum potential grant date fair value assuming the highest possible outcome of the performance conditions with respect this PSU award is $893,061.

(14) The maximum potential grant date fair value assuming the highest possible outcome of the performance conditions with respect this PSU award is $583,116.

(15) The maximum potential grant date fair value assuming the highest possible outcome of the performance conditions with respect this PSU award is $1,050,660.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

This table shows outstanding equity awards for our current named executive officers as of December 31, 2010.

	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options(1)		Option Exercise	Option Expiration	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incenti Plan Awards Market or Payout Val of Unearned Shares, Units or Othe Rights That Have Not Vest
me	Exercisable	Unexercisable	Price	Date				
vid G. DeWalt	458,333	41,667	$ 32.49	4/30/2017	94,680	$ 4,384,631	224,555	$ 10,399,142
	53,125	21,875	32.95	2/19/2018				
		193,000	40.41	2/16/2020				
nathan C. adwick		75,000	33.26	8/02/2017	125,000	5,788,750	97,500	4,515,225
chael P. Cesare	79,167	20,833	39.90	10/29/2017	26,966	1,248,795	54,899(4)	2,542,373(
		43,700	40.41	2/16/2020				
dd W. Gebhart	417	5,833	34.73	2/11/2018	21,232	983,254	31,629	1,464,739
	417	8,333	37.47	8/4/2018				
		28,500	40.41	2/16/2020				
rhard Watzinger	45,259	(2)	15.18	5/16/2016	21,132	978,623	48,139	2,229,317
	16,502	16,502(3)	29.26	1/12/2017				
	15,000	18,750	37.47	8/04/2018				
		40,000	40.41	2/16/2020				

(1) Except with respect to Mr. Watzinger, all of the stock options reported in these columns vest at the rate of one-fourth (or 25%) one year from the date of grant and the remaining shares vest at a rate of 1/36th per month for the remaining 36 months of the vesting period. Under our 1997 Stock Incentive Plan and 2010 Equity Incentive Plan, our board of directors is allowed to modify the terms of outstanding options. The exercisability of options may be accelerated upon a change of control. Unvested options are generally cancelled upon an optionee s termination of service.

(2) On May 16, 2006, Mr. Watzinger was granted stock options to purchase shares of the stock of his then ultimate employer, SafeBoot Holding BV. On November 19, 2007, we acquired SafeBoot Holding BV and assumed Mr. Watzinger s remaining stock options to purchase 75,777 shares of our common stock (on an as-converted

basis). One-third of the 75,777 shares subject to these stock options vested on each of the second, third and fourth anniversaries of the grant date.

(3) On January 12, 2007, Mr. Watzinger was granted stock options to purchase 66,008 shares of the stock of his then ultimate employer, SafeBoot Holding BV. On November 19, 2007, we acquired SafeBoot Holding BV and assumed Mr. Watzinger s stock options. One-fourth of the shares subject to these stock options are scheduled to vest on each of the first, second, third and fourth anniversaries of the grant date.

(4) The amount reported does not include Mr. DeCesare s 16,666 PSUs vested on December 31, 2010 based on a certification by the compensation committee that the performance criteria for the 2010 performance period had been satisfied. We issued these shares to Mr. DeCesare on February 8, 2011.

OPTIONS EXERCISED AND STOCK VESTED

This table shows all stock options exercised and value realized upon exercise, and all stock awards vested and value realized upon vesting for our current named executive officers during 2010.

	Option Awards		**Stock Awards**	
Name	**Number of Shares Acquired on Exercise**	**Value Realized on Exercise**	**Number of Shares Acquired on Vesting**	**Value Realized on Vesting**
David G. DeWalt		$	199,959(1)	$ 8,055,945(1)
Jonathan C. Chadwick				
Michael P. DeCesare			62,734(2)	2,605,039(2)
Todd W. Gebhart	17,917	194,777	25,601	944,358
Gerhard Watzinger			47,610	2,003,749

(1) The amount reported includes 41,666 PSUs vested on December 31, 2009 based on a certification by the compensation committee that the performance criteria for the 2009 performance period had been satisfied. Pursuant to the terms of the related award agreement, we issued these shares to Mr. DeWalt on March 2, 2010; the value realized on vesting with respect to these shares is based on the March 2, 2010 date of issuance.

(2) The amount reported includes 16,667 PSUs vested on December 31, 2009 based on a certification by the compensation committee that the performance criteria for the 2009 performance period had been satisfied. The value realized on vesting with respect to these shares is based on the February 11, 2010 date of issuance. The amount reported does not include 16,666 PSUs vested on December 31, 2010 based on a certification by the compensation committee that the performance criteria for the 2010 performance period had been satisfied. We issued these shares to Mr. DeCesare on February 8, 2011.

Severance and Change of Control Benefits

We have entered into agreements providing for severance and/or change of control payments and benefits with each of our current named executive officers. These severance and change of control payments and benefits are intended to attract and retain qualified executive officers and promote stability and continuity in our senior management team.

Agreement with Mr. DeWalt

Our agreement with Mr. DeWalt provides for certain severance payments and benefits in the event we terminate his employment for other than cause or in the event that Mr. DeWalt resigns for good reason. The agreement provides for varying severance payments and benefits based upon whether the termination of employment occurs within 18 months following a change of control of McAfee (the Change of Control Period). The severance payments and benefits provided to Mr. DeWalt by the agreement supersede any severance payments afforded to him in any employment agreement he has with us. Pursuant to the agreement and subject to signing a standard release of claims, upon DeWalt s termination of employment for other than cause or upon his resignation for good reason, he will be eligible to receive the following payments and benefits:

<u>Termination Other than During a Change of Control Period</u>

A lump-sum payment (less all applicable tax withholding amounts) equal to 12 months of Mr. DeWalt s annual base salary, plus a pro rata fraction of the amount equal to 110% of his annual base salary, with the pro rata fraction determined as the number of days in the year to the date of termination divided by 365; and

A payment equal to 12 months of the cost of continuation coverage of medical benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (COBRA), if Mr. DeWalt was covered under our health plan.

<u>Termination During a Change of Control Period</u>

A lump-sum payment (less all applicable tax withholding amounts) equal to 24 months of Mr. DeWalt s annual base salary as in effect immediately prior to the change of control or the termination of employment (whichever is greater), plus the amount equal to 200% of his target bonus for the fiscal year of the change of control or the termination of employment (whichever is greater);

A payment for COBRA as described above; and

Full acceleration of vesting of all Mr. DeWalt s then outstanding equity awards.

Additionally, in the event his employment is terminated for other than cause or resigns for good reason before a change of control but on or after a potential change of control, Mr. DeWalt will be entitled generally to the superior severance payments and benefits provided in the event of a termination of employment during a Change of Control Period. A potential change of control would generally occur upon the execution of an agreement, approval by our board of directors, or public announcement for us to enter into a transaction that would be a change

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of control if such transaction is subsequently consummated. This benefit is only available if the change of control occurs.

Agreements with Messrs. Chadwick, DeCesare and Watzinger (the Tier 2 Executives)

Our agreements with each Tier 2 Executive contain substantially the same terms and conditions as our agreement with Mr. DeWalt as described above. However, our agreements with each Tier 2 Executive provide different payments and benefits from those of Mr. DeWalt as described below:

Termination Other than During a Change of Control Period

A lump-sum payment (less all applicable tax withholding amounts) equal to 12 months of the Tier 2 Executive s annual base salary, plus a pro rata fraction of 100% of their annual base salary, with the pro rata fraction determined as the number of days in the year to the date of termination divided by 365; and

A payment equal to 12 months of the cost of continuation coverage of medical benefits under COBRA, if the Tier 2 Executive was covered under our health plan.

Termination During a Change of Control Period

A lump-sum payment (less all applicable tax withholding amounts) equal to 12 months of the Tier 2 Executive s annual base salary as in effect immediately prior to the change of control or the termination (whichever is greater), plus the amount equal to 100% of their annual base salary;

A payment for COBRA as described above; and

Full acceleration of vesting of all of the Tier 2 Executive s then outstanding equity awards.

Apart from the various payments and benefits described directly above, the payments and benefits provided to a Tier 2 Executive upon a termination of employment for other than cause or a resignation for good reason are generally the same as those provided to Mr. DeWalt, including the provision for payments and benefits upon a potential change of control and the treatment of performance-based equity upon a change of control.

Agreements with Mr. Gebhart

Our agreements with Mr. Gebhart contain substantially the same terms and conditions as our agreement with Mr. DeWalt as described above with regard to severance payments and benefits payable in connection with certain terminations of employment following a change of control. However, our agreements with Mr. Gebhart do not provide any payments or benefits in connection with any termination of employment that occurs other than during a Change of Control Period. In addition, with respect to the payments and benefits payable in connection with certain terminations of employment occurring during a Change of Control Period, our agreements with Mr. Gebhart provide different payments and benefits from those for Mr. DeWalt as described below.

Termination During a Change of Control Period

A lump-sum payment (less all applicable tax withholding amounts) equal to 12 months of Mr. Gebhart s annual base salary as in effect immediately prior to the change of control or the termination of employment (whichever is greater), plus the amount equal to 100% of his annual base salary for the fiscal year of the change of control or the termination of employment (whichever is greater);

A payment for COBRA as described above; and

Full acceleration of vesting of all of Mr. Gebhart s then outstanding equity awards.

Apart from the various payments and benefits described directly above, the payments and benefits provided to Mr. Gebhart upon a termination of employment for other than cause or a resignation for good reason during a Change of Control Period are generally the same as those provided to Mr. DeWalt, including the provision for payments and benefits upon a potential change of control and the treatment of performance-based equity upon a change of control.

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The table below reflects the value as defined by Internal Revenue Code section 280G of the compensation payable to each of our current named executive officers in the event we terminate such executive officer s employment for other than cause or the officer resigns for good reason , in each case based upon whether the termination occurs within 18 months following a change of control of McAfee (the Change of Control Period). Regardless of the manner in which an executive officer s employment terminates, he is entitled to receive amounts already earned during his term of employment, such as base salary earned through the date of termination and accrued vacation pay. The amounts shown assume that each termination of employment was effective as of December 31, 2010, and thus includes amounts earned through the end of 2010. The value of stock-related compensation assumes that the value of our common stock is $46.31 per share, which was the closing market price of our common stock on the last trading day of 2010. The value of continuing coverage under our welfare and fringe benefits plans reflects our actual cost for those benefits as of December 31, 2010. All of these amounts are estimates. The actual amounts that would be paid out to our named executive officers upon their termination of employment can only be determined at the time the named executive officer s employment actually terminates.

	Resignation for Good Reason or Termination Other than for Cause During the Change of Control Period	Resignation for Good Reason or Termination Other than for Cause Other Than During the Change of Control Period
David G. DeWalt		
Base salary and cash bonus	$ 921,635(1)	$ 1,995,000
Equity	10,997,230	
Healthcare and other insurance benefits	36,000	36,000
Tax gross ups	N/A(2)	N/A(2)
Jonathan C. Chadwick		
Base salary and cash bonus	1,200,000	1,200,000
Equity	5,581,674	
Healthcare and other insurance benefits	18,000	18,000
Tax gross ups	N/A(2)	N/A(2)
Michael P. DeCesare		
Base salary and cash bonus	971,276(3)	1,200,000
Equity	3,471,471	
Healthcare and other insurance benefits	18,000	18,000
Tax gross ups	N/A(2)	N/A(2)
Todd W. Gebhart		
Base salary and cash bonus	700,000	
Equity	1,586,599	
Healthcare and other insurance benefits	18,000	
Tax gross ups	N/A(2)	N/A(2)
Gerhard Watzinger		
Base salary and cash bonus	762,977(4)	800,000
Equity	2,363,223	
Healthcare and other insurance benefits	18,000	18,000
Tax gross ups	N/A(2)	N/A(2)

(1) We do not provide for a gross-up of excise taxes on parachute payments paid upon a change in control as determined in accordance with Internal Revenue Code sections 280G and 4999. Each executive officer is subject to a provision that provides that he will receive an amount that would produce the best after-tax result. This provision operates to reduce the executive officer s parachute payment based on their 280G threshold if the executive officer would receive more on an after-tax basis due to the cut back. Otherwise, the executive officer is not cut back and the executive officer will be responsible for any excise tax. Due to the best after-tax provision in Mr. DeWalt s agreement, his severance payment would have been reduced by $3,078,365 so that he would not be subject to excise taxes under Internal Revenue Code section 280G.

(2) We do not provide our named executive officers with a gross-up of excise taxes on parachute payments in any situation. In certain situations, the named executive officers severance payments and benefits could be reduced

in order to avoid the imposition of any excise taxes determined in accordance with Internal Revenue Code sections 280G and 4999.

(3) We do not provide for a gross-up of excise taxes on parachute payments paid upon a change in control as determined in accordance with Internal Revenue Code sections 280G and 4999. Each executive officer is subject to a provision that provides that he will receive an amount that would produce the best after-tax result. This provision operates to reduce the executive officer s parachute payment based on their 280G threshold if the executive officer would receive more on an after-tax basis due to the cut back. Otherwise, the executive officer is not cut back and the executive officer will be responsible for any excise tax. Due to the best after-tax provision in Mr. DeCesare s agreement, his severance payment would have been reduced by $228,724 so that he would not be subject to excise taxes under Internal Revenue Code section 280G.

(4) We do not provide for a gross-up of excise taxes on parachute payments paid upon a change in control as determined in accordance with Internal Revenue Code sections 280G and 4999. Each executive officer is subject to a provision that provides that he will receive an amount that would produce the best after-tax result. This provision operates to reduce the executive officer s parachute payment based on their 280G threshold if the executive officer would receive more on an after-tax basis due to the cut back. Otherwise, the executive officer is not cut back and the executive officer will be responsible for any excise tax. Due to the best after-tax provision in Mr. Watzinger s agreement, his severance payment would have been reduced by $37,023 so that he would not be subject to excise taxes under Internal Revenue Code section 280G.

Employment Agreements and Retention Letters with Intel

In connection with the pending acquisition of McAfee by Intel, each of our named executive officers entered into employment agreements and/or retention letters with Intel and us.

Agreements with Messrs. DeWalt and Chadwick

Each of Mr. DeWalt and Mr. Chadwick entered into new employment agreements with Intel and us. Effective immediately prior to the closing of the acquisition of McAfee by Intel, the employment agreements will replace the existing offer letter agreements of Messrs. DeWalt and Chadwick and, in exchange for their waiving their rights to terminate their employment in connection with the acquisition as a result of any change in their duties, authority, reporting relationship or responsibilities and receive substantial benefits under their current change of control and retention agreements described above (the Change of Control Agreements), provide for the following material compensation terms with us, as a wholly owned subsidiary of Intel, following the closing of the acquisition:

Their Change of Control Agreements with us will continue to be in full force and effect as of and following the acquisition (until such agreements expire in accordance with their terms), except that they have each agreed that the newly contemplated duties, authority, reporting relationship and responsibilities that they will have with us, as a subsidiary of Intel following the acquisition, will not form the basis for a resignation for good reason during a Change of Control Period entitling them to substantial benefits under the Change of Control Agreements. In addition, Messrs. DeWalt and Chadwick have agreed that, except with respect to their stock options, PSUs and RSUs that were granted prior to August 18, 2010, and are assumed by Intel pursuant to the merger agreement, no stock options, PSUs, RSUs or other equity incentive awards granted to them by Intel or McAfee will be subject to the accelerated vesting provisions of the Change of Control Agreements.

An annualized base salary of $950,000 for Mr. DeWalt and an annualized base salary of $600,000 for Mr. Chadwick.

Eligibility for a target annual bonus of up to $1,050,000 for Mr. DeWalt and of up to $600,000 for Mr. Chadwick.

If, at the effective time of the merger, either Mr. DeWalt or Mr. Chadwick holds any outstanding McAfee equity awards that were granted prior to August 18, 2010, the vesting schedule for such outstanding equity awards, to the extent not already vested, will be accelerated by the lesser of (i) a period of one year or (ii) the period of time or number of shares set forth in a schedule to be provided in writing by the executive to Intel within 30 days following August 18, 2010. To the extent that an award (or portion thereof) is scheduled to vest within the time period determined in accordance with the preceding sentence, that award (or portion thereof) will become immediately vested and, to the extent applicable, exercisable at the effective time of the merger.

They will be eligible to receive time-based retention payments, provided that they are not terminated for cause or resign from their employment for any reason prior to each relevant retention date. Mr. DeWalt is eligible to receive a first retention payment of $2,000,000 (less all applicable tax withholding amounts) within 30 days of the first anniversary of the closing date of the acquisition and a second retention payment of $2,000,000 (less all applicable tax withholding amounts) within 30 days of the second anniversary of the closing date of the acquisition. Mr. Chadwick is eligible to receive a first retention payment of $300,000 (less all applicable tax withholding amounts) within 30 days of July 31, 2012, and a second retention payment of $300,000 (less all applicable tax withholding amounts) within 30 days of July 31, 2013. If Messr. DeWalt or Chadwick is terminated without cause prior to either of the retention dates, he will be entitled to receive any unpaid portion of the retention payments, subject to his timely execution and non-revocation of a release of claims, and such payments will generally be made within seven days after the effective date of the release (unless a later payment date is required by the employment agreement).

They will be eligible to receive performance-based incentive payments, provided that the performance metrics are met and they are not terminated for cause or resign from their employment for any reason prior to each relevant performance date. Mr. DeWalt is potentially eligible to receive a first performance incentive payment of up to $2,000,000 (less all applicable tax withholding amounts) if all performance metrics for the 2011 calendar year are achieved and a second performance incentive payment of up to $2,000,000 (less all applicable tax withholding amounts) if all performance metrics for the 2012 calendar year are achieved. Mr. Chadwick is potentially eligible to receive a first performance incentive payment of up to $450,000 (less all applicable tax withholding amounts) if all performance metrics are achieved for the 2011 calendar year and a second performance incentive payment of up to $450,000 (less all applicable tax withholding amounts) if all performance metrics for the 2012 calendar year are achieved. The performance incentive payments payable for 2011 and 2012 will be paid within 60 days following December 31, 2011, and December 31, 2012, respectively. If Messr. DeWalt or Chadwick is terminated without cause prior to December 31, 2011, he will be entitled to receive a pro-rated amount of the first performance incentive payment (determined based on the extent to which the performance metrics are achieved and the number of days that have elapsed since January 1, 2011), subject to his timely execution and non-revocation of a release of claims. If Messr. DeWalt or Chadwick is terminated without cause after January 1, 2012, but prior to December 31, 2012, he will be entitled to receive a pro-rated amount of the second performance incentive payment (determined based on the extent to which the performance metrics are achieved and the number of days that have elapsed since January 1, 2012), subject to his timely execution and non-revocation of a release of claims. Payment of any pro-rated performance incentive payments will be made within seven days after the effective date of the release (unless a later payment date is required by the employment agreement).

Under their employment agreements, Messrs. DeWalt and Chadwick will be employed on an at-will basis following the acquisition. However, if either of them terminates his employment during the Change of Control Period under the circumstances described in the Change of Control Agreement (as modified by their employment agreements with Intel and us), he will be entitled to the severance benefits pursuant to the terms and conditions set forth in the Change of Control Agreement.

Agreements with Messrs. DeCesare, Gebhart and Watzinger

In addition, each of our other named executive officers (Messrs. DeCesare, Gebhart and Watzinger) entered into retention letters with Intel and us. The retention letters provide for the following terms and conditions following the closing of the acquisition:

Their Change of Control Agreements will continue to be in full force and effect as of and following the acquisition until such agreements expire in accordance with their terms except that Messrs. DeCesare and Watzinger have agreed that any change in duties, authority, reporting relationship or responsibilities that is solely attributable to the change in our status from that of an independent reporting company to that of a subsidiary of Intel will not form the basis for a resignation for good reason during the Change of Control Period and that such duties, authority, reporting relationship and responsibilities will be substantially the same as their duties, authority, reporting relationship and responsibilities in effect immediately prior to the closing of the acquisition.

They have agreed that, except with respect to their stock options, PSUs and RSUs that were granted prior to August 18, 2010, and are assumed by Intel pursuant to the merger agreement, no stock options, PSUs, RSUs or other equity incentive awards granted to them by Intel or us will be subject to the accelerated vesting provisions of their Change of Control Agreements.

They have agreed and acknowledged that their Change of Control Agreements permanently superseded all other prior representations, understandings, undertakings or agreements, including specifically any severance payment provisions of any offer letter or similar arrangement, and that following the expiration of their Change of Control Agreements, they will be eligible for severance benefits only in accordance with our then established plans.

They will be eligible to receive time-based retention payments, provided that they are not otherwise terminated for cause or resign from their employment for any reason prior to each relevant retention date. They will be eligible to receive the first retention payment within 30 days following July 31, 2012, and the second retention payment within 30 days following July 31, 2013. If they are terminated without cause prior to a retention payment date, they will be entitled to receive a pro-rated portion of the next scheduled retention payment, subject to their timely execution and non-revocation of a release of claims. Payment of the pro-rated retention payment will generally be made within seven days after the effective date of the release (unless a later payment date is required by the named executive officer s Change of Control Agreement).

They will be eligible to receive performance-based incentive payments, provided that the performance metrics for the applicable calendar year are met and they are not terminated for cause or resign from their employment for any reason prior to each relevant performance date. They will be potentially eligible to receive the first performance incentive payment within 60 days following December 31, 2011, and the second performance incentive payment within 60 days following December 31, 2012. If they are terminated without cause prior to a performance incentive payment date, they will be entitled to receive a pro-rated portion of the next scheduled performance incentive payment (determined based on the extent to which the performance metrics are achieved and the number of days that have elapsed since January 1 of the performance period applicable to such performance incentive payment), subject to their timely execution and non-revocation of a release of claims. Payment of any pro-rated performance incentive payments will be made within seven days after the effective date of the release (unless a later payment date is required by the retention letter or the named executive officer s Change of Control Agreement).

The table below illustrates the potential retention and performance-based incentive payments for Messrs. DeCesare, Gebhart and Watzinger (which payments are subject to all applicable withholding requirements).

	First Retention	**Second Retention**	**Maximum* First Performance-Based Incentive Payment Date**	**Maximum* Second Performance-Based Incentive Payment Date**

	Payment Date (July 31, 2012)		Payment Date (July 31, 2013)		(December 31, 2011)		(December 31, 2012)	
Michael P. DeCesare	$	300,000	$	300,000	$	450,000	$	450,000
Todd W. Gebhart	$	175,000	$	175,000	$	262,500	$	262,500
Gerhard Watzinger	$	200,000	$	200,000	$	300,000	$	300,000

* Assumes all performance metrics are achieved.

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DIRECTOR COMPENSATION

We believe that the compensation for our non-employee directors should be a mix of cash and equity to reward these individuals for their service in fulfilling their oversight responsibilities. We do not provide Mr. DeWalt, our lone employee-director, with any additional compensation for his board service. The appropriate level and form of compensation for our non-employee directors is reviewed periodically as appropriate. The governance and nominations committee seeks input from its external compensation consultant on a range of external market factors, including appropriate peer companies for assessing our competitive market position, market data, and best practices for non-employee director compensation arrangements. Our board of directors reviews the committee s recommendations and then determines the amount of non-employee director compensation. Non-employee director fees for 2010 were as follows:

- $55,000 annual retainer for each board member, payable in quarterly installments;
- If our board of directors holds more than 12 meetings during the year, then $1,500 for each additional board meeting attended in person and $1,000 for each additional telephonic board meeting;
- an additional $100,000, payable in quarterly installments, to the chairman of the board;
- an additional $22,500 annual retainer, payable in quarterly installments, to each audit committee member;
- an additional $22,500 annual retainer, payable in quarterly installments, to the chairman of the audit committee;
- an additional $15,000 annual retainer, payable in quarterly installments, to each compensation committee member;
- an additional $15,000 annual retainer, payable in quarterly installments, to the chairman of the compensation committee;
- an additional $7,500 annual retainer, payable in quarterly installments, to each governance and nominations committee member;
- an additional $7,500 annual retainer, payable in quarterly installments, to the chairman of the governance and nominations committee;
- an additional $7,500 annual retainer, payable in quarterly installments, to each classified matters committee member;
- an additional $7,500 annual retainer, payable in quarterly installments, to the chairman of the classified matters committee (currently no chairman);
- reimbursement of expenses of attending board and committee meetings; and
- medical insurance benefits for directors and their families.

Under our 2010 Director Equity Plan, each non-employee director is automatically granted upon joining our board an initial award consisting of (a) stock options having an aggregate Black-Scholes value of $200,000 on the grant date, and (b) stock units covering a number of shares having an aggregate fair market value of $200,000 on the grant date. In each year after this initial award. each non-employee director receives an annual award on the date of our annual meeting of stockholders consisting of (a) stock options having an aggregate Black-Scholes value of $100,000 on the grant date, and (b) stock units covering a number of shares having an aggregate fair market value of $100,000 on the grant date. All options are granted with an exercise price equal to the closing market price of our common stock on the date of grant. The fair value of an option is determined using the Black-Scholes option pricing model under ASC 718.

Stock options granted as part of the initial award vest as to 1/12 of the shares subject to the option each quarter over three years. Stock units granted as part of the initial award vest as to 1/3 of the shares on the earlier of (x) the anniversary of the date of grant, or (y) the date of the next annual meeting of stockholders at which a general election of directors is held, and as to 1/12 of the shares each quarter thereafter. Stock options granted as part of the annual award vest in their entirety upon the earlier of (x) the first anniversary of the date of grant, or (y) the date of the next

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annual meeting of stockholders at which a general election of directors is held. Stock units granted as part of the annual award vest in their entirety upon the earlier of (x) the anniversary of the date of grant, or (y) the date of the next annual meeting of stockholders at which a general election of directors is held. The vesting of all options and stock units is also subject to continuous service by the holder as a director on the vesting date. All options and stock units become fully exercisable in the event of certain mergers, sales of assets or sales of the majority of our voting stock, including the pending acquisition of McAfee by Intel.

The following table shows the compensation earned during 2010 by our non-employee directors in 2010.

Name	Fees Earned	Stock Awards	Option Awards(2)	All Other Compensation(3)	Total
Carl Bass	$ 63,550	$ 100,005	$ 99,996	$	$ 263,551
Thomas E. Darcy	112,000	100,005	99,996		312,001
Leslie G. Denend	91,000	100,005	99,996	12,524	303,525
Jeffrey A. Miller	75,000	100,005	99,996	17,556	292,557
Lorrie M. Norrington	58,000	53,710(1)	53,695(1)		165,405
Denis J. O Leary	74,000	100,005	99,996		274,001
Robert W. Pangia	82,000	100,005	99,996	17,556	299,557
Charles J. Robel	206,000	100,005	99,996	12,527	418,528
Anthony Zingale	80,000	100,005	99,996	23,214	303,215

(1) Ms. Norrington received a prorated annual award on the date of our 2010 annual meeting of stockholders because she received her initial equity award in December 2009 when she joined our board of directors.

(2) The amounts reported do not reflect the actual economic value realized by the non-employee director. The fair value of an option grant is determined under ASC 718 using a Black-Scholes option pricing model. This column reflects the grant date fair values which have been determined based on assumptions described in Note 14 to our consolidated financial statements included in this annual report.

(3) The amounts reported in the All Other Compensation column consist of the annual cost of health insurance premiums.

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Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

STOCK OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table shows as of the record date, the number of shares of our common stock owned by (i) our chief executive officer, (ii) each of our current named executive officers, (iii) each of our directors, and (iv) each stockholder known by us as of December 31, 2010 to be the beneficial owner of more than 5% of our outstanding common stock.

Name and Address of Beneficial Owners	Number of Shares Owned(1)	Right to Acquire(3)	Percent of Outstanding Shares(4)
David G. DeWalt(5)	22,950	735,229	*
Carl Bass	638	46,536	*
Thomas E. Darcy	638	46,536	*
Leslie G. Denend	2,309		*
Jeffrey A. Miller	100		
Lorrie M. Norrington	422	2,412	*
Denis J. O Leary	5,000		*
Robert W. Pangia	59		*
Charles J. Robel			*
Anthony Zingale			*
Jonathan C. Chadwick		30,012	*
Michael P. DeCesare	54,848(2)	130,766	*
Todd W. Gebhart	10,463	29,135	*
Gerhard Watzinger	63,115	132,391	*
T. Rowe Price Associates, Inc.(6) 100 E. Pratt Street, Baltimore, Maryland 21202	8,683,932		5.6%
Paulson & Co. Inc.(7) 1251 Avenue of the Americas, New York, New York 10020	8,000,000		5.1%
BlackRock, Inc.(8) 40 East 52nd Street, New York, New York 10022	7,926,502		5.1%
All executive officers and directors as a group (16 persons)	160,542	1,203,636	*

* Less than 1%.

(1) Ownership includes direct and indirect (beneficial) ownership, as defined by SEC rules. The SEC rules for determining beneficial ownership are very complex. Generally, however, shares owned directly by a stockholder, plus those controlled by the stockholder (e.g., owned by members of the stockholder s immediate families), are considered beneficially owned. Ownership excludes shares that may be acquired through stock option exercises. Unless otherwise indicated, the address of each beneficial owner is c/o McAfee, Inc., 2821 Mission College Blvd., Santa Clara, California 95054. To our knowledge, each person has sole voting and investment power over the shares owned unless otherwise noted.

(2) The amount reported includes Mr. DeCesare s 16,666 PSUs vested on December 31, 2010 based on a certification by the compensation committee that the performance criteria for the 2010 performance period had been satisfied. On February 8, 2011, we issued 10,492 of these shares to Mr. DeCesare and withheld 6,174 shares to fulfill withholding tax obligations.

(3) Consists of options that are currently exercisable or will become exercisable within 60 days of December 31, 2010 and stock awards that are scheduled to vest within 60 days of December 31, 2010. The amounts reported do not include any options that vest in connection with the closing of the pending acquisition of McAfee by Intel.

(4) Based upon 155,680,067 shares outstanding as of the record date.

(5) Shares are beneficially owned by Mr. DeWalt on an indirect basis via the DeWalt Family Trust.

(6) According to the amended Schedule 13G filed on February 11, 2011 by T. Rowe Price Associates, Inc. (Price Associates). These securities are owned by various individual institutional investors, which Price Associates serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, as amended, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that is, in fact, the beneficial owner of such securities.

(7) According to the Schedule 13G filed on February 15, 2011 by Paulson & Co. Inc. (Paulson). Paulson is the beneficial holder of and has sole dispositive power over 8,000,000 shares of our common stock and has sole voting power over 8,000,000 shares.

(8) According to the Schedule 13G filed on February 7, 2011 by BlackRock, Inc. (BlackRock). BlackRock is the beneficial holder of and has sole dispositive power over 7,926,502 shares of our common stock and has sole voting power over 7,926,502 shares.

Equity Compensation Plans

The number of securities to be issued upon exercise of all outstanding options and rights (including unvested stock units), the weighted average per share exercise price of such options, and the number of shares remaining available for issuance under all of our equity compensation plans as of December 31, 2010 are reflected in the following table.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights	Weighted-Average Exercise Price of Outstanding Options(1)	Number of Securities Remaining Available for Future Issuance (Excluding Securities Reflected in First Column)
Plans approved by stockholders	10,906,746	$ 35.38	16,719,635
Plans not approved by stockholders	241,652	16.13	

(1) The weighted average exercise price is calculated based solely on the outstanding options.

In connection with the compensation committee s approval of the 2010 Equity Incentive Plan, the committee irrevocably agreed to make no further grants of equity awards out of any existing stock compensation plans other than the 2010 Equity Incentive Plan (and automatic grants under our director equity plan).

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

Related Party Transactions

Our code of business conduct and ethics requires that all employees and directors refer matters that may constitute related party transactions to the appropriate member of management for an assessment of whether a conflict exists. Pursuant to its written charter the audit committee reviews on an ongoing basis, discusses with management and the independent auditor, and approves or ratifies any transactions or courses of dealing with related persons (*e.g.*, including significant stockholders, directors, executive officers or their immediate family members) that (i) are significant in size, (ii) involve terms or other aspects that differ from those that would likely be negotiated with independent parties, or (iii) are otherwise required to be approved or ratified by the audit committee in accordance with our related person transaction policy, including any safeguards or additional procedures to be applied in such circumstances. The audit committee has not adopted any specific written procedures for conducting such reviews and considers each transaction in light of the specific facts and circumstances presented.

We entered into indemnity agreements with certain employees, officers and directors that provide, among other things, that we will indemnify such employee, officer or director, under the circumstances and to the extent provided for therein, for expenses, damages, judgments, fines and settlements he or she may be required to pay in actions or proceedings which he or she is or may be made a party by reason of his or her position as an employee, officer, director or other agent with us, and otherwise to the fullest extent permitted under Delaware law and our

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bylaws. The maximum amount of potential future indemnification is unknown; however, we have directors and officers liability insurance policies that enable us to recover a portion of future indemnification claims paid, subject to retentions, conditions and limitations of the policies. As a result of this insurance coverage, we believe that the fair value of these indemnification claims is not material.

Mr. DeWalt is a member of the board of directors of Polycom, Inc. In the ordinary course of business we entered into agreements with Polycom, pursuant to which Polycom paid us a total of approximately $120,000 in 2010. In the ordinary course of business we entered into agreements with a third party that purchased and installed Polycom equipment in certain of our facilities. During 2010 we paid this third party a total of approximately $1.3 million, a substantial portion of which was utilized to purchase Polycom equipment.

Our board of directors has determined that each of its members, other than Mr. DeWalt, is independent as defined under the New York Stock Exchange corporate governance standards, and has no material relationship with us. Mr. Robel serves as chairman of our board of directors and has been designated as our lead independent director for presiding over executive sessions of our board of directors without management. Each of the members of the audit committee of our board of directors (Messrs. Darcy, Pangia and Robel) has been designated by our board as an audit committee financial expert (as defined under the SEC rules implementing Section 404 of The Sarbanes-Oxley Act of 2002).

Ms. Norrington served as President of eBay Marketplaces until September 2010. In the ordinary course of business we entered into agreements with eBay, Inc. and its subsidiary PayPal, Inc. prior to the time she joined our board. During 2010, we paid PayPal a total of approximately $392,000 and eBay less than $1,000. Mr. Zingale is the chief executive officer of Jive Software, Inc. In the ordinary course of business we entered into agreements with Jive Software, pursuant to which we paid Jive Software a total of approximately $321,000 in 2010. Based upon the quantitative and qualitative characteristics of these arrangements, we do not believe that either Ms. Norrington or Mr. Zingale has a material relationship with us.

Item 14. *Principal Accountant Fees and Services*

Deloitte & Touche LLP (Deloitte) served as our principal independent accountant for the years ended December 31, 2010 and 2009. Amounts presented below relate to services for the years ended December 31, 2010 and 2009 without regard to the timing of the actual payment for the services.

Year	Audit Fees(1)	Audit-Related Fees(2)	Tax Fees(3)	Other Fees(4)
2010	$ 3,442,000	$ 3,000	$ 431,000	$ 47,000
2009	4,760,000	7,000	569,000	2,000

(1) Amounts shown represent audit fees billed to us by Deloitte for the audit of our consolidated financial statements included in our annual report on Form 10-K and the audit of our internal control over financial reporting, review of the quarterly reports on Form 10-Q, statutory audits for foreign entities and securities filings.

(2) Amounts shown represent audit-related fees billed to us by Deloitte for assurance services and services related to our audits and reviews of our consolidated financial statements that are not considered audit fees. These fees included amounts paid for Deloitte s review of our Form S-8s.

(3) Amounts shown represent fees billed to us by Deloitte for tax-related services, including compliance, planning and tax advice.

(4) Amounts shown in 2010 represent fees billed to us by Deloitte for information technology internal control rationalization services and online accounting research tool subscriptions. Amounts shown in 2009 represent fees billed to us by Deloitte for online accounting research tool subscriptions.

Our audit committee charter includes a requirement that the audit committee of our board of directors pre-approve the services provided by our independent public accountants, including both audit and non-audit services. The pre-approval of non-audit services performed by our independent public accountants includes making a determination that the provision of the services is compatible with maintaining the independence of our independent accountants. All of the services performed by Deloitte described above under the captions Audit-Related Fees, Tax Fees and Other Fees were pre-approved by our audit committee.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a)(1) *Consolidated Financial Statements*

(a)(2) *Consolidated Financial Statement Schedule*

The following financial statement schedule of McAfee, Inc. for the years ended December 31, 2010, 2009, and 2008 is filed as part of this Form 10-K and should be read in conjunction with McAfee, Inc. s Consolidated Financial Statements.

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2010, 2009 and 2008

Schedules not listed above have been omitted because they are not applicable or are not required or because the required information is included in the Consolidated Financial Statements or Notes thereto.

(a)(3) *Exhibits* See Index to Exhibits on Page 97. The Exhibits listed on the accompanying Index of Exhibits are filed or incorporated by reference as part of this report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of McAfee, Inc.
Santa Clara, California

We have audited the accompanying consolidated balance sheets of McAfee, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income and comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of McAfee, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2011 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

San Jose, California
February 25, 2011

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MCAFEE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 738,419	$ 677,137
Short-term marketable securities	360,099	215,894
Accounts receivable, net	348,254	294,315
Deferred income taxes	334,934	312,080
Prepaid expenses and deferred costs of revenue	271,571	228,102
Other current assets	21,290	35,789
Total current assets	2,074,567	1,763,317
Long-term marketable securities	85,011	57,137
Property and equipment, net	167,194	133,016
Deferred income taxes	274,835	292,657
Intangible assets, net	190,948	292,583
Goodwill	1,305,813	1,284,574
Other assets	133,984	139,902
Total assets	$ 4,232,352	$ 3,963,186
LIABILITIES		
Current liabilities:		
Accounts payable	$ 71,349	$ 55,104
Accrued compensation and benefits	110,592	108,332
Other accrued liabilities	232,531	203,967
Deferred revenue	1,147,649	1,068,682
Total current liabilities	1,562,121	1,436,085
Deferred revenue, less current portion	388,617	338,791
Accrued taxes and other long-term liabilities	57,517	70,772
Total liabilities	2,008,255	1,845,648
Commitments and contingencies (Notes 9, 10 and 19)		
STOCKHOLDERS EQUITY		
Preferred stock, $0.01 par value:		
Authorized: 5,000,000 shares; Issued and outstanding: none in 2010 and 2009		
Common stock, $0.01 par value:		

Authorized: 300,000,000 shares; Issued: 193,173,308 shares at December 31, 2010 and 186,700,719 shares at December 31, 2009		
Outstanding: 155,680,067 shares at December 31, 2010 and 158,286,352 shares at December 31, 2009	1,932	1,868
Treasury stock, at cost: 37,493,241 shares at December 31, 2010 and 28,414,367 shares at December 31, 2009	(1,173,645)	(845,118)
Additional paid-in capital	2,507,457	2,251,916
Accumulated other comprehensive loss	(7,922)	(3,291)
Retained earnings	896,275	712,163
Total stockholders equity	2,224,097	2,117,538
Total liabilities and stockholders equity	$ 4,232,352	$ 3,963,186

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

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MCAFEE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31, 2010	2009	2008
	(In thousands, except per share data)		
Net revenue:			
Service, support and subscription	$ 1,839,437	$ 1,739,081	$ 1,467,092
Product	225,370	188,251	132,973
Total net revenue	2,064,807	1,927,332	1,600,065
Cost of net revenue:			
Service, support and subscription	358,542	308,222	254,083
Product	118,264	100,204	72,634
Amortization of purchased technology	80,742	77,961	56,811
Total cost of net revenue	557,548	486,387	383,528
Operating costs:			
Research and development	346,083	324,368	252,020
Sales and marketing	656,646	642,026	536,944
General and administrative	203,682	197,696	193,784
Amortization of intangibles	29,743	40,718	26,470
Restructuring charges (benefits)	41,683	13,830	(1,752)
In-process research and development			19,500
Total operating costs	1,277,837	1,218,638	1,026,966
Income from operations	229,422	222,307	189,571
Interest and other income, net	68	2,202	45,687
Impairment of marketable securities		(710)	(18,533)
Gain on sale of investments, net	150	424	5,481
Income before provision for income taxes	229,640	224,223	222,206
Provision for income taxes	45,528	50,803	49,997
Net income	$ 184,112	$ 173,420	$ 172,209
Other comprehensive income (loss):			
Unrealized gain (loss) on marketable securities, net	$ 754	$ 3,187	$ (215)
Foreign currency translation (loss) gain	(5,385)	14,973	(51,275)
Comprehensive income	$ 179,481	$ 191,580	$ 120,719
Net income per share basic	$ 1.19	$ 1.11	$ 1.10

Net income per share diluted	$ 1.17	$ 1.09	$ 1.08
Shares used in per share calculation basic	154,936	156,144	156,205
Shares used in per share calculation diluted	157,385	158,988	159,406

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

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MCAFEE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Stockholde Equity
				(In thousands)				
ances, January 1, 2008	160,545	$ 1,732	12,603	$ (303,270)	$ 1,810,290	$ 32,498	$ 364,075	$ 1,905,32
uance of common stock der our employee stock efit plans	7,986	80			127,238			127,31
ourchase of common ck	(14,974)		14,974	(516,591)				(516,59
feiture of restricted ck awards	(22)		22					
ck-based compensation					76,662			76,66
classification of fair ue charge as liability for der offer					(1,223)			(1,22
r value of options umed in prior year uisition					(1,672)			(1,67
sh payable in excess of rcise price related to hange of McAfee.com ions					(984)			(98
r value of RSAs and Us assumed in uisition					2,211			2,21
k benefits from ck-based awards					23,729			23,72
ercise of stock options lassification from bility to equity awards					16,994			16,99
eign currency nslation						(51,275)		(51,27
t increase in unrealized ses on marketable urities, net						(215)		(21
t income							172,209	172,20
ances, December 31, 08	153,535	1,812	27,599	(819,861)	2,053,245	(18,992)	536,284	1,752,48
	5,566	56			90,230			90,28

uance of common stock ler our employee stock efit plans								
ourchase of common ck	(780)		780	(25,257)				(25,25
feiture of restricted ck awards	(35)		35					
ck-based compensation					103,036			103,03
sh payable in excess of rcise price related to hange of McAfee.com ions					(493)			(49
r value of options umed in acquisition					123			12
c benefits from ck-based awards					5,775			5,77
eign currency nslation						14,973		14,97
t increase in unrealized ns on marketable urities, net						3,187		3,18
mulative effect ustment for non-credit nponent of er-than-temporary pairment						(2,459)	2,459	
t income							173,420	173,42
ances, December 31, 09	158,286	1,868	28,414	(845,118)	2,251,916	(3,291)	712,163	2,117,53
uance of common stock ler our employee stock efit plans	6,473	64			125,183			125,24
ourchase of common ck	(9,062)		9,062	(328,527)				(328,52
feiture of restricted ck awards	(17)		17					
ck-based compensation					119,481			119,48
sh payable in excess of rcise price related to hange of McAfee.com ions					(289)			(28
c benefits from ck-based awards					11,166			11,16
eign currency nslation						(5,385)		(5,38
t increase in unrealized ns on marketable urities, net						754		75
t income							184,112	184,11

ances, December 31, 0	155,680	$	1,932	37,493	$	(1,173,645)	$	2,507,457	$	(7,922)	$	896,275	$	2,224,09

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

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MCAFEE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2010	**2009**	**2008**
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 184,112	$ 173,420	$ 172,209
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	171,357	172,280	123,894
Stock-based compensation expense	119,481	103,036	76,662
Excess tax benefit from stock-based awards	(14,458)	(10,215)	(17,693)
Deferred income taxes	10,286	11,900	(10,724)
Non-cash restructuring	24,381	1,861	(7,471)
Impairment of marketable securities		710	18,533
Acquired in-process research and development			19,500
Decrease in fair value of options accounted for as liabilities			(5,483)
Other non-cash items	8,628	6,185	(3,688)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable, net	(63,668)	33,216	(68,208)
Prepaid expenses, deferred costs of revenue and other assets	(39,061)	(98,608)	(77,300)
Accounts payable	15,560	11,212	(7,775)
Accrued compensation and benefits and other liabilities	22,111	(10,370)	(33,493)
Deferred revenue	155,911	101,757	129,359
Net cash provided by operating activities	594,640	496,384	308,322
Cash flows from investing activities:			
Purchase of marketable securities	(654,313)	(448,117)	(252,031)
Proceeds from sales of marketable securities	161,432	50,623	587,587
Proceeds from maturities of marketable securities	322,498	239,323	466,101
Purchase of property and equipment	(86,905)	(60,535)	(48,747)
Acquisitions, net of cash acquired	(51,869)	(171,618)	(550,648)
Escrow releases and other investing activities	10,403	2,492	(2,036)
Net cash (used in) provided by investing activities	(298,754)	(387,832)	200,226
Cash flows from financing activities:			
Proceeds from issuance of common stock under our employee stock benefit plans	125,442	90,105	129,990
Excess tax benefits from stock-based awards	14,458	10,215	17,693
Repurchase of common stock	(328,527)	(25,257)	(516,591)
Payment of accrued purchase price and contingent consideration	(23,856)	(4,949)	
Bank borrowings		100,000	
Repayment of bank borrowings		(100,000)	

Other financing activities	(3,157)		(3,054)
Net cash (used in) provided by financing activities	(215,640)	70,114	(371,962)
Effect of exchange rate fluctuations on cash	(18,964)	15,169	(47,442)
Net increase in cash and cash equivalents	61,282	193,835	89,144
Cash and cash equivalents at beginning of period	677,137	483,302	394,158
Cash and cash equivalents at end of period	$ 738,419	$ 677,137	$ 483,302
Non cash investing and financing activities:			
Unrealized gain (loss) on marketable securities, net	$ 754	$ 3,187	$ (215)
Fair value of assets acquired in business combinations and asset acquisitions, excluding cash acquired	$ 59,202	$ 260,678	$ 758,836
Liabilities assumed in business combinations	$ 6,662	$ 55,813	$ 226,328
Fair value of earn-out liabilities and accrued purchase price	$ 298	$ 33,732	$ 1,268
Accrual for purchase of property, equipment and leasehold improvements	$ 22,795	$ 10,788	$ 2,953
Exercise of stock options reclassification from liability to equity awards	$	$	$ 16,994
Issuance of common stock under stock option plans	$ (195)	$ 181	$ (2,672)
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 26,896	$ 38,468	$ 60,494
Cash received from income tax refunds	$ 4,173	$ 8,435	$ 5,072
Interest expense paid	$	$ 2,391	$

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

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MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

McAfee, Inc. and our wholly owned subsidiaries (we , us or our) are a global dedicated security technology company that delivers proactive and proven solutions and services that help secure systems and networks around the world, allowing users to safely connect to the internet, browse and shop the web more securely. We create innovative products that empower home users, businesses, the public sector, and service providers by enabling them to prove compliance with regulations, protect data, prevent disruptions, identify vulnerabilities and continuously monitor and improve their security. We operate our business in five geographic regions: North America; Europe, Middle East and Africa (EMEA); Japan; Asia-Pacific, excluding Japan (APAC); and Latin America.

On August 18, 2010, we entered into a definitive agreement under which Intel Corporation (Intel) will acquire all of our common stock, through a merger, for $48 per share in cash and we will become a wholly owned subsidiary of Intel. The definitive agreement related to the acquisition was approved and adopted by our stockholders on November 2, 2010. The definitive agreement related to the acquisition provides that the acquisition is subject to regulatory approvals and other customary closing conditions. On December 20, 2010, we received notification from the United States Federal Trade Commission that the waiting period had expired under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 with respect to the proposed acquisition. On January 26, 2011, the European Commission announced that it had granted conditional antitrust clearance of the proposed acquisition. We anticipate that the acquisition will close in the first quarter of 2011.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. Estimates are based upon historical factors, current circumstances and the experience and judgment of management. Significant estimates include those required in allocation of revenues between recognized and deferred amounts, fair value of financial instruments, the valuation of intangible assets acquired and contingent consideration issued in business acquisitions, impairment analysis of goodwill and intangible assets, the estimated useful life of property and equipment and intangible assets, allowances for doubtful accounts, sales returns and allowances, vendor specific objective evidence (VSOE) of the fair value of the various undelivered elements of our multiple element software transactions, projections of future cash flows related to certain revenue share agreements, stock-based compensation expense, restructuring and litigation accruals and valuation allowances for deferred tax assets and tax accruals. Although we believe that adequate accruals have been made for unsettled issues, additional gains or losses could occur in future periods from resolution of outstanding matters. Actual results could differ materially from original estimates.

Certain Risks and Concentrations

We derive a majority of our net revenue from our system security and network security solutions. The market in which we operate is highly competitive and rapidly changing. Significant technological changes, changes in customer requirements, or the emergence of competitive products with new capabilities or technologies could adversely affect operating results.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We sell a significant amount of our products through intermediaries such as distributors, resellers and others. Our top ten distributors represented 30% to 45% of net sales during 2010, 2009 and 2008.

A significant portion of our net revenue and net income is derived from international sales. Fluctuations of the U.S. dollar against foreign currencies, changes in local regulatory or economic conditions, piracy, or nonperformance by distributors or partners could adversely affect operating results.

We regularly review the collectability and creditworthiness of our distributors to determine an appropriate allowance for doubtful accounts. Our uncollectible accounts could exceed our current or future allowances. Accounts receivable are written off on a case by case basis, considering the probability that any amounts can be collected. At December 31, 2010 and 2009, our allowance for doubtful accounts was $5.9 million and $6.5 million, respectively.

We maintain a significant majority of cash balances and all of our short-term investments with four financial institutions. We invest with financial institutions believed to have high quality credit and, by policy, limit the amount of deposit exposure to any one financial institution.

We receive certain of our critical components from sole suppliers. Additionally, we rely on a limited number of contract manufacturers and suppliers to provide manufacturing services for our products. The inability of any contract manufacturer or supplier to fulfill supply requirements could materially impact future operating results.

Cash and Cash Equivalents

Cash equivalents are comprised of highly liquid debt instruments with original maturities or remaining maturities at date of purchase of 90 days or less.

Restricted Cash

Current restricted cash of $7.6 million at December 31, 2009 is included in the other current assets line item on the consolidated balance sheets. At December 31, 2009, we had $7.6 million placed in an escrow account pursuant to Secure Computing Corporation s (Secure) divestiture of a product line in September 2008. This escrow was released in 2010.

Non-current restricted cash of $0.6 million at December 31, 2010 and $2.1 million at December 31, 2009 is included in the other assets line item on the consolidated balance sheets. Non-current restricted cash at both December 31, 2010 and December 31, 2009 includes $0.6 million of cash collateral related to leases in the United States and India. Non-current restricted cash at December 31, 2009 included restricted cash deposited at one of our lenders. The $1.5 million deposit was released in 2010 when we amended our credit facility (see note 11).

Marketable Securities

All marketable securities are classified as available-for-sale securities. Available-for-sale securities are carried at fair value with resulting unrealized gains and losses, including the non-credit component of other-than-temporary impairments, reported net of tax as a component of accumulated other comprehensive loss. Premium and discount on debt securities recorded at the date of purchase are amortized and accreted, respectively, to interest income using the effective interest method. All proceeds received from the sale and maturity of our marketable securities are reflected in investing activities in the consolidated statements of cash flows, including amounts related to discounts and premiums recorded at the time of purchase. Short-term marketable securities are those with remaining maturities at the balance sheet date of less than one year. Long-term marketable securities have remaining maturities at the balance sheet date of one year or greater. Realized gains and losses on sales of all such investments are reported in earnings and are computed using the specific identification cost method.

In April 2009, new accounting guidance revised the impairment model for debt securities by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. For

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

debt securities in an unrealized loss position, we are required to assess whether (i) we have the intent to sell the debt security or (ii) it is more likely than not that we will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, an other-than-temporary impairment on the security must be recognized in earnings equal to the entire difference between its fair value and amortized cost basis.

For debt securities in an unrealized loss position which are deemed to be other-than-temporary where neither of the criteria in the paragraph above are present, the difference between the security s then-current amortized cost basis and fair value is separated into (i) the amount of the impairment related to the credit loss (i.e., the credit loss component) and (ii) the amount of the impairment related to all other factors (i.e., the non-credit loss component). The credit loss component is recognized in earnings. The non-credit loss component is recognized in accumulated other comprehensive loss. The credit loss component is the excess of the amortized cost of the security over the best estimate of the present value of the cash flows expected to be collected from the debt security. The non-credit loss component is the residual amount of the other-than-temporary impairment. Prior to the new accounting guidance, in all cases, if an impairment was determined to be other-than-temporary, then an impairment loss was recognized in earnings in an amount equal to the entire difference between the security s amortized cost basis and its fair value.

When calculating the present value of expected cash flows to determine the credit loss component of the other-than-temporary impairment, we estimate the amount and timing of projected cash flows on a security-by-security basis. These calculations reflect our expectations of the performance of the underlying collateral and the ability of the issuer to meet payment obligations as applicable. The expected cash flows are discounted using the effective interest rate of the security prior to any impairment. The amortized cost basis of a debt security is adjusted for credit losses recorded to earnings. The difference between the cash flows expected to be collected and the new cost basis is accreted to investment income over the remaining expected life of the security.

Pursuant to the April 2009 accounting guidance, we were required to separate other-than-temporary impairments recognized in earnings prior to April 1, 2009, between the credit loss and the non-credit loss components, and record a cumulative effect adjustment to retained earnings for the non-credit loss component. Upon adoption on April 1, 2009, we recorded an increase to retained earnings and a corresponding decrease to accumulated other comprehensive loss of $2.5 million, net of $1.6 million in tax benefits. Periods prior to April 1, 2009, have not been restated for this new accounting policy and, therefore, current period and prior period financial statements may not be comparable.

Deferred Costs of Revenue and Prepaid Expenses

Deferred costs of revenue consist primarily of costs related to revenue-sharing and royalty arrangements and the direct cost of materials that are associated with product revenue and revenue from licenses under subscription arrangements. These costs are deferred over a service period, including arrangements that are deferred due to lack of VSOE of fair value on an undelivered element. Deferred costs are classified as current or non-current consistent with the associated deferred revenue. We recognize deferred costs ratably as revenue is recognized. Our short-term deferred costs of revenue are in the prepaid expenses and deferred costs of revenue line item and our long-term deferred costs of revenue are in the other assets line item on our consolidated balance sheets. At December 31, 2010 and 2009, deferred costs of revenue are as follows (in thousands):

	December 31,	
	2010	**2009**

Short-term deferred costs of revenue	$ 100,990	$ 89,618
Long-term deferred costs of revenue	18,836	17,739
Total deferred costs of revenue	$ 119,826	$ 107,357

Prepaid expenses consist primarily of revenue sharing costs that have been paid in advance of the anticipated customer renewal transactions, royalty costs paid in advance of revenue transactions, prepaid commissions, prepaid

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insurance, prepaid rent, prepaid marketing and prepaid taxes. Our short-term prepaid expenses are in the prepaid expenses and deferred costs of revenue line item and our long-term prepaid expenses are in the other assets line item on our consolidated balance sheets. The current and non-current classification of advance payments related to revenue sharing and royalties is based upon estimates of the anticipated timing of future transactions that give rise to revenue sharing or royalty obligations. These estimates rely on forecasted future revenues which are subject to adjustment as forecasts are revised. At December 31, 2010 and 2009, prepaid expenses associated with revenue-sharing and royalty arrangements are as follows (in thousands):

	December 31, 2010	December 31, 2009
Short-term prepaid expenses	$ 94,939	$ 71,388
Long-term prepaid expenses	77,212	93,069
Total prepaid expenses	$ 172,151	$ 164,457

Inventory

Inventory, which consists primarily of finished goods held at our warehouse and other fulfillment partner locations and finished goods sold to our channel partners but not yet sold through to the end user, is stated at lower of cost or market. Cost is computed using standard cost, which approximates actual cost on a first in, first out basis. Inventory balances, net of write downs for excess and obsolete inventory, are included in the other current assets line item on our consolidated balance sheets and were $7.1 million at December 31, 2010 and $11.4 million at December 31, 2009.

Property and Equipment

Property and equipment are presented at cost less accumulated depreciation and amortization (see Note 6). Depreciation and amortization of property and equipment are computed using the straight-line method over the estimated useful lives as follows:

- building interior seven years; exterior twenty years;
- office furniture and equipment three to five years;
- computer hardware, networking hardware and software three to five years; and
- leasehold improvements the shorter of the lease term, including assumed lease renewal periods that are reasonably assured, or the estimated useful life of the asset.

The costs associated with projects eligible for capitalization are accumulated on the consolidated balance sheets until the project is substantially complete and is placed into service.

When assets are disposed, we remove the asset and accumulated depreciation from our records and recognize the related gain or loss in earnings.

Repairs and maintenance expenditures, which are not considered improvements and do not extend the useful life of property and equipment, are expensed as incurred.

Internal Use Software

Software development costs, including costs incurred to purchase third-party software, are capitalized when we have determined certain factors are present, including factors that indicate technology exists to achieve the performance requirements, the decision has been made to develop internally versus buy and our management has authorized the funding for the project. Capitalization of software costs ceases when the software is substantially complete and is ready for its intended use and capitalized costs are amortized over their estimated useful life of three

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to five years using the straight-line method. When events or circumstances indicate the carrying value of internal use software might not be recoverable, we assess the recoverability of these assets by determining whether the amortization of the asset balance over its remaining life can be recovered through undiscounted future operating cash flows.

Finite-Lived Intangibles, Long-Lived Assets and Assets Held for Sale

Purchased technology and other identifiable intangible assets are carried at cost less accumulated amortization. We amortize purchased technology and other identifiable intangibles on a straight-line or accelerated basis over their estimated useful lives, depending on the pattern in which the economic benefits are obtained or used. The range of estimated useful lives of our identifiable intangibles is one to eight years (see Note 7).

We will record an impairment charge on finite-lived intangibles or long-lived assets to be held and used when we determine that the carrying value of intangibles and long-lived assets may not be recoverable. Based upon the existence of one or more indicators of impairment, we measure any impairment of intangibles or long-lived assets based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. In 2010, we expensed $2.6 million to research and development related to a previously acquired intangible asset. No impairment has been recognized in our statements of income and comprehensive income for 2009 and 2008.

Goodwill and Other Intangible Assets

Goodwill and identifiable intangible assets with indefinite useful lives are tested for impairment at least annually. We perform our annual goodwill impairment review as of October 1 of each fiscal year and earlier if indicators of impairment exist. The goodwill impairment test is a two-step process performed at the reporting unit level, which are our five geographic operating segments. First, the value of each reporting unit is compared with its respective carrying amount, including goodwill. The estimated fair value of each reporting unit is determined using the average of the present value of estimated future cash flows and of the market multiple approaches. The assumptions used in the estimate of fair value, including future growth rates, terminal values, discount rates, comparable companies and market multiples, require significant judgment. The assumptions used consider historical performance and are consistent with the assumptions used in financial projections prepared by management, market share information, industry trends, peer group statistics and relevant economic indicators. We perform sensitivity analysis of estimated future cash flows, discount rates and market multiples to assess the impact on the fair value for each reporting unit under various scenarios. If the first step results in the carrying value exceeding the fair value of any reporting unit, then a second step must be completed to determine the amount of goodwill impairment. The fair values of our reporting units were substantially in excess of the respective carrying amounts in our most recent goodwill impairment test, and no goodwill impairment charges were recorded for any periods presented in our statements of income and comprehensive income.

Foreign Currency Translation

The assets and liabilities of subsidiaries that are denominated in functional currencies other than the U.S. Dollar are translated using the exchange rate on the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the period. Translation adjustments resulting from this process are charged or credited to accumulated other comprehensive loss (gain).

Occasionally, a subsidiary enters into transactions that are denominated in currencies other than its functional currency. In these cases, the assets and liabilities and revenue and expenses related to the transactions are translated into the functional currency and any resulting gains or losses are recorded in the consolidated statements of income and comprehensive income. During 2010 and 2009, we recorded net foreign currency transaction losses of

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$4.1 million and $2.4 million, respectively. In 2008, we recorded a net foreign currency transaction gain of $6.4 million.

Revenue Recognition

We must make significant management judgments and estimates to determine revenue to be recognized in any accounting period. Material differences may result in the amount and timing of our revenue for any period if our management makes different judgments or utilizes different estimates. These estimates affect the deferred revenue line item on our consolidated balance sheets and the net revenue line item on our consolidated statements of income and comprehensive income.

Our revenue, which is presented net of sales taxes, is derived primarily from two sources: (i) service, support and subscription revenue, which includes maintenance, training and consulting revenue and revenue from product licenses under subscription arrangements, and (ii) product revenue, which includes hardware and perpetual software license revenue.

We apply software revenue recognition guidance to all transactions except those where no software is involved or software is incidental. Revenue is recognized when persuasive evidence of an arrangement exists, the product or service has been delivered, the fee is fixed or determinable, and collectability is reasonably assured. For hardware transactions where software is not incidental, we do not separate the license fee and we do not apply separate accounting guidance to the hardware and software elements. For hardware transactions where no software is involved or software is incidental, we apply the guidance for product revenue recognition.

Persuasive evidence is generally a binding purchase order or license agreement. Delivery generally occurs when product is delivered to a common carrier or upon delivery of a grant letter and license key, if applicable. If a significant portion of a fee is due after our normal payment terms of typically 30 to 90 days, we recognize revenue as the fees become due. If we determine that collection of a fee is not reasonably assured, we defer the fees and recognize revenue upon cash receipt, provided all other revenue recognition criteria are met.

We enter into perpetual and subscription software license agreements through direct sales to customers and indirect sales with partners, distributors and resellers. We recognize revenue from the indirect sales channel upon sell-through by the partner or distributor. The license agreements generally include service and support agreements, for which the related revenue is deferred and recognized ratably over the performance period. All revenue derived from our online subscription products is deferred and recognized ratably over the performance period. Professional services revenue is recognized as services are performed or if required, upon customer acceptance. When customer acceptance is required, we defer the direct costs of the subscription software licensing and professional services arrangements, and amortize those costs over the same period as the related revenue is recognized. These costs are identified as cost of service, support and subscription revenue on the consolidated statements of income and comprehensive income.

For arrangements with multiple elements, including software licenses, maintenance and/or services, we allocate and defer revenue equivalent to the VSOE of fair value for the undelivered elements and recognize the difference between the total arrangement fee and the amount deferred for the undelivered elements as product revenue. We determine VSOE of fair value of the undelivered elements based on historical evidence of stand-alone sales of these elements to our customers or upon substantive renewal rates stated in a contract. When VSOE does not exist for undelivered elements such as maintenance and support, the entire arrangement fee is recognized ratably over the performance period generally as services, support and subscription revenue. Our deferred revenue consists primarily of the unamortized balance of enterprise product maintenance, consumer product content updates and arrangements where VSOE does not exist.

We also identify the direct and incremental costs associated with product revenues that have been deferred due to lack of VSOE on fair value on an undelivered element. These costs are primarily hardware platform and other hardware component costs. We defer these costs at the time of delivery and recognize them as cost of service,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

support and subscription revenue on the consolidated statements of income and comprehensive income over the service period.

We reduce revenue for estimates of sales incentives and sales returns. We offer channel rebates and marketing funds and end-user rebates for products in our corporate and consumer product lines. Additionally, end users may return our products, subject to varying limitations, through distributors and resellers or to us directly for a refund within a reasonably short period from the date of purchase. We estimate and record reserves for promotional and rebate programs and sales returns based on our historical experience.

Research and Development

Costs incurred in the research and development of new software products are expensed as incurred until technological feasibility is established. Research and development costs include salaries and benefits of researchers, supplies and other expenses incurred with research and development efforts. Development costs are capitalized beginning when a product s technological feasibility has been established and ending when the product is available for general release to customers. Technological feasibility is reached when the product reaches the working model stage. To date, products and enhancements have generally reached technological feasibility and have been released for sale at substantially the same time and all research and development costs have been expensed.

Advertising Costs

Advertising costs are expensed as incurred. Media (television and print) placement costs are expensed in the period the advertising appears. Total advertising expenses were $15.2 million, $13.2 million and $16.6 million for 2010, 2009 and 2008, respectively.

Stock-based Compensation Expense

We record compensation expense for stock-based awards issued to employees and outside directors in exchange for services provided based on the estimated fair value of the awards on their grant dates. Stock-based compensation expense is recognized over the required service or performance period of the awards. Our stock-based awards include stock options (options), restricted stock units (RSUs), restricted stock awards (RSAs), restricted stock units with performance-based vesting (PSUs) and employee stock purchase rights issued pursuant to our Employee Stock Purchase Plan (ESPP). The estimated fair value underlying our calculation of stock-based compensation expense for options and ESPP grants is based on the Black-Scholes pricing model. See Note 14 for additional information.

Accounting for Income Taxes

We account for income taxes under the asset and liability method which includes the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred assets and liabilities are determined based on the differences between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The provision for income taxes is comprised of the current tax expense and the change in deferred tax assets and liabilities. We establish a valuation allowance to the extent that it is more likely than not that deferred tax assets will not be recoverable against future taxable income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) issued guidance on revenue recognition that will become effective for us beginning January 1, 2011. Under the new guidance tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance; such software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when VSOE or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We believe that when we adopt this new guidance our consolidated financial statements will be impacted and we are currently assessing the magnitude of the impact.

3. Business Combinations

2010 Acquisitions

In 2010, we acquired 100% of the outstanding shares of TD Security, Inc. d/b/a Trust Digital, Inc. (Trust Digital) for $32.5 million, tenCube Pte. Ltd. (tenCube) for $10.6 million and InternetSafety.com, Inc. (InternetSafety.com) for $10.7 million.

The preliminary allocations of the purchase prices for Trust Digital, tenCube and InternetSafety.com were based upon estimates and assumptions that are subject to change within the purchase price allocation period (generally one year from the acquisition date). The primary areas of the purchase price allocation that are not yet finalized relate to the measurement of certain deferred tax assets and liabilities for tenCube and InternetSafety.com.

Our purchase price allocation, as adjusted for subsequent purchase price adjustments, is as follows (in thousands):

	Trust Digital	tenCube	InternetSafety.com	Total 2010 Acquisitions
Technology	$ 2,900	$ 3,200	$ 4,200	$ 10,300
In-process technology	2,300			2,300
Other intangibles	400	1,100	700	2,200
Goodwill	16,922	5,833	7,674	30,429
Deferred tax assets	12,301		1,162	13,463
Cash	30	585	684	1,299
Other assets	210	89	211	510

Total assets acquired	35,063	10,807	14,631	60,501
Accounts payable and accrued liabilities	218	72	88	378
Deferred revenue	184	131	1,923	2,238
Deferred tax liabilities	2,161		1,885	4,046
Total liabilities assumed	2,563	203	3,896	6,662
Net assets acquired	$ 32,500	$ 10,604	$ 10,735	$ 53,839

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our management determined the purchase price allocations for these acquisitions based on estimates of the fair value of the tangible and intangible assets acquired and liabilities assumed. We utilized recognized valuation techniques, including the income approach for intangible assets, using a discount rate reflective of the risk of the respective cash flows, which is a level 3 measurement. Goodwill for Trust Digital, tenCube and InternetSafety.com, which is not deductible for tax purposes, resulted primarily from our expectation that we will expand our endpoint offerings to our customers to include a wide range of mobile operating systems and consumer offerings. We intend to incorporate Trust Digital s technologies into our endpoint protection capabilities, integrating it with our McAfee ePolicy Orchestrator console. We intend to incorporate tenCube and InternetSafety.com s technologies into our consumer product portfolio.

The results of operations for these acquisitions have been included in our results of operations since their respective acquisition dates. The financial impact of these results is not material to our consolidated statements of income and comprehensive income. In connection with the 2010 acquisitions, we recognized $1.5 million of acquisition related costs that were expensed in the current period and are included in general and administrative expenses in our consolidated statements of income and comprehensive income for the year ended December 31, 2010.

2009 Acquisitions

In 2009, we acquired 100% of the outstanding shares of Endeavor Security, Inc. (Endeavor), Solidcore Systems, Inc. (Solidcore) and MX Logic, Inc. (MX Logic). These acquisitions were accounted for under the revised guidance on business combinations. The purchase price for these acquisitions consisted of the following (in thousands):

	Endeavor	Solidcore	MX Logic	Total 2009 Acquisitions
Acquisition date	January 2009	June 2009	September 2009	
Cash paid to shareholders and employees, including escrow deposits	$ 2,500	$ 32,134	$ 138,241	$ 172,875
Fair value of contingent consideration liabilities	732	8,400	24,600	33,732
Fair value of assumed options			123	123
Reduction in our historical net assets from MX Logic due to acquisition			124	124
Total purchase price	$ 3,232	$ 40,534	$ 163,088	$ 206,854

The MX Logic purchase agreement provides for earn-out payments up to $30.0 million contingent upon the achievement of certain MX Logic revenue targets. The fair value of the contingent consideration arrangement at acquisition of $24.6 million was accrued as part of the purchase price. Since the acquisition date, the range of outcomes and the assumptions used to develop the estimates of the accrual have not changed significantly, and the amount accrued in the financial statements has increased by $3.9 million primarily due to an increase in the net present value of the liability due to the passage of time. One of the revenue targets was achieved in the first quarter of 2010, which resulted in the payment of $15.0 million of contingent consideration during 2010.

The Solidcore purchase agreement provides for earn-out payments up to $14.0 million contingent upon the achievement of certain Solidcore financial and product delivery targets. The fair value of the contingent consideration arrangement at acquisition of $8.4 million was accrued as part of the purchase price. Since the acquisition date, the amount accrued in the financial statements has increased by $2.6 million due to an increase in the net present value of the liability due to the passage of time and changes in the probability of achievement used to develop the estimates of the remaining accrual. One of the product development and integration milestones was

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

achieved in the fourth quarter of 2009, and another product development milestone and one of the financial target milestones was achieved in the third quarter of 2010, which resulted in the payment of $8.0 million of contingent consideration in 2010.

Our purchase price allocations for Solidcore and MX Logic, as adjusted for subsequent purchase price adjustments, are as follows (in thousands):

	Solidcore	MX Logic	Total 2009 Acquisitions
Technology	$ 14,100	$ 39,200	$ 53,300
Customer contracts and related relationships	600	34,500	35,100
Other intangibles	2,100	800	2,900
Goodwill	16,696	96,133	112,829
Deferred tax assets	22,106	22,485	44,591
Cash	892	320	1,212
Other assets	1,273	6,036	7,309
Total assets acquired	57,767	199,474	257,241
Accounts payable and accrued liabilities	1,973	2,215	4,188
Deferred revenue	2,435	1,817	4,252
Deferred tax liabilities	12,825	32,354	45,179
Total liabilities assumed	17,233	36,386	53,619
Net assets acquired	$ 40,534	$ 163,088	$ 203,622

Our management determined the purchase price allocations for these acquisitions based on estimates of the fair values of the tangible and intangible assets acquired and liabilities assumed. We utilized recognized valuation techniques, including the income approach for intangible assets and earn-out liabilities, using a discount rate reflective of the risk of the respective cash flows, and the cost approach for certain tangible assets,. Goodwill for Solidcore resulted primarily from our expectation that we will now be able to provide our customers with an end-to-end compliance solution that includes whitelisting and application trust technology, antivirus, antispyware, host intrusion prevention, policy auditing and firewall technologies. We incorporated Solidcore s technologies into our vulnerability and risk management business, integrating it with our McAfee ePolicy Orchestrator in 2009. The goodwill for Solidcore is not deductible for tax purposes. Goodwill for MX Logic resulted primarily from our expectation that we will be able to deliver a comprehensive cloud-based security portfolio to our customers. The goodwill for MX Logic is not deductible for tax purposes.

The results of operations for these acquisitions have been included in our results of operations since their respective acquisition dates. The financial impact of these results is not material to our consolidated statements of income and comprehensive income. In connection with the MX Logic acquisition, we recognized $1.0 million of acquisition related costs that were included in general and administrative expenses in our consolidated statements of income and comprehensive income for the year ended December 31, 2009.

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2008 Acquisitions

In 2008, we acquired 100% of the outstanding shares of ScanAlert, Inc. (ScanAlert), Reconnex Corporation (Reconnex) and Secure. The purchase price for these acquisitions consisted of the following (in thousands):

	ScanAlert	Reconnex	Secure	Total 2008 Acquisitions
Acquisition date	January 2008	August 2008	November 2008	
Cash paid to shareholders and employees, including escrow deposits	$ 48,480	$ 40,318	$ 484,497	$ 573,295
Payment in 2007 to third party for use of patent	4,500			4,500
Payment to third party for outstanding debt		4,460		4,460
Direct acquisition costs	660	1,782	4,003	6,445
Purchase price recorded as a liability	1,268			1,268
Fair value of assumed RSAs and RSUs			2,211	2,211
Reduction in our historical net liabilities to Secure due to acquisition			(611)	(611)
Total purchase price	$ 54,908	$ 46,560	$ 490,100	$ 591,568

The ScanAlert purchase agreement provided for two earn-out payments totaling $29.5 million contingent upon the achievement of certain ScanAlert financial targets during the three-year period subsequent to the close of the acquisition. No payments were made for earn-outs provided in the ScanAlert purchase agreement.

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The following is a summary of the assets acquired and liabilities assumed in the acquisition of ScanAlert, Reconnex and Secure, as adjusted for subsequent purchase price adjustments (in thousands):

	ScanAlert	Reconnex	Secure Computing	Total 2008 Acquisitions
Technology	$ 4,759	$ 9,800	$ 99,200	$ 113,759
Other intangibles	14,505	2,500	51,200	68,205
Goodwill	42,133	20,143	360,415	422,691
Cash	107	363	41,090	41,560
Accounts receivable	982	661	25,591	27,234
Fixed assets	443		16,805	17,248
Restricted cash			9,458	9,458
Prepaid license fees	3,627			3,627
Other assets	194	487	11,411	12,092
Deferred tax assets	1,970	21,247	92,216	115,433
Total assets acquired	68,720	55,201	707,386	831,307
Accrued liabilities	8,733	3,136	60,647	72,516
Deferred revenue	5,079	596	118,843	124,518
Deferred tax liabilities		4,909	57,296	62,205
Total liabilities assumed	13,812	8,641	236,786	259,239
Net assets acquired	54,908	46,560	470,600	572,068
In-process research and development expensed			19,500	19,500
Total acquisition cost	$ 54,908	$ 46,560	$ 490,100	$ 591,568

Our management determined the purchase price allocations for these acquisitions based on estimates of the fair values of the tangible and intangible assets acquired and liabilities assumed. These estimates were arrived at utilizing recognized valuation techniques. Goodwill for ScanAlert resulted primarily from our expectation that we will be able to provide ScanAlert s service offerings to our customers and enhance our existing products with those of ScanAlert. Goodwill for Reconnex resulted primarily from our expectation that we will be able to provide our customers with automated, centrally managed and adaptive data protection. We incorporated Reconnex s technologies into our data protection business, integrating it with our McAfee ePolicy Orchestrator in 2009. Goodwill for Secure resulted primarily from our expectation that we will deliver a more complete network security portfolio covering intrusion prevention, firewall, web security, email security and data protection, and network access control to organizations of all sizes. The goodwill recorded for ScanAlert is deductible for tax purposes, and the goodwill recorded for Reconnex and Secure is not deductible for tax purposes.

For the ScanAlert acquisition, the intangible assets, other than goodwill, are being amortized over their useful lives of 1.0 to 6.0 years or a weighted-average period of 5.5 years. For the Reconnex acquisition, the intangible assets, other than goodwill, are being amortized over their useful lives of 4.0 to 6.0 years or a weighted-average period of 4.4 years. For the Secure acquisition, the intangible assets, other than goodwill, are being amortized over their useful lives of 3.0 to 7.0 years or a weighted-average period of 4.1 years. The Secure customer-related intangible assets are being amortized using an accelerated method, which would reduce the weighted-average period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of the Secure acquisition, we assumed 0.6 million outstanding RSAs and RSUs. We did not assume any stock-based awards as part of the ScanAlert and Reconnex acquisitions.

We recorded $19.5 million for in-process research and development, which was fully expensed upon purchase as technological feasibility had not been achieved and there was no alternative use for the projects under development. The in-process research and development included new releases of the Firewall Sidewinder, Webwasher and Hosted Mail products, and the fair value at acquisition related to these projects was $7.6 million, $9.5 million and $2.4 million, respectively. The fair values were determined using the excess earnings method under the income approach.

For the Secure acquisition, we accrued $6.1 million for facilities planned to be vacated through the third quarter of 2009. The accrual will be fully utilized by 2015, the end of the original lease terms. Accretion on this accrual is being recognized as restructuring expense. See Note 8.

In October 2008, Secure acquired 100% of the outstanding shares of Securify, Inc. (Securify). Secure paid $8.5 million upon the close of the acquisition, with an additional $10.0 million to be paid in 2009 and 2010. We paid $5.0 million in July 2009 and the remaining amount in February 2010. The $10.0 million in future consideration was reflected in the Secure purchase price allocation at its net present value. The Securify purchase agreement provided for an earn-out payment of up to $5.0 million based on the achievement of certain Securify financial targets in 2009. The targets were not met and no amounts were paid pursuant to the earn-out.

The results of operations for these acquisitions have been included in our results of operations since their respective acquisition dates.

Pro Forma Effect of Acquisitions

Pro forma results of operations have not been presented for Trust Digital, tenCube, InternetSafety.com, Endeavor, MX Logic or ScanAlert because the effect of these acquisitions was not material to our results of operations. The following unaudited pro forma financial information presents our combined results with Solidcore as if the acquisition had occurred at the beginning of 2009 and our combined results with Solidcore, Secure and Reconnex as if the acquisitions had occurred at the beginning of 2008 (in thousands, except per share data):

	Year Ended December 31, 2009	2008
Pro forma net revenue	$ 1,928,992	$ 1,798,523
Pro forma net income	$ 168,418	$ 83,080
Pro forma net income per share basic	$ 1.08	$ 0.53
Pro forma net income per share diluted	$ 1.06	$ 0.52
Shares used in per share calculation basic	156,144	156,205

Shares used in per share calculation diluted	158,988	159,406

The above unaudited pro forma financial information includes adjustments for amortization of identifiable intangible assets that were acquired, adjustments to interest income, adjustments for incremental stock-based compensation expense related to the unearned portion of Secure s RSAs and RSUs assumed and converted, eliminations of intercompany transactions and related tax effects. The pro forma financial information excludes the effects of the SafeWord product line sold by Secure in 2008, the effects of the in-process research and development charge for Secure that was expensed immediately upon acquisition and the effects of the goodwill impairment charge recorded by Secure in 2008. No effect has been given to cost reductions or synergies in this presentation. In management s opinion, the unaudited pro forma combined results of operations are not indicative of the actual

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

results that would have occurred had the acquisitions been consummated at the beginning of 2010, 2009 or 2008, nor are they indicative of future operations of the combined companies.

4. Financial Instruments

Cash and Cash Equivalents

The following table summarizes the components of the cash and cash equivalents balance (in thousands):

	December 31, 2010	December 31, 2009
Cash and money market funds, at cost which approximates fair value	$ 454,968	$ 524,505
Certificates of deposit and time deposits	231,025	142,394
United States treasury and agency securities	14,575	
Foreign government securities		5,000
Corporate debt securities	37,851	5,238
Total cash and cash equivalents	$ 738,419	$ 677,137

Marketable Securities

Marketable securities, which are classified as available-for-sale, are summarized as follows (in thousands):

	December 31, 2010			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
United States treasury securities	$ 115,661	$ 14	$ (31)	$ 115,644
United States agency securities	127,676	10	(21)	127,665
Foreign government securities	17,334		(24)	17,310
Certificates of deposit and time deposits	61,250			61,250
Corporate debt securities	109,628	782	(11)	110,399
Mortgage-backed securities	5,790	1,906	(40)	7,656
Asset-backed securities	4,699	874	(387)	5,186
	$ 442,038	$ 3,586	$ (514)	$ 445,110

December 31, 2009

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
United States treasury securities	$ 19,217	$ 1	$ (31)	$ 19,187
United States agency securities	76,093	207	(212)	76,088
Foreign government securities	26,882	4	(58)	26,828
Certificates of deposit and time deposits	39,212			39,212
Corporate debt securities	91,636	618	(46)	92,208
Mortgage-backed securities	9,153	783	(560)	9,376
Asset-backed securities	9,017	1,991	(876)	10,132
	$ 271,210	$ 3,604	$ (1,783)	$ 273,031

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The following table summarizes the fair value and gross unrealized losses related to those available-for-sale securities that have unrealized losses, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2010 and December 31, 2009 (in thousands):

As of December 31, 2010	Less than 12 Months Fair Value	Less than 12 Months Gross Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
United States treasury securities	$ 62,940	$ (31)	$	$	$ 62,940	$ (31)
United States agency securities	27,266	(21)			27,266	(21)
Foreign government securities	17,310	(24)			17,310	(24)
Corporate debt securities	22,880	(11)			22,880	(11)
Mortgage-backed securities			1,709	(40)	1,709	(40)
Asset-backed securities			2,308	(387)	2,308	(387)
	$ 130,396	$ (87)	$ 4,017	$ (427)	$ 134,413	$ (514)

As of December 31, 2009	Less than 12 Months Fair Value	Less than 12 Months Gross Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
United States treasury securities	$ 12,079	$ (31)	$	$	$ 12,079	$ (31)
United States agency securities	8,573	(5)	2,565	(207)	11,138	(212)
Foreign government securities	14,865	(58)			14,865	(58)
Corporate debt securities	28,635	(46)			28,635	(46)
Mortgage-backed securities			5,449	(560)	5,449	(560)
Asset-backed securities	1,719	(2)	2,192	(874)	3,911	(876)
	$ 65,871	$ (142)	$ 10,206	$ (1,641)	$ 76,077	$ (1,783)

We do not intend to sell the securities with unrealized losses and other-than-temporary impairments recorded in accumulated other comprehensive loss and it is not more likely than not that we will be required to sell the securities before recovery of their amortized cost basis, which may be maturity. When assessing other-than-temporary impairments, we consider factors including: the likely reason for the unrealized loss, period of time and extent to which the fair value was below amortized cost, changes in the performance of the underlying collateral, changes in ratings, and market trends and conditions.

Prior to April 1, 2009, any other-than-temporary decline in value was reported in earnings and a new cost basis for the marketable security was established. We had no impairment of marketable securities in 2010. In 2009 and 2008, we recorded an impairment of marketable securities totaling $0.7 million and $18.5 million, respectively. Of the $18.5 million impairment in 2008, $12.2 million related to corporate bonds, asset-backed securities and mortgage-backed securities that suffered declines in fair value, $5.0 million related to a single corporate bond that had a significant decline in fair value due to the issuer s bankruptcy and $1.3 million related to impairment recorded because we no longer had the intent and ability to hold these securities for a period of time sufficient for the fair values to recover due to our funding of our acquisition of Secure, which was a one-time event. If we have an impairment in future periods, the credit loss component of the impairment will be recognized in earnings and the non-credit loss component will be recognized in accumulated other comprehensive loss.

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We recognize gains (losses) upon the sale of investments using the specific identification cost method. The following table summarizes the gross realized gains (losses) for the periods indicated and does not include other-than-temporary impairments (in thousands):

	Years Ended December 31, 2010	2009	2008
Realized gains	$ 290	$ 447	$ 6,738
Realized losses	(140)	(23)	(1,257)
Net realized gain	$ 150	$ 424	$ 5,481

Derivative Financial Instruments

We conduct business globally. As a result, we are exposed to movements in foreign currency exchange rates. From time to time, we enter into foreign exchange contracts to reduce exposures associated with monetary assets and liabilities that are not denominated in the functional currency, such as accounts receivable and accounts payable denominated in Euro, British Pound, and Japanese Yen. The foreign exchange contracts typically range from one to three months in original maturity. We recognize these derivatives, which are included in the other current assets and other accrued liabilities line items on the consolidated balance sheets, at fair value. On the consolidated statements of cash flows, the derivatives offset the increase or decrease in cash related to the underlying asset or liability. In general, we do not hedge anticipated foreign currency cash flows, nor do we enter into foreign exchange contracts for trading or speculative purposes.

The foreign exchange contracts do not qualify for hedge accounting and accordingly are marked to market at the end of each reporting period with any unrealized gain or loss being recognized in the interest and other income line item on our consolidated statements of income and comprehensive income.

The fair value of our foreign exchange contracts outstanding are presented below (in thousands):

	December 31, 2010			December 31, 2009		
	Notional U.S. Dollar Equivalent	Asset Fair Value	Liability Fair Value	Notional U.S. Dollar Equivalent	Asset Fair Value	Liability Fair Value
Foreign exchange contracts	$ 153,876	$ 936	$ (682)	$ 55,587	$ 181	$ (193)

During 2010 and 2009, we recorded a $7.0 million and $2.3 million net realized loss, respectively, on derivatives. During 2008, we recorded a $2.0 million net realized gain on derivatives. These amounts are recognized in the interest and other income line item on our consolidated statements of income and comprehensive income along with the remeasurement of the assets and liabilities.

5. Fair Value Measurements

The carrying amounts of our financial instruments including accounts receivable, accounts payable, and accrued liabilities approximate fair value due to their short maturities. Accounting guidance establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities. Level 1 classification is applied to any financial instrument that has a readily available quoted price from an active market where there is significant transparency in the executed/quoted price. Our Level 1 measurements relate primarily to United States treasury and agency securities and foreign exchange contracts. Level 2 classification is applied to financial instruments that have evaluated prices received from fixed income vendors with data inputs that are observable either directly or indirectly, but do not represent quoted prices from an active market for each individual security. Our Level 2 measurements relate primarily to certificates of deposit and corporate debt securities. Level 3 classification is applied to fair value measurements when fair values are derived from significant unobservable inputs. Our Level 3 measurements relate to our contingent purchase consideration

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liabilities. In the year ended December 31, 2010, we did not have any transfers amongst Level 1, Level 2 and Level 3.

The following table presents the types of fair value measurements for our marketable debt securities, foreign exchange contracts and contingent purchase consideration liabilities as of December 31, 2010 and 2009 (in thousands):

		Fair Value Measurements at December 31, 2010 Using		
Description	**December 31, 2010**	**Quoted Prices in Active Markets Using Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Cash equivalents(1)	$ 293,141	$ 11,048	$ 282,093	$
United States treasury securities(2)	115,644	31,337	84,307	
United States agency securities(2)	127,665	127,665		
Foreign government securities(2)	17,310	17,310		
Certificates of deposit and time deposits(2)	61,250		61,250	
Corporate debt securities(2)	110,399		110,399	
Mortgage-backed securities(2)	7,656		7,656	
Asset-backed securities(2)	5,186		5,186	
Foreign exchange derivative assets(3)	936	936		
Total assets measured at fair value	$ 739,187	$ 188,296	$ 550,891	$
Liabilities:				
Foreign exchange derivative liabilities(4)	$ 682	$ 682	$	$
Contingent purchase consideration liabilities(5)	16,500			16,500
Total liabilities measured at fair value	$ 17,182	$ 682	$	$ 16,500

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		Fair Value Measurements at December 31, 2009 Using		
Description	**December 31, 2009**	**Quoted Prices in Active Markets Using Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Cash equivalents(1)	$ 152,632	$	$ 152,632	$
United States treasury securities(2)	19,187	7,015	12,171	
United States agency securities(2)	76,088	72,524	3,565	
Foreign government securities(2)	26,828	5,094	21,734	
Certificates of deposit and time deposits(2)	39,212		39,212	
Corporate debt securities(2)	92,208		92,208	
Mortgage-backed securities(2)	9,376		9,376	
Asset-backed securities(2)	10,132		10,132	
Foreign exchange derivative assets(3)	181	181		
Total assets measured at fair value	$ 425,844	$ 84,814	$ 341,030	$
Liabilities:				
Foreign exchange derivative liabilities(4)	$ 193	$ 193	$	$
Contingent purchase consideration liabilities(5)	36,061			36,061
Total liabilities measured at fair value	$ 36,254	$ 193	$	$ 36,061

(1) Includes certificates of deposit, corporate debt securities, commercial paper and United States agency securities that have maturities less than 90 days on the date of purchase. Balance is included in cash and cash equivalents on our consolidated balance sheets.

(2) Included in short-term or long-term marketable securities on our consolidated balance sheets.

(3) Included in other current assets on our consolidated balance sheets.

(4) Included in other accrued liabilities on our consolidated balance sheets.

(5)

Included in other accrued liabilities and in accrued taxes and other long-term liabilities on our consolidated balance sheets. See Note 3 for further discussion.

Market values were determined for each individual security in the investment portfolio. For marketable securities and foreign exchange contracts reported at fair value, quoted market prices or pricing services that utilize observable market data inputs are used to estimate fair value. We utilize pricing service quotes to determine the fair value of our securities for which there are not active markets for the identical security. The primary input for the pricing service quotes are recent trades in the same or similar securities, with appropriate adjustments for yield curves, prepayment speeds, default rates and subordination level for the security being measured. Similar securities are selected based on the similarity of the underlying collateral and level of subordination for asset-backed and collateralized mortgage securities, and similarity of the issuer, including credit ratings, for corporate debt securities. We corroborate the prices obtained from the pricing service against other independent sources and, as of December 31, 2010, have not found it necessary to make any adjustments to the prices obtained. Our corporate debt securities, with the exception of one impaired security with a fair value of $1.3 million that has no rating, are high quality, investment-grade securities with a minimum credit rating of A.

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The fair values of the foreign exchange derivatives do not reflect any adjustment for nonperformance risk as the contract terms are three months or less and the counterparties have high credit ratings.

The fair values of the contingent purchase consideration liabilities were determined for each arrangement individually. The fair value is determined using the income approach with significant inputs that are not observable in the market. Key assumptions include discount rates consistent with the level of risk of achievement and probability adjusted financial projections. The expected outcomes are recorded at net present value, which requires adjustment over the life of the instruments for changes in risks and probabilities.

6. Consolidated Balance Sheet Detail

	December 31, 2010	December 31, 2009
	(In thousands)	
Property and equipment:		
Building	$ 23,781	$ 23,007
Furniture and fixtures	33,509	29,095
Computers, equipment and software	348,320	310,070
Leasehold improvements	52,049	43,514
Construction in progress	8,904	3,097
	466,563	408,783
Accumulated depreciation	(306,286)	(282,684)
	160,277	126,099
Land	6,917	6,917
Total property and equipment, net	$ 167,194	$ 133,016

Depreciation expense for 2010, 2009 and 2008 was $60.9 million, $53.6 million and $40.6 million, respectively.

	December 31, 2010	December 31, 2009
	(In thousands)	
Other accrued liabilities:		
Accrued legal and professional fees	$ 49,145	$ 46,678
Accrued marketing	67,900	46,391
Accrued income taxes	11,745	17,214
Other accrued expenses	103,741	93,684

	$ 232,531	$ 203,967

	December 31, 2010	2009
	(In thousands)	
Accrued taxes and other long-term liabilities:		
Accrued income taxes, long-term	$ 37,959	$ 41,277
Other	19,558	29,495
	$ 57,517	$ 70,772

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-term liabilities represent accruals for which we believe related payments will occur after December 31, 2011.

7. Goodwill and Other Intangible Assets

Goodwill by geographic region is as follows (in thousands):

	January 1, 2009	Goodwill Acquired	Adjustments	Effects of Foreign Currency Exchange	December 31, 2009	Goodwill Acquired	Adjustments	Effects of Foreign Currency Exchange	December 3 2010
orth America	$ 807,040	$ 108,186	$ (3,466)	$ 1,198	$ 912,958	$ 26,762	$ (1,423)	$ (143)	$ 938,15
MEA	253,748	652	(1,428)	3,235	256,207	991	(522)	(7,637)	249,03
pan	35,607	6,141	(170)		41,578	614	(169)		42,02
PAC	52,414	140	(251)		52,303	2,062	(45)	405	54,72
tin America	20,807	71	(80)	730	21,528		(28)	372	21,87
otal	$ 1,169,616	$ 115,190	$ (5,395)	$ 5,163	$ 1,284,574	$ 30,429	$ (2,187)	$ (7,003)	$ 1,305,81

Goodwill acquired during 2010 was a result of the Trust Digital, tenCube and InternetSafety.com acquisitions and during 2009 as a result of the Endeavor, Solidcore and MX Logic acquisitions (see Note 3). The adjustments to goodwill are primarily a result of an escrow recovery payment related to the SafeBoot acquisition and our final purchase accounting tax adjustments for the Solidcore acquisition. At December 31, 2010 and 2009, we had no accumulated goodwill impairment losses.

The components of intangible assets are as follows (in thousands):

		December 31, 2010			December 31, 2009		
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization (Including Effects of Foreign Currency Exchange)	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization (Including Effects of Foreign Currency Exchange)	Net Carrying Amount
Other intangible assets:							
Purchased technologies	4.2 years	$ 450,382	$ (331,796)	$ 118,586	$ 444,732	$ (255,148)	$ 189,584
Trademarks and patents	5.1 years	43,039	(39,253)	3,786	43,206	(37,604)	5,602
	5.8 years	218,251	(149,675)	68,576	218,967	(121,570)	97,397

Customer base and other intangibles	$ 711,672	$ (520,724)	$ 190,948	$ 706,905	$ (414,322)	$ 292,583

The aggregate amortization expenses for the intangible assets listed above totaled $110.5 million, $118.7 million and $83.3 million for 2010, 2009 and 2008, respectively.

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	December 31, 2010	December 31, 2009
	(In thousands)	
Gross intangible assets, beginning of year	$ 706,905	$ 610,479
Add: Purchased technologies (amortized over five years)	12,600	55,700
Add: Trademarks and patents (amortized over one to two years)		600
Add: Customer base and other intangibles (amortized over two to seven years)	2,200	38,000
Add: Change in value due to foreign exchange	(7,451)	5,181
	714,254	709,960
Dispositions	(2,582)	(3,055)
Gross intangible assets, end of year	$ 711,672	$ 706,905

The additions in 2010 are a result of the Trust Digital, tenCube and InternetSafety.com acquisitions. The additions in 2009 are a result of the Endeavor, Solidcore, and MX Logic acquisitions. The dispositions in 2010 are primarily related to purchased technology from the MX Logic acquisition expensed to research and development. The dispositions in 2009 are primarily related to the write-off of fully amortized non-compete agreements.

Expected future intangible asset amortization expense is as follows (in thousands):

Fiscal Years:	
2011	$ 88,103
2012	50,375
2013	24,861
2014	16,393
2015	7,598
Thereafter	3,618
	$ 190,948

8. Restructuring

We have initiated certain restructuring actions to reduce our cost structure and enable us to invest in certain strategic growth initiatives to enhance our competitive position.

During 2010 (the 2010 Restructuring), we continued our efforts to consolidate and took the following measures: (i) disposed of excess facilities and (ii) realigned our staffing across various departments.

Restructuring charges in 2010 totaled $41.7 million, consisting of $27.5 million related to nine facilities that were vacated in 2010 including our previous Santa Clara headquarters, $14.0 million related to the elimination of certain positions and $0.2 million primarily related to accretion on facilities vacated in previous years.

During 2009 (the 2009 Restructuring), we continued our efforts to consolidate and took the following measures: (i) realigned our sales and marketing workforce and staffing across various departments, (ii) disposed of excess facilities and (iii) eliminated redundant positions related to acquisitions.

Restructuring charges in 2009 totaled $13.8 million, consisting of $13.0 million related to 2009 Restructuring, $2.8 million net additional accrual over the service period for our 2008 elimination of certain positions at Secure, $0.3 million of accretion on 2008 facility restructurings, partially offset by a $2.4 million restructuring benefit related to our re-occupying previously vacated space in our Santa Clara facility and terminating sublease agreements for that facility that we previously restructured in 2003 and 2004.

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During 2008 (the 2008 Restructuring), we took the following measures: (i) eliminated redundant positions related to the SafeBoot and Secure acquisitions, (ii) realigned our sales force and (iii) realigned staffing across various departments.

Restructuring benefit in 2008 totaled $1.8 million, consisting of a $6.6 million charge related to 2008 Restructuring, offset by an $8.4 million benefit, net of accretion, related primarily to changes in previous estimates of base rent and sublease income for the Santa Clara lease, which was restructured in 2003 and 2004.

Restructuring accruals are included in the other accrued liabilities and accrued taxes and other long-term liabilities line items on the consolidated balance sheets.

2010 Restructuring

Activity and liability balances related to our 2010 Restructuring are as follows (in thousands):

	Lease Termination Costs	Severance and Other Benefits	Total
Balance, January 1, 2010	$	$	$
Restructuring accrual	26,932	14,878	41,810
Adjustment to liability	(990)	(914)	(1,904)
Accretion	316		316
Cash payments	(6,659)	(10,875)	(17,534)
Effects of foreign currency exchange	(159)	63	(96)
Balance, December 31, 2010	$ 19,440	$ 3,152	$ 22,592

Of the total $27.5 million 2010 restructuring charge for facilities, $25.3 million and $2.2 million was recorded in North America and EMEA, respectively. Approximately $1.2 million of the facilities restructuring charge was related to fully depreciating the assets associated with our terminated leases, net of deferred rent on those leases. These amounts were not included in our restructuring accrual. Lease termination costs will be paid through 2018.

Of the total $14.0 million 2010 restructuring charge for severance and other benefits, $8.2 million, $4.9 million, $0.7 million, $0.1 million and $0.1 million was recorded in North America, EMEA, APAC, Japan and Latin America, respectively. Severance and other benefits are expected to be paid in 2011.

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2009 Restructuring

Activity and liability balances related to our 2009 Restructuring are as follows (in thousands):

	Lease Termination Costs	Severance and Other Benefits	Total
Balance, January 1, 2009	$	$	$
Restructuring accrual	1,523	11,227	12,750
Adjustment to liability	144	80	224
Accretion	15		15
Cash payments	(512)	(9,326)	(9,838)
Effects of foreign currency exchange		(45)	(45)
Balance, December 31, 2009	1,170	1,936	3,106
Restructuring accrual		226	226
Adjustment to liability	224	(301)	(77)
Accretion	28		28
Cash payments	(626)	(1,827)	(2,453)
Effects of foreign currency exchange		(13)	(13)
Balance, December 31, 2010	$ 796	$ 21	$ 817

Lease termination costs are expected to be paid through 2014 and severance and other benefits are expected to be paid in 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2008 Restructuring

Activity and liability balances related to our 2008 Restructuring are as follows (in thousands):

	Lease Termination Costs	Severance and Other Benefits	Total
Balance, January 1, 2008	$	$	$
Restructuring accrual	6,142	6,621	12,763
Adjustment to liability		(25)	(25)
Accretion	29		29
Cash payments		(5,419)	(5,419)
Effects of foreign currency exchange		(2)	(2)
Balance, December 31, 2008	6,171	1,175	7,346
Restructuring accrual		2,961	2,961
Adjustment to liability	357	(156)	201
Accretion	251		251
Cash payments	(3,106)	(3,940)	(7,046)
Effects of foreign currency exchange	189	(7)	182
Balance, December 31, 2009	3,862	33	3,895
Adjustment to liability	(90)	7	(83)
Accretion	130		130
Cash payments	(1,439)	(40)	(1,479)
Effects of foreign currency exchange	(98)		(98)
Balance, December 31, 2010	$ 2,365	$	$ 2,365

Lease termination costs will be paid through 2015.

9. Commitments

Leases

We lease most of our operating facilities under non-cancelable operating leases, which expire at various times ranging from 2011 through 2030. Our operating leases for facilities typically include renewal periods, which are at our option, and annual contractual escalations in lease payments. Several of our significant leases are subject to rent increases to market rates based on periodic rent reviews. A description of our significant operating leases is as follows:

	Lease Expiration	Renewal Option
Corporate Headquarters, Santa Clara, California	September 2020	2-year renewal
Former Corporate Headquarters, Santa Clara, California	March 2013	10-year renewal
St. Paul, Minnesota	May 2018	Two 5-year renewals
Slough, England	December 2017	None
Cork, Ireland	January 2030	None

In addition, we have leased certain office equipment with various lease expiration dates through 2014.

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MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum lease payments, including contractual and reasonably assured escalations in future lease payments, and sublease rental receipts under non-cancelable operating leases are as follows for the years ended December 31 (in thousands):

	Lease Payments	Sublease Receipts
2011	$ 28,475	$ (1,024)
2012	25,466	(1,477)
2013	18,092	(1,132)
2014	14,926	(958)
2015	12,735	(958)
Thereafter	39,177	(80)
Total	$ 138,871	$ (5,629)

Rent expense for 2010, 2009 and 2008 was $34.5 million, $35.6 million and $25.8 million, respectively. Sublease rental income under non-cancelable subleases was not significant for any period presented.

Other

Minimum contractual commitments for telecom contracts and software licensing agreements having an initial or remaining non-cancelable term in excess of one year, as well as royalty and distribution agreements and purchase obligations are as follows for the years ended December 31 (in thousands):

	Purchase Obligations and Other Commitments
2011	$ 103,455
2012	54,508
2013	8,720
2014	8,105
2015	826
Total	$ 175,614

Some of our commitments have variable components associated with the obligation, which are not included in the minimum contractual commitments above. These variable components are usually based on incremental sales of our product offerings by the partners exceeding certain minimum requirements.

10. Warranty Accrual and Guarantees

We offer a warranty of 90 days on our hardware products and a warranty period from 30 to 60 days on our software products. We record a liability for the estimated future costs associated with warranty claims, which is

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MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

based upon historical experience and our estimate of the level of future costs. A reconciliation of the change in our warranty obligation for the years ended December 31 are as follows (in thousands):

	December 31, 2010	2009	2008
Warranty balance, beginning of year	$ 1,306	$ 1,110	$ 489
Additional accruals	4,323	3,519	4,236
Costs incurred during the period	(4,275)	(3,323)	(3,615)
Warranty balance, end of year	$ 1,354	$ 1,306	$ 1,110

The following is a summary of certain guarantee and indemnification agreements as of December 31, 2010:

Under the indemnification provision of our software license and services agreements with our customers, we agree that in the event the software or services sold infringes upon any patent, copyright, trademark, or any other proprietary right of a third-party, we will indemnify our customer against any loss, expense, or liability from any damages that may be awarded against our customer. We have not incurred any significant expense or recorded any liability associated with this indemnification. The estimated fair value of these indemnification clauses is minimal.

Under the indemnification provision of certain agreements with our resellers, distributors, strategic channel partners and strategic alliance partners, we have agreed that in the event the software or service provided to the customer by the reseller, distributor, strategic channel partner or strategic alliance partner on behalf of us infringes upon any patent, copyright, trademark, or any other proprietary right of a third- party, we will indemnify our reseller, distributor, strategic channel partner or strategic alliance partner against any loss, expense, or liability from any damages. We have not incurred any significant expense or recorded any liability associated with this indemnification. The estimated fair value of these indemnification clauses is minimal.

Under the indemnification provision of our agreements to sell Magic in January 2004, Sniffer in July 2004, and McAfee Labs assets in December 2004, we agreed to indemnify the purchasers for breach of any representation or warranty as well as for any liabilities related to the assets prior to sale incurred by the purchaser that were not expressly assumed in the purchase. Subject to limited exceptions, the maximum liability under these indemnifications is $10.0 million, $200.0 million and $1.5 million, respectively. Subject to limited exceptions, the representations and warranties made in these agreements have expired. We have not paid any amounts, incurred any significant expense or recorded any accruals under these indemnifications. The estimated fair value of these indemnification clauses is minimal.

We indemnify our officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. Our maximum potential liability under these indemnification agreements is not limited; however, we have director and officer insurance coverage that we believe will enable us to recover a portion or all of any future amounts paid.

Under the indemnification provision of the agreement entered into by Secure in July 2008 to sell its SafeWord assets, we are obligated to indemnify the purchaser for breach of any representation or warranty as well as for any liabilities related to the assets prior to sale incurred by the purchaser that were not expressly assumed in the purchase. In August 2010, we agreed upon the terms of a settlement of claims made by the purchaser under the indemnification provisions of the agreement including the release of those claims against McAfee. In consideration of the settlement and release of those claims, a portion of the escrowed funds from the sales proceeds were released to the purchaser and the remainder of escrowed funds were released to us. There are no other claims outstanding at this time.

MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the merger agreement we entered into with Intel, we are obligated to pay to Intel a termination fee of $230.0 million if the merger agreement is terminated in connection with an acquisition proposal, our change of recommendation or a material breach of our obligations under the non-solicitation and board recommendation provisions of the merger agreement. We do not expect to incur an obligation to pay the termination fee.

Under the terms of our engagement letter with Morgan Stanley related to the pending acquisition by Intel, we agreed to indemnify Morgan Stanley and certain of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, relating to or arising out of Morgan Stanley s engagement. The estimated fair value of this indemnification clause is minimal.

If we believe a liability associated with any of our indemnifications becomes probable and the amount of the liability is reasonably estimable or the minimum amount of a range of loss is reasonably estimable, then an appropriate liability will be established.

11. Credit Facilities

In December 2008, we entered into a credit agreement with a group of financial institutions, which we amended in February 2010 (Credit Facility). The Credit Facility provides for a $450.0 million unsecured revolving credit facility with a $25.0 million letter of credit sublimit. Subject to the satisfaction of certain conditions, we may further increase the revolving loan commitments to an aggregate of $600.0 million. Loans may be made in U.S. Dollars, Euros or other currencies agreed to by the lenders. Commitment fees range from 0.38% to 0.63% of the unused portion on the Credit Facility depending on our consolidated leverage ratio.

In January 2009, we borrowed $100.0 million against the term loan in the Credit Facility. The loan bore interest at our election of an adjusted LIBOR rate plus a 2.0% margin. The principal together with accrued interest were paid in December 2009. Our interest rate at the point of payment was 2.2%. Under the 2010 amendment to the Credit Facility, loans bear interest at our election at the prime rate (a prime rate loan) or at an adjusted LIBOR rate plus a margin (ranging from 2.5% to 3.0%) that varies with our consolidated leverage ratio (a eurocurrency loan). Interest on the loans is payable quarterly in arrears with respect to prime rate loans and at the end of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of eurocurrency loans. No balances were outstanding under the Credit Facility during 2010.

The credit facility, which is subject to certain quarterly financial covenants, terminates on December 22, 2012, on which date all outstanding principal of, together with accrued interest on, any revolving loans will be due. We may prepay the loans and terminate the commitments at any time, without premium or penalty, subject to reimbursement of certain costs in the case of eurocurrency loans. We have elected to terminate the Credit Facility upon closing of our acquisition by Intel. At December 31, 2010 and December 31, 2009, we were in compliance with all financial covenants in the Credit Facility.

In addition, we have a 14 million Euro credit facility with a bank (Euro Credit Facility). The Euro Credit Facility is available on an offering basis, meaning that transactions under the Euro Credit Facility will be on such terms and conditions, including interest rate, maturity, representations, covenants and events of default, as mutually agreed between us and the bank at the time of each specific transaction. The Euro Credit Facility is intended to be used for short-term credit requirements, with terms of one year or less.

The Euro Credit Facility can be canceled at any time. No balances were outstanding under the Euro Credit Facility during 2010 or 2009.

MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Stockholders Equity

Common Stock

In January 2008, our board of directors authorized the repurchase of up to $750.0 million of our common stock in the open market or through privately negotiated transactions through July 2009. During 2008, we repurchased 14.5 million shares of our common stock for $499.7 million, excluding commissions. In July 2009, this authorization expired and during 2009, we had no repurchases of our common stock that were pursuant to a publicly announced plan or program.

In February 2010, our board of directors authorized the repurchase of up to $500.0 million of our common stock from time to time in the open market or through privately negotiated transactions through December 2011, depending upon market conditions, share price and other factors. During 2010, we repurchased 8.3 million shares of our common stock for $300.0 million.

During 2010, 2009 and 2008, we repurchased approximately 0.7 million, 0.8 million and 0.5 million shares of our common stock, respectively, for approximately $28.5 million, $25.3 million and $16.6 million, respectively, in connection with our obligation to holders of RSUs, RSAs and PSUs to withhold the number of shares required to satisfy the holders tax liabilities in connection with the vesting of such shares. These share repurchases were not part of the publicly announced repurchase program.

Preferred Stock

We have authorized 5.0 million shares of preferred stock, par value $0.01 per share. Our board of directors has authority to provide for the issuance of the shares of preferred stock in series, to establish from time to time the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof, without any further vote or action by the shareholders.

13. Other Comprehensive Income (Loss)

Unrealized gains (losses) on available-for-sale securities and foreign currency translation adjustments are included in our components of comprehensive income (loss), which are excluded from net income.

MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For 2010, 2009 and 2008 other comprehensive income (loss) is comprised of the following items (in thousands):

	Before Income Tax	Income Tax	Net of Income Tax
2010			
Unrealized gain on marketable securities, net	$ 1,401	$ (557)	$ 844
Reclassification adjustment for net gain on marketable securities recognized during the period	(150)	60	(90)
Foreign currency translation loss	(5,385)		(5,385)
Total other comprehensive loss	$ (4,134)	$ (497)	$ (4,631)
2009			
Unrealized gain on marketable securities, net	$ 5,026	$ (2,011)	$ 3,015
Reclassification adjustment for net loss on marketable securities recognized during the period	286	(114)	172
Foreign currency translation gain	14,973		14,973
Total other comprehensive income	$ 20,285	$ (2,125)	$ 18,160
2008			
Unrealized loss on marketable securities, net	$ (13,410)	$ 5,364	$ (8,046)
Reclassification adjustment for net loss on marketable securities recognized during the period	13,052	(5,221)	7,831
Foreign currency translation loss	(51,275)		(51,275)
Total other comprehensive loss	$ (51,633)	$ 143	$ (51,490)

Accumulated other comprehensive loss is comprised of the following items (in thousands):

	December 31, 2010	December 31, 2009
Unrealized gain on available-for-sale securities, net of tax	$ 1,846	$ 1,092
Cumulative translation adjustment	(9,768)	(4,383)
Total	$ (7,922)	$ (3,291)

14. Employee Stock Benefit Plans

Employee Stock Purchase Plan

Our ESPP was suspended as of November 30, 2010 and will be terminated at the close of our acquisition by Intel. From June 2008 through November 2010, our ESPP included a six-month offering period, a 15% discount and a six-month look-back feature.

During an offering period, employees made contributions to the ESPP through payroll deductions. At the end of each offering period, we used the accumulated contributions to issue shares of our common stock to the participating employees. The issue price of those shares was equal to the lesser of (i) 85% of our stock price on the first day of the offering period or (ii) 85% of our stock price on the purchase date. No participant could be issued more than $25,000 of common stock in any one calendar year, and the maximum number of shares a participant could be issued during a single offering period was 10,000 shares. In 2010, 0.9 million shares were issued under the ESPP at a weighted-average issue price of $26.71. In 2009, 0.8 million shares were issued under the ESPP at a weighted-average issue price of $27.63. In 2008, 0.4 million shares were issued under the ESPP at a weighted-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

average issue price of $25.78. The total intrinsic value of shares issued under the ESPP during 2010, 2009 and 2008 was $10.6 million, $8.6 million and $1.7 million, respectively.

Stock Incentive Plans

Under the terms of our 2010 Equity Incentive Plan (2010 Plan), we have reserved a total of 16.9 million shares of our common stock, together with shares underlying forfeited or canceled equity awards previously issued under our 1997 Stock Incentive Plan (1997 Plan) and certain stock plans of acquired companies, for issuance to our employees, directors and consultants through stock-based awards provided in the form of options, RSUs, RSAs, PSUs or stock appreciation rights. RSAs are common stock issued to recipients that have not vested. RSUs are promises to issue common stock in the future. PSUs are RSUs with performance-based vesting. As of December 31, 2010, we have no stock-based awards outstanding with consultants.

The exercise price for options is equal to the market value of our common stock on the grant date. Options generally contain graded vesting provisions whereby 25% vest one year from the date of grant and thereafter in equal monthly increments over the remaining three years. Unexercised options granted under the 2010 Plan expire seven years after the grant date. Unexercised options originally granted under the 1997 Plan expire ten years after the grant date. RSAs and RSUs also vest over a specified period, generally ratably over three years. RSAs and RSUs assumed in the acquisition of Secure contain graded vesting provisions, generally whereby 25% vest one year from the date of grant and thereafter in equal quarterly increments over the remaining three years.

Under the terms of our 2010 Director Equity Plan (2010 Director Plan), we have reserved a total of 0.6 million shares of our common stock for issuance of annual and initial awards of options and RSUs to members of our board of directors who are not employees of ours or any of our affiliated entities. The exercise price for options is equal to the market value of our common stock on the grant date. Unexercised options granted under the 2010 Director Plan expire seven years after the grant date. Unexercised options originally granted under the Amended and Restated 1993 Stock Plan for Outside Directors expire ten years after the grant date. The initial stock option grant vests quarterly over three years. The initial RSU grant vests 33% on the earlier of (i) the first anniversary of the date of grant or (ii) the date of the next annual meeting of stockholders at which a general election of directors is held and then quarterly through the third anniversary of the grant. Annual stock option and RSU grants vest in their entirety upon the earlier of (i) the first anniversary of the date of grant or (ii) the date of the next annual meeting of stockholders at which a general election of directors is held. Vesting of all options and RSUs granted under these plans are subject to continuous service by the holder as a director on the vesting date. All options and RSUs held by directors under these plans will become fully vested at the close of our acquisition by Intel.

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Plan Activity

The following table summarizes option activity for the year ended December 31, 2010 (in thousands, except per share data):

	Year Ended December 31, 2010			
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value(1)
Outstanding at beginning of period	8,963	$ 31.57		
Options granted	1,973	39.08		
Options exercised	(3,596)	28.42		
Options canceled	(966)	37.32		
Outstanding at end of period	6,374	$ 34.80	7.3	$ 73,419
Options vested and expected to vest(2)	5,655	$ 34.31	7.2	$ 67,897
Options exercisable	2,625	$ 30.27	5.9	$ 42,110

(1) Intrinsic value is calculated as the difference between the market value of our common stock on December 31, 2010 and the exercise price of the option. The aggregate intrinsic value of options outstanding, vested and expected to vest and exercisable excludes options with an exercise price above $46.31, the closing price of our common stock on December 31, 2010, as reported by the New York Stock Exchange.

(2) Options vested and expected to vest reflect our estimated forfeiture rates.

The total intrinsic value of options exercised during 2010, 2009 and 2008 was $62.5 million, $39.6 million and $90.1 million, respectively.

The tax benefit realized from option exercises, PSUs, RSUs and RSAs vested, and ESPP grants in 2010, 2009 and 2008 was $47.8 million, $38.4 million and $48.6 million, respectively.

The following table summarizes PSU, RSU and RSA activity for the year ended December 31, 2010 (in thousands, except per share data):

Year Ended December 31, 2010

	Performance Stock Units	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Unvested at beginning of period	1,696	$ 33.56	3,479	$ 33.88	74	$ 28.57
Granted	852	38.18	1,438	39.53		
Vested	(682)	34.18	(1,302)	33.75	(31)	28.57
Canceled	(249)	33.84	(457)	36.43	(16)	28.57
Unvested at end of period	1,617	$ 35.68	3,158	$ 36.14	27	$ 28.57

The weighted-average remaining contractual life for unvested PSUs, RSUs and RSAs at December 31, 2010, was 0.7 years, 1.0 years and 0.6 years, respectively.

The total fair value of PSUs vested during 2010, 2009 and 2008 was $25.5 million, $21.0 million and $3.1 million, respectively. The 2010 amount excludes the $0.8 million fair value of PSUs vested in 2010 but not released as of December 31, 2010. The 2009 amount includes the $2.3 million fair value of PSUs that vested in 2009 and were released in 2010. The 2008 amount includes the $1.7 million fair value of PSUs that vested in 2008 and

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were released in 2009. The total fair value of RSUs vested during 2010, 2009 and 2008 was $52.0 million, $44.2 million and $44.9 million, respectively. The total fair value of RSAs vested during 2010, 2009 and 2008 was $1.3 million, $9.3 million and $1.9 million, respectively.

Shares available for future grants to employees and outside directors under our stock incentive plans totaled 16.7 million at December 31, 2010. Our management currently plans to issue new shares for the granting of RSAs, vesting of RSUs and PSUs, and exercising of options.

The following table summarizes stock-based compensation expense (in thousands):

	Years Ended December 31,		
	2010	**2009**	**2008**
Restricted stock awards and units	$ 51,401	$ 41,997	$ 26,237
Stock options	29,006	27,992	24,657
Restricted stock units with performance-based vesting	32,914	25,983	22,415
Employee Stock Purchase Plan	6,160	7,064	3,353
Cash settlement of certain options		6,058	(382)
Tender offer			601
Total stock-based compensation expense	$ 119,481	$ 109,094	$ 76,881

Restricted stock awards and units. We recognize the fair value of RSAs and RSUs issued to employees and outside directors and assumed in acquisitions as stock-based compensation expense over the vesting period of the awards. Fair value is determined as the difference between the closing price of our common stock on the grant date or acquisition date and the purchase price of the RSAs and RSUs.

Stock options. We recognize the fair value of options issued to employees and outside directors and assumed in acquisitions as stock-based compensation expense over the vesting period of the awards. The estimated fair value of options is based on the Black-Scholes pricing model.

Restricted stock units with performance-based vesting. We recognize stock-based compensation expense for the fair value of PSUs issued to employees.

The PSUs can have performance-based vesting components that vest only if performance criteria are met for each respective performance period (performance component). Additionally, the PSUs can have service-based vesting components that have accelerated vesting provisions if performance criteria are met for each respective performance period (service component). The PSUs issued to employees have either performance components or service components or both.

If the performance criteria are not met for a performance period, then the related performance components that would have vested are forfeited and the related service components do not accelerate. Certain performance criteria allow for different vested amounts based on the level of achievement of the performance criteria.

For certain performance components, we do not communicate the performance criteria to the employees. For these awards, the accounting grant date does not occur until it is known whether the performance criteria are met, and such achievement or non-achievement is communicated to the employees. These awards are marked-to-market at the end of each reporting period through the accounting grant date, and recognized over the expected vesting period, provided we determine it is probable that the performance criteria will be met.

For performance components for which the performance criteria have been communicated to the employees, the accounting grant date is deemed to have occurred. Fair value has been measured on the grant date and is recognized over the expected vesting period, provided we determine it is probable that the performance criteria will be met.

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For the service components, each tranche is accounted for as a separate award and the accounting grant date is the date the grant was communicated to the employees. Fair value is measured on the grant date, and is recognized over the expected vesting period for each tranche. The expected vesting period for each tranche is based on the service-based vesting period or the accelerated vesting period if the performance period has been set and we determine it is probable that the performance criteria will be met.

Employee Stock Purchase Plan. We recognize stock-based compensation expense for the fair value of ESPP grants. The estimated fair value of ESPP grants is based on the Black-Scholes pricing model. Expense is recognized ratably based on contributions and the total fair value of the ESPP grants estimated to be issued.

Cash settlement of certain options. We paid $6.1 million in June 2009 related to certain expired stock options.

We paid $5.2 million in January 2008 to settle certain options held by terminated employees which expired as they could not be exercised during the 90-day period subsequent to termination during the period from July 2006 through December 21, 2007, the date we became current on our reporting obligations under the Securities Exchange Act of 1934, as amended. We recognized stock-based compensation expense based on the intrinsic value of the options in 2007.

The following table summarizes stock-based compensation expense recorded by consolidated statements of income and comprehensive income line item in 2010, 2009 and 2008 (in thousands):

	Years Ended December 31,		
	2010	2009	2008
Cost of net revenue service, support and subscription	$ 6,211	$ 4,556	$ 2,572
Cost of net revenue product	1,444	1,488	1,129
Stock-based compensation expense included in cost of net revenue	7,655	6,044	3,701
Research and development	32,364	27,023	18,476
Sales and marketing	48,945	47,689	33,132
General and administrative	30,517	28,338	21,572
Stock-based compensation expense included in operating costs	111,826	103,050	73,180
Total stock-based compensation expense	119,481	109,094	76,881
Deferred tax benefit	(34,387)	(30,302)	(21,780)
Total stock-based compensation expense, net of tax	$ 85,094	$ 78,792	$ 55,101

We had no stock-based compensation costs capitalized as part of the cost of an asset.

At December 31, 2010, the estimated fair value of all unvested options, RSUs, RSAs, and PSUs that have not yet been recognized as stock-based compensation expense was $109.3 million, net of expected forfeitures. We expect to recognize this amount over a weighted-average period of 1.9 years. This amount does not reflect stock-based compensation expense relating to 0.6 million PSUs for which the performance criteria had not been set as of December 31, 2010.

MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assumptions

The fair value of RSUs and PSUs is determined as the difference between the closing price of our common stock on the grant date and the purchase price of the RSUs and PSUs. We had no RSA grants in 2010, 2009 or 2008. The weighted-average fair values of our RSU and PSU grants during 2010, 2009 and 2008 were:

	Years Ended December 31,		
	2010	**2009**	**2008**
RSU grants	$ 39.53	$ 34.04	$ 34.61
PSU grants	$ 38.18	$ 30.80	$ 34.98

We use the Black-Scholes pricing model to estimate the fair value of our option and ESPP grants. The key assumptions used in the model during 2010, 2009 and 2008 are provided below:

	Years Ended December 31,		
	2010	**2009**	**2008**
Options:			
Risk free interest rate	2.4%	2.4%	3.1%
Weighted-average expected lives (years)	5.3	5.6	5.8
Volatility	29.8%	34.9%	39.9%
Dividend yield			
ESPP:			
Risk free interest rate	0.3%	0.2%	1.1%
Weighted-average expected lives (years)	0.5	0.5	0.5
Volatility	38.0%	33.3%	32.0%
Dividend yield			

The weighted-average grant date fair values of our option and ESPP grants during 2010, 2009 and 2008 were:

	Years Ended December 31,		
	2010	**2009**	**2008**
Option grants	$ 12.30	$ 14.16	$ 14.63
ESPP grants	$ 7.99	$ 9.57	$ 7.64

We derive the expected life of our options through the use of a lattice model that factors in historical data on exercise and post-vesting service termination behavior. The risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. We use the implied volatility of options traded on our stock with a term of one year or more to calculate the expected volatility of our option grants. We have not declared any dividends on our common stock in the past and do not expect to do so in the foreseeable future.

15. Employee Benefit Plan

Our 401(k) and Profit Sharing Plan in the U.S. covers substantially all full-time employees. Our employees in Japan and Canada can participate in plans similar to the 401(k) Plan in the U.S. Our contributions to these plans are similar to those in the U.S. Annual amounts contributed by us under all plans were $0.9 million, $3.3 million and $5.4 million in 2010, 2009 and 2008, respectively.

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MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Income Taxes

The domestic and foreign components of income before provision for income taxes were as follows (in thousands):

	Years Ended December 31, 2010	2009	2008
Domestic	$ 120,642	$ 92,663	$ 185,853
Foreign	108,998	131,560	36,353
	$ 229,640	$ 224,223	$ 222,206

Significant components of the provision for income taxes are as follows (in thousands):

	Years Ended December 31, 2010	2009	2008
Federal:			
Current	$ 5,167	$ 863	$ 6,052
Deferred	26,779	22,224	10,809
Total Federal	31,946	23,087	16,861
State:			
Current	8,741	7,195	15,533
Deferred	(2,323)	1,524	1,079
Total State	6,418	8,719	16,612
Foreign:			
Current	8,559	11,726	16,288
Deferred	(1,395)	7,271	236
Total Foreign	7,164	18,997	16,524
Provision for income taxes	$ 45,528	$ 50,803	$ 49,997

Our effective tax rate on income before income taxes differs from the United States federal statutory tax rate as follows (in thousands):

	Years Ended December 31, 2010	2009	2008

Federal income tax provision at statutory rate	$ 80,374	$ 78,478	$ 77,772
State tax expense (net of Federal benefit)	2,421	4,428	6,690
Acquisition related non deductible costs	1,209	1,295	6,825
Foreign earnings taxed at rates different than the Federal rate	(35,805)	(50,290)	(8,951)
Other permanent differences and other taxes	(1,892)	(35)	(5,831)
Tax credits, net of withholding taxes	4,234	(4,017)	(6,370)
Deemed repatriations of earnings from foreign subsidiaries	1,363	3,462	4,857
Changes in valuation allowances	(7,028)	1,006	(34,298)
Non deductible stock compensation	7,848	7,590	6,192
(Benefit) provision for accruals for tax exposures	(7,196)	8,886	3,111
	$ 45,528	$ 50,803	$ 49,997

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MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The earnings from our foreign operations in India are subject to a tax holiday. In August 2009, the Indian government extended the holiday period to March 31, 2011. The tax holiday provides for zero percent taxation on certain classes of income and requires certain conditions to be met. We were in compliance with these conditions as of December 31, 2010.

Significant components of net deferred tax assets are as follows (in thousands):

	December 31, 2010	December 31, 2009
Deferred Tax Assets:		
Deferred revenue	$ 354,633	$ 331,444
Accrued liabilities and allowances	105,370	95,423
Depreciation and amortization	98,054	121,731
Tax credits	29,170	51,990
Deferred stock-based compensation	33,791	33,933
Net operating loss carryover	125,094	141,675
	746,112	776,196
Valuation allowance	(61,377)	(75,732)
Total deferred tax assets	684,735	700,464
Deferred Tax Liabilities:		
Intangibles not amortizable for tax purposes	56,184	80,958
Prepaids	18,782	14,769
Total deferred tax liability	74,966	95,727
Net deferred tax asset	$ 609,769	$ 604,737
Current portion	$ 334,934	$ 312,080
Non-current portion	274,835	292,657
Net deferred tax asset	$ 609,769	$ 604,737

At December 31, 2010, we had net deferred tax assets of $609.8 million, partially resulting from net operating loss carryovers for federal, state and foreign income tax purposes of approximately $288.1 million, $231.9 million, and $88.9 million, respectively. The federal and state net operating loss carryovers relate primarily to acquisitions and are limited in the amount that can be recognized in any one year. They have expiration dates ranging from 2011 to 2034. The foreign net operating losses relate primarily to losses incurred as a result of current operations and do not expire. There was a net decrease in net operating loss deferred tax asset primarily related to current year utilizations partially offset by the acquisition of Trust Digital and Internet Safety. The net decrease in the valuation allowance relates primarily to the change in judgment regarding the necessity of a valuation allowance on our remaining foreign tax credit. We believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets, other than certain credit carryforwards and acquired net operating losses for which a valuation allowance has been provided.

We intend to indefinitely reinvest all current and/or future earnings of our foreign subsidiaries. As such, U.S. income taxes have not been provided for on a cumulative total of approximately $637.7 million of earnings of certain non-U.S. subsidiaries. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings of certain non-U.S. subsidiaries is not practicable due to the complexities of this hypothetical calculation.

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MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2010, gross unrecognized tax benefits totaled $53.0 million and accrued interest and penalties totaled $19.2 million for an aggregate gross amount of $72.2 million. Of the $72.2 million, $71.7 million**,** if recognized, would favorably affect our effective tax rate.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows (in thousands):

	December 31,		
	2010	**2009**	**2008**
Beginning gross unrecognized tax benefits	$ 90,973	$ 89,612	$ 71,690
Gross increases related to prior year tax positions	1,274	35,056	17,195
Gross decreases related to prior year tax positions	(2,975)	(9,857)	(1,896)
Gross increases related to current year tax positions	864	1,056	3,648
Settlements	(36,783)	(12,929)	(244)
Lapse of statute of limitations	(328)	(11,965)	(781)
Ending gross unrecognized tax benefits	$ 53,025	$ 90,973	$ 89,612

We accrue potential interest and penalties related to unrecognized tax benefits through income tax expense. Upon recognition of these tax benefits, interest and penalty amounts accrued will generally be released as a benefit in the income tax provision. During the twelve months ended December 31, 2010, we recognized a net increase of $0.9 million in potential interest and penalties associated with uncertain tax positions.

We file numerous consolidated and separate income tax returns in the United States federal and state jurisdictions and in many foreign jurisdictions. On an ongoing basis we are routinely subject to examination by taxing authorities throughout the world, including jurisdictions such as Australia, Canada, France, Germany, India, Ireland, Italy, Japan, The Netherlands and the United Kingdom. With few exceptions, we are no longer subject to United States federal income tax examinations for years before 2008 and are no longer subject to state and local or foreign income tax examinations by tax authorities for years before 1997.

In the third quarter 2010, we concluded the examinations in the United States for the calendar years 2006 and 2007, in Germany for the years 2002 to 2007 and in Japan for the years 2007 to 2009. The conclusion of these examinations did not have a material impact on the financial statements. The reduction in uncertain tax positions related to settlements was offset by reductions in certain tax carryforwards. We continue to be under audit in the United States and other jurisdictions. The Internal Revenue Service is presently conducting an examination of our federal income tax returns for the calendar years 2008 and 2009. We are also currently under examination by the State of California for the years 2004 to 2007. We cannot reasonably determine if these examinations will have a material impact on our financial statements and cannot predict the timing regarding resolution of those tax examinations. We believe it is reasonably possible that, in the next 12 months, the amount of unrecognized tax benefits related to the resolution of federal, state and foreign matters could be reduced by $6.8 million to $12.2 million as audits close and statutes expire. In January 2009 we concluded pre-filing discussions with the Dutch tax authorities with respect to the 2004 tax year resulting in a tax benefit of approximately $2.2 million.

17. Net Income Per Share

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include options, RSUs, RSAs, PSUs and ESPP grants. A reconciliation of the numerator

MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and denominator of basic and diluted net income per share is provided as follows (in thousands, except per share amounts):

	Years Ended December 31,		
	2010	**2009**	**2008**
Net income	$ 184,112	$ 173,420	$ 172,209
Basic weighted-average common stock outstanding	154,936	156,144	156,205
Dilutive options, RSUs, RSAs, PSUs and ESPP grants(1)	2,449	2,844	3,201
Diluted weighted-average shares	157,385	158,988	159,406
Net income per share basic	$ 1.19	$ 1.11	$ 1.10
Net income per share diluted	$ 1.17	$ 1.09	$ 1.08

(1) At December 31, 2010, 2009 and 2008, 2.4 million, 6.0 million and 5.7 million RSUs and options, respectively, were excluded from the calculation since the effect was anti-dilutive. In addition, we excluded 0.6 million, 0.6 million and 0.8 million PSUs for the years ended December 31, 2010, 2009 and 2008, as they are contingently issuable shares.

18. Business Segment and Major Customer Information

We have one business and operate in one industry. We develop, market, distribute and support computer and network security solutions for large enterprises, governments, and small and medium-sized business and consumer users, as well as resellers and distributors. Management measures operations based on our five operating segments: North America; EMEA; Japan; APAC; and Latin America. Our chief operating decision maker is our chief executive officer.

We market and sell anti-virus and security software, hardware and services through our geographic regions. These products and services are marketed and sold worldwide primarily through resellers, distributors, systems integrators, retailers, original equipment manufacturers, internet service providers and directly by us. In addition, we offer on our web site, suites of online products and services personalized for the user based on the users personal computer configuration, attached peripherals and resident software. We also offer managed security and availability applications to corporations and governments on the internet.

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MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our chief operating decision maker evaluates performance based on income from operations, which includes only cost of revenue and selling expenses directly attributable to a sale. Summarized financial information concerning our net revenue and income from operations by geographic region is as follows (in thousands):

	Years Ended December 31,		
	2010	**2009**	**2008**
Net revenue by region:			
North America	$ 1,193,614	$ 1,091,857	$ 844,937
EMEA	527,651	531,763	502,876
Japan	149,713	138,624	116,567
APAC	115,129	96,277	81,109
Latin America	78,700	68,811	54,576
Net revenue	$ 2,064,807	$ 1,927,332	$ 1,600,065
Income from operations by region:			
North America	$ 917,836	$ 815,643	$ 622,883
EMEA	360,503	369,916	354,376
Japan	116,011	108,117	87,647
APAC	64,992	60,836	53,512
Latin America	55,379	47,379	36,467
Corporate and other	(1,285,299)	(1,179,584)	(965,314)
Income from operations	$ 229,422	$ 222,307	$ 189,571

Corporate and other includes research and development expenses, cost of net revenues and sales and marketing expenses not directly related to the sale of our products and services, general and administrative expenses, stock-based compensation expense, amortization of purchased technology and other intangibles, restructuring (benefit) charges, costs associated with our signature file update released on April 21, 2010 and in-process research and development. These expenses are either not attributable to any specific geographic region or are not included in the segment measure of income (loss) from operations reviewed by our chief operating decision maker. In 2010, additional expenses such as certain expenses associated with our partner and original equipment manufacturer arrangements and certain marketing expenses were included in the segment measure of income from operations reviewed by our chief operating decision maker. We have included these types of expenses in the respective prior periods to conform to our current period presentation. Additionally, income from operations by region, excluding corporate and other, reflects certain costs such as sales commissions and customer acquisition costs that are recognized over the period during which the related revenue is recognized for our consolidated income from operations, but are reflected as period expense in the income from operations by region above. The difference between income from operations and income before provision for income taxes is reflected on the face of our consolidated statements of income and comprehensive income.

Following is a summary of our total assets by geographic region. Goodwill is reflected in each respective geographic region consistent with Note 7. Fixed assets, intangible assets and certain other assets are now reflected below in their respective geographic regions based on legal entity, however, the related depreciation and amortization expenses are not reflected in the measure of profit and loss reviewed by our chief operating

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MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

decision maker. Summarized financial information concerning our total assets by business and geographic region is as follows (in thousands):

	December 31,	
	2010	2009
North America	$ 2,708,183	$ 2,645,356
EMEA	1,152,708	1,005,671
Japan	228,628	184,756
APAC	110,937	98,505
Latin America	31,896	28,898
Total assets	$ 4,232,352	$ 3,963,186

Property and equipment based on the physical location of the assets is as follows (in thousands):

	December 31,	
	2010	2009
United States	$ 136,561	$ 105,217
Foreign countries	30,633	27,799
Total	$ 167,194	$ 133,016

No individual foreign country accounts for 10% or more of our total property and equipment.

Net revenue attributed to countries based on the location of the customer is as follows (in thousands):

	Years Ended December 31,		
	2010	2009	2008
United States	$ 1,107,406	$ 1,023,517	$ 785,444
Foreign countries	957,401	903,815	814,621
Total	$ 2,064,807	$ 1,927,332	$ 1,600,065

Customer Information

During 2010, 2009 and 2008, Tech Data Corp. accounted for 12%, 12% and 11%, respectively, of total net revenue. During 2010, 2009 and 2008, Ingram Micro, Inc. accounted for 10%, 11% and 16%, respectively, of total net revenue. The net revenue derived from these customers is reported primarily in our North American and EMEA geographic segments.

19. Litigation

While we cannot predict the likelihood of future claims or inquiries, we expect that new matters may be initiated against us from time to time. As of December 31, 2010, we had accrued aggregate liabilities of approximately $43.0 million for all of our litigation matters. The results of claims, lawsuits and investigations cannot be predicted, and it is possible that the ultimate resolution of these matters, individually and in the aggregate, may have a material adverse effect on our business, financial condition, results of operations or cash flows.

Beginning on August 19, 2010, four putative class action lawsuits were filed in the Superior Court of the State of California, County of Santa Clara and two putative class action lawsuits were filed in the Court of Chancery of the State of Delaware against, among others, McAfee, our directors and certain of our officers. On September 8, 2010, the Santa Clara Superior Court issued an order consolidating the lawsuits filed in Santa Clara Superior Court under the Master File No. 1-10-CV-180413 (the Santa Clara Action) and deferring consideration of the issue of appointment of lead counsel. On September 15, 2010, the Delaware Chancery Court issued an order consolidating the lawsuits filed in Delaware Chancery Court under the caption In re McAfee, Inc. Shareholders Litigation, C.A.

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MCAFEE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

No. 5752 (the Delaware Action); appointing co-lead counsel; and designating the purported class action complaint filed in Delaware on August 20, 2010 as the operative complaint in the consolidated action (the Delaware Complaint). On September 20, 2010, the plaintiffs in the Santa Clara Action filed a purported consolidated class action complaint in Santa Clara Superior Court under the caption In re McAfee Inc. Shareholder Litigation, Case No. 1-10-CV-180413 (the Santa Clara Consolidated Complaint). As noted below, these plaintiffs filed a further amended complaint on January 6, 2011.

The lawsuits purport to have been filed on behalf of all holders of our common stock. McAfee and our current directors are defendants in each of these lawsuits.

The Santa Clara Consolidated Complaint and the Delaware Complaint generally allege that the directors (whom we refer to, collectively, as the Individual Defendants) breached their fiduciary duties by, among other things, allegedly engaging in an unfair process to consummate the proposed acquisition of McAfee by Intel (the Merger) and failing to maximize stockholder value in negotiating and approving the definitive agreement related to the Merger. The complaints also generally allege that McAfee and Intel and in the case of the Delaware Complaint, Merger Sub - aided and abetted the Individual Defendants alleged breaches of fiduciary duty. The complaints seek, among other things, money damages and injunctive relief, including rescission of the merger.

Pursuant to an agreement among the parties, the defendants have not responded to the Delaware Complaint. On September 20, 2010, counsel for the plaintiffs in the Delaware Action informed the Delaware Chancery Court that the Delaware plaintiffs had reached an agreement with the California plaintiffs to coordinate the respective litigations and, among other things, to conduct any expedited proceedings in Santa Clara Superior Court. There has been no activity in the Delaware Action since that date, and the Delaware plaintiffs have informed us that they consider the Delaware Action to be temporarily stayed.

In the Santa Clara Action, the plaintiffs filed a motion seeking expedited discovery, claiming to need such discovery in order to file a motion to preliminarily enjoin the stockholder vote regarding the Merger. We opposed plaintiffs motion. On October 5, 2010, the Santa Clara County Court denied plaintiffs motion for expedited discovery. Beginning on October 18, 2010, pursuant to an agreement among the parties to the Santa Clara Action, we provided the plaintiffs with certain discovery relating to the Merger. On October 20, 2010, McAfee and the Individual Defendants filed a motion, which Intel joined, requesting that the Santa Clara Consolidated Complaint be dismissed. Rather than oppose that motion, plaintiffs in the Santa Clara Action filed an amended complaint on January 6, 2011 (the Santa Clara Consolidated Amended Complaint). Defendants responses to the Santa Clara Consolidated Amended Complaint are due in February 2011. We intend to vigorously defend these lawsuits.

In June 2006, Finjan Software, Ltd. (Finjan) filed a complaint in the United States District Court for the District of Delaware (the District Court) against Secure, which we acquired in November 2008, alleging Webwasher Secure Content Management suite and CyberGuard TSP infringe three Finjan patents. In March 2008, a jury found that Secure willfully infringed certain claims of three Finjan patents and awarded $9.2 million in damages. This was recorded as an assumed liability in the allocation of the purchase price for Secure. In August 2009, the judge amended the jury damages award to include additional infringing sales through March 2008 as well as specified pre-judgment and post-judgment interest. The judge also awarded enhanced damages in the amount of 50% of the amended jury damages award and enjoined Secure from infringing the asserted claims of the Finjan patents. On November 4, 2010, the United States Court of Appeals for the Federal Circuit affirmed in part and reversed in part the District Court s verdict as to infringement, affirmed the District Court s damages award, and remanded to the District Court to determine post-judgment, pre-injunction damages. We previously accrued a liability in the amount of the District Court s damages award plus estimated post-judgment, pre-injunction damages. We have filed a petition seeking a rehearing.

We have other patent infringement cases pending against us that we intend to vigorously defend.

In addition, we are engaged in other legal and administrative proceedings incidental to our normal business activities.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized on the 25th day of February, 2011.

McAfee, Inc.

By: /s/ David G. DeWalt

David G. DeWalt
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David G. DeWalt (David G. DeWalt)	President and Chief Executive Officer (Principal Executive Officer)	February 25, 2011
/s/ Jonathan Chadwick (Jonathan Chadwick)	Chief Financial Officer (Principal Financial Officer)	February 25, 2011
/s/ Keith S. Krzeminski (Keith S. Krzeminski)	Chief Accounting Officer and Senior Vice President, Finance (Principal Accounting Officer)	February 25, 2011
/s/ Charles J. Robel (Charles J. Robel)	Non-Executive Chairman of the Board	February 25, 2011
/s/ Carl Bass (Carl Bass)	Director	February 25, 2011
/s/ Thomas Darcy (Thomas Darcy)	Director	February 25, 2011
/s/ Leslie G. Denend (Leslie G. Denend)	Director	February 25, 2011
	Director	February 25, 2011

(Jeffrey A. Miller)		
	Director	February 25, 2011
(Lorrie M. Norrington)		
/s/ Denis J. O Leary	Director	February 25, 2011
(Denis J. O Leary)		
/s/ Robert W. Pangia	Director	February 25, 2011
(Robert W. Pangia)		
/s/ Anthony Zingale	Director	February 25, 2011
(Anthony Zingale)		

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SCHEDULE II

MCAFEE, INC.

VALUATION AND QUALIFYING ACCOUNTS

Allowance for Doubtful Accounts, Net(1)	Balance at Beginning of Period	Provision for Doubtful Accounts, Additions Charged to Operating Expense, Deferred Revenue or Net Revenue	Write-Offs of Previously Provided Accounts	Balance at End of Period
	(In thousands)			
Year Ended December 31, 2010	$ 6,510	$ 1,340	$ (1,998)	$ 5,852
Year Ended December 31, 2009	$ 3,947	$ 3,070	$ (507)	$ 6,510
Year Ended December 31, 2008	$ 4,076	$ 1,126	$ (1,255)	$ 3,947

(1) *Allowance for Doubtful Accounts, Net.* The allowance for doubtful accounts consists of our estimates with respect to the uncollectibility of our receivables. Our management must make estimates of the uncollectibility of our accounts receivable. Management specifically analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when determining the allowance for doubtful accounts.

Sales Returns	Balance at Beginning of Period	Provision for Sales Returns Charged to Net Revenue or Deferred Revenue(2)	Actual Returns	Balance at End of Period
	(In thousands)			
Year Ended December 31, 2010	$ 17,146	$ 99,874	$ (105,232)	$ 11,788
Year Ended December 31, 2009	$ 14,789	$ 87,153	$ (84,796)	$ 17,146
Year Ended December 31, 2008	$ 7,994	$ 95,853	$ (89,058)	$ 14,789

Provision for Other Incentives Charged to Net

Other Incentives	Balance at Beginning of Period	Revenue or Deferred Revenue(2)	Actual Incentives	Balance at End of Period
		(In thousands)		
Year Ended December 31, 2010	$ 51,612	$ 136,940	$ (113,672)	$ 74,880
Year Ended December 31, 2009	$ 46,417	$ 124,259	$ (119,064)	$ 51,612
Year Ended December 31, 2008	$ 40,494	$ 110,469	$ (104,546)	$ 46,417

(2) *Allowance for Sales Returns and Allowance for Other Incentives.* The allowance for sales returns and the allowance for incentives consist of our estimates of potential future product returns related to product revenue, and specific provisions for distributor, reseller, and retailer sales incentives that are reductions in the revenue to be realized, respectively. The actual returns and the provision for sales returns include adjusted billings. We analyze and monitor current and historical return rates, current economic trends and changes in customer demand and acceptance of our products when evaluating the adequacy of the sales returns and other allowances. These estimates affect our net revenue line item on our consolidated statements of income and comprehensive income and affect our accounts receivable, net and other accrued liabilities line items on our consolidated balance sheets. These estimates affect all of our operating geographies. At December 31, 2010, $25.0 million is netted with the accounts receivable, net line item and $61.7 million is in the other accrued liabilities line item on our consolidated balance sheet.

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EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference Form	File Number	Exhibit Number	Filing Date	Filed with This 10-K
2.1	Agreement and Plan of Merger, dated as of August 18, 2010, by and among Intel Corporation, Jefferson Acquisition Corporation and McAfee, Inc.	8-K	001-31216	10.1	August 19, 2010	
3.1	Third Restated Certificate of Incorporation of the Registrant, as amended on April 27, 2009	8-K	001-31216	3.1	May 1, 2009	
3.2	Certificate of Ownership and Merger between Registrant and Network Associates, Inc.	10-Q	001-31216	3.2	November 8, 2004	
3.3	Fourth Amended and Restated Bylaws of the Registrant	8-K	001-31216	3.2	May 1, 2009	
3.4	Certificate of Designation of Series A Preferred Stock of the Registrant	10-Q	000-20558	3.3	November 14, 1996	
3.5	Certificate of Designation of Rights, Preferences and Privileges of Series B Participating Preferred Stock of the Registrant	8-A	000-20558	5.0	October 22, 1998	
10.1	Lease Assignment dated November 17, 1997 for facility at 3965 Freedom Circle, Santa Clara, California by and between Informix Corporation and the Registrant	S-3	333-46049	10.13	February 11, 1998	
10.2	Consent to Assignment Agreement dated December 19, 1997 by and among Birk S. McCandless, LLC, Guaranty Federal Bank, F.S.B., Informix Corporation and the Registrant	S-3	333-46049	10.14	February 11, 1998	
10.3	Subordination, Nondisturbance and Attornment Agreement dated December 18, 1997, between Guaranty Federal Bank, F.S.B., the Registrant and Birk S. McCandless, LLC	S-3	333-46049	10.15	February 11, 1998	

10.4	Form of lease executed November 22, 1996 by and between Birk S. McCandless, LLC and Informix Corporation for facility at 3965 Freedom Circle, Santa Clara, California	S-3	333-46049	10.16	February 11, 1998
10.5	First Amendment to Lease dated March 20, 1998 between Birk S. McCandless, LLC and the Registrant	10-Q	000-20558	10.28	November 13, 2001

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Exhibit Number	Description	Incorporated by Reference Form	File Number	Exhibit Number	Filing Date	Filed with This 10-K
10.6	Confirmation, Amendment and Notice of Security Agreement dated March 20, 1998 among Informix Corporation, Birk S. McCandless, LLC and the Registrant	10-Q	000-20558	10.29	November 13, 2001	
10.7	Second Amendment to Lease dated September 1, 1998 among Informix Corporation, Birk S. McCandless, LLC and the Registrant	10-Q	000-20558	10.30	November 13, 2001	
10.8	Subordination, Non-disturbance and Attornment Agreement dated June 21, 2000, among Column Financial, Inc., Informix Corporation, Birk S. McCandless, LLC, and the Registrant	10-Q	000-20558	10.31	November 13, 2001	
10.9*	Form of Indemnification Agreement between the Registrant and its Executive Officers	10-K	001-31216	10.34	March 9, 2004	
10.10*	Network Associates, Inc. Tax Deferred Savings Plan	S-8	333-110257	4.1	November 5, 2003	
10.11	Umbrella Credit Facility of Registrant dated April 15, 2004	10-Q	001-31216	10.36	May 10, 2004	
10.12*	Fifth Amendment to Network Associates, Inc. Tax Deferred Savings Plan	10-Q	001-31216	10.37	May 10, 2004	
10.13*	Sixth Amendment to Network Associates, Inc. Tax Deferred Savings Plan	10-Q	001-31216	10.43	August 9, 2004	
10.14*	Letter agreement, dated February 23, 2007 between David DeWalt and the Registrant	8-K	001-31216	10.37	March 8, 2007	
10.15*	Letter Agreement, dated February 5, 2008 between David DeWalt and the Registrant, amending the Letter Agreement, dated	10-K	001-31216	10.18	March 2, 2009	

	February 23, 2007 between David DeWalt and the Registrant				
10.16*	Executive Employment Agreement, dated as of August 18, 2010, by and among McAfee, Inc., Intel Corporation and David DeWalt	8-K	001-31216	10.1	August 25, 2010
10.17*	Letter agreement, dated May 3, 2010 between Jonathan Chadwick and the Registrant	8-K	001-3126	10.1	May 6, 2010
10.18*	Executive Employment Agreement, dated as of August 18, 2010, by and among McAfee, Inc., Intel Corporation and Jonathan Chadwick	8-K	001-31216	10.2	August 25, 2010

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Exhibit Number	Description	Incorporated by Reference Form	File Number	Exhibit Number	Filing Date	Filed with This 10-K
10.19*	Letter agreement, dated April 30, 2008 between Albert Rocky Pimentel and the Registrant	8-K	001-31216	10.1	April 30, 2008	
10.20*	Letter agreement, dated August 17, 2007 between Mark Cochran and the Registrant	10-Q	001-31216	10.1	May 12, 2008	
10.21*	Retention Letter, dated as of August 18, 2010, by and among McAfee, Inc., Intel Corporation and Mark Cochran	8-K	001-31216	10.4	August 25, 2010	
10.22*	Letter agreement, dated September 14, 2007 between Michael DeCesare and the Registrant	10-Q	001-31216	10.2	May 12, 2008	
10.23*	Retention Letter, dated as of August 18, 2010, by and among McAfee, Inc., Intel Corporation and Michael DeCesare	8-K	001-31216	10.3	August 25, 2010	
10.24*	Letter agreement, dated February 15, 2007 between Keith Krzeminski and the Registrant	10-K	001-31216	10.23	March 2, 2009	
10.25*	Letter Agreement, dated October 25, 1999 between Todd Gebhart and the Registrant	10-Q	001-31216	10.1	November 6, 2009	
10.26*	Retention Letter, dated as of August 18, 2010, by and among McAfee, Inc., Intel Corporation and Todd Gebhart					X
10.27*	Letter Agreement, dated October 5, 2007 between Gerhard Watzinger and the Registrant	10-Q	001-31216	10.2	November 6, 2009	
10.28*	Letter Agreement, dated February 5, 2008 between Gerhard Watzinger and the Registrant, amending the Letter Agreement, dated October 5, 2007 between	10-K	001-31216	10.23	February 26, 2010	

	Gerhard Watzinger and the Registrant					
10.29*	Retention Letter, dated as of August 18, 2010, by and among McAfee, Inc., Intel Corporation and Gerhard Watzinger	8-K	001-31216	10.5	August 25, 2010	
10.30*	Form of Change of Control and Retention Agreement (Mr. DeWalt and Tier 2 Executives)	8-K	001-31216	10.2	February 17, 2010	
10.31*	Change of Control and Retention Plan (Tier 3 Executives)					X
10.32*	Change of Control and Retention Agreement, dated January 26, 2009, between David DeWalt and the Registrant	8-K	001-31216	10.1	January 30, 2009	

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Exhibit Number	Description	Incorporated by Reference Form	File Number	Exhibit Number	Filing Date	Filed with This 10-K
10.33*	Foundstone, Inc. 2000 Stock Plan, as amended	10-Q	001-31216	10.6	May 12, 2008	
10.34*	SafeBoot Stock Option Plan 2006, as amended	S-8	333-150918	4.1	May 14, 2008	
10.35*	1997 Stock Incentive Plan, as amended	10-Q	001-31216	10.2	August 7, 2009	
10.36*	Form of Performance Stock Unit Issuance Agreement (1997 Stock Incentive Plan)	10-Q	001-31216	10.8	May 12, 2008	
10.37*	Form of Restricted Stock Unit Issuance Agreement (1997 Stock Incentive Plan)					X
10.38*	Form of Stock Option Award Agreement (1997 Stock Incentive Plan)	10-K	001-31216	10.32	March 2, 2009	
10.39*	2010 Equity Incentive Plan	10-Q	001-31216	10.1	August 6, 2010	
10.40*	Form of Performance Stock Unit Issuance Agreement (2010 Equity Incentive Plan)					X
10.41*	Form of Restricted Stock Unit Issuance Agreement (2010 Equity Incentive Plan)					X
10.42*	Form of Stock Option Award Agreement (2010 Equity Incentive Plan)					X
10.43*	2002 Employee Stock Purchase Plan, as amended	10-Q	001-31216	10.3	August 6, 2010	
10.44*	Executive Bonus Plan	10-Q	001-31216	10.3	August 7, 2008	
10.45*	Amended and Restated 1993 Stock Plan for Outside Directors	DEF 14A	001-31216	App. F	March 25, 2009	
10.46*	2010 Director Equity Plan	10-Q	001-31216	10.2	August 6, 2010	
10.47*	Secure Computing Corporation 2002 Stock Incentive Plan	S-8	333-155583	4.1	November 21, 2008	
10.48*	Secure Computing Corporation (formerly CipherTrust, Inc.) 2000 Stock Option Plan	S-8	333-155583	4.2	November 21, 2008	
10.49*	CyberGuard Corporation Third Amended and Restated Employee Stock Option Plan	S-8	333-155583	4.3	November 21, 2008	
10.50*	MX Logic, Inc. 2002 Equity Incentive Plan	S-8	333-162970	4.1	November 6, 2009	

10.51	Share Purchase Agreement, dated October 8, 2007 among the Registrant, McAfee European Holdings Limited and SafeBoot Holding B.V., among other parties	10-K	001-31216	10.32	February 27, 2008
10.52	Agreement and Plan of Merger, dated September 21, 2008 among the Registrant, Seabiscuit Acquisition Corporation and Secure Computing Corporation	8-K	001-31216	10.1	September 22, 2008

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Exhibit Number	Description	Incorporated by Reference Form	File Number	Exhibit Number	Filing Date	Filed with This 10-K
10.53	Credit Agreement dated December 22, 2008 among the Registrant, McAfee Ireland Holdings Limited, the subsidiaries of the Registrant party thereto as guarantors, the lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent and L/C Issuer	8-K	001-31216	10.1	December 29, 2008	
10.54	First Amendment to Credit Agreement dated February 10, 2010 among the Registrant, McAfee Ireland Holdings Limited, the subsidiaries of the Registrant party thereto as guarantors, the lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent and L/C Issuer	8-K	001-31216	10.1	February 17, 2010	
21.1	Subsidiaries of the Registrant					X
23.1	Consent of Independent Registered Public Accounting Firm					X
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation					X
101.LAB	XBRL Taxonomy Extension Labels					X

101.PRE	XBRL Taxonomy Extension Presentation	X
101.DEF	XBRL Taxonomy Extension Definition	X

* Management contracts or compensatory plans or arrangements covering executive officers or directors of McAfee, Inc.

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