McAfee, Inc.
Form DEF 14A
April 11, 2006

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SCHEDULE 14A
(RULE 14A-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant R
Filed by a Party other than the Registrant £
Check the appropriate box:
£ Preliminary Proxy Statement
£ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
R Definitive Proxy Statement
£ Definitive Additional Materials
£ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

McAfee, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

R No fee required.

£ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:
(2) Aggregate number of securities to which transaction applies:
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
(4) Proposed maximum aggregate value of transaction:
(5) Total fee paid:

£ Fee paid previously with preliminary materials.

£ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

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2006 NOTICE OF ANNUAL STOCKHOLDERS MEETING AND PROXY STATEMENT
May 25, 2006
10:00 a.m. EDT
Hilton Hotel
1335 Avenue of the Americas
New York, New York 10019

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MCAFEE, INC.
3965 FREEDOM CIRCLE
SANTA CLARA, CALIFORNIA 95054
April 11, 2006

Dear McAfee Stockholder:

You are cordially invited to join us at the annual meeting of stockholders of McAfee on May 25, 2006.

It is important that your shares are represented and voted at the annual meeting. Whether or not you plan to attend the annual meeting, please complete, sign, date and promptly return the accompanying proxy in the enclosed postage-paid envelope or vote by telephone or the Internet by following the instructions on the proxy card. Returning the proxy does not deprive you of your right to attend the annual meeting.

On behalf of the board of directors, I would like to thank you for your continued interest in McAfee. I look forward to seeing you at the annual meeting.

Sincerely,

George Samenuk
Chairman of the Board and
Chief Executive Officer

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MCAFEE, INC.
3965 FREEDOM CIRCLE
SANTA CLARA, CALIFORNIA 95054

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 25, 2006

The Annual Meeting of Stockholders of McAfee, Inc. will be held on Thursday, May 25, 2006, at 10:00 a.m. Eastern Daylight Time at the Hilton Hotel, 1335 Avenue of the Americas, New York, New York 10019, for the following purposes:

1. To elect two directors for three-year terms;

2. To amend our 1993 Stock Option Plan for Outside Directors;

3. To ratify the appointment of Deloitte & Touche LLP as our independent public accountants for the year ending December 31, 2006; and

4. To transact any other business as may properly come before the meeting.

Only stockholders owning our shares at the close of business on April 3, 2006 are entitled to attend and vote at the meeting. For ten days prior to the meeting, a complete list of these stockholders will be available during ordinary business hours at our principal office.

By order of the Board of Directors,

Kent H. Roberts
Secretary

Santa Clara, California
April 11, 2006

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MCAFEE, INC.
3965 Freedom Circle
Santa Clara, California 95054

The accompanying proxy is solicited by our board of directors for use at the 2006 Annual Meeting of Stockholders to be held May 25, 2006 at the Hilton Hotel, 1335 Avenue of the Americas, New York, New York 10019, or any adjournment thereof. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. **Please read it carefully.**

Your proxy is solicited by our board of directors. The cost of soliciting proxies will be borne by us and we will reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation material to you. We may use the services of our officers, directors, and others to solicit proxies, personally or by telephone, without additional compensation. We have engaged the firm of Georgeson Shareholder Communications, Inc. to assist us in the solicitation of proxies. We have agreed to pay Georgeson Shareholder Communications, Inc. a fee of $11,000 plus expenses for these services.

In some instances, we may deliver to multiple stockholders sharing a common address only one copy of this proxy statement and its attachments. If requested in writing, we will promptly provide a separate copy of the proxy statement and its attachments to a stockholder sharing an address with another stockholder. Requests in writing should be sent to McAfee, Inc., Attention: Corporate Secretary, 5000 Headquarters Drive, Plano, Texas 75024. Stockholders sharing an address who currently receive multiple copies and wish to receive only a single copy should contact their broker or send a signed, written request to us at the address above.

These proxy solicitation materials were mailed on or about April 11, 2006 to all stockholders entitled to vote at the Annual Meeting.

VOTING INFORMATION

Who may vote? You may vote if you own shares of our stock at the close of business on April 3, 2006 (the record date). As of the record date, there were 159,243,694 shares outstanding.

Can I revoke my proxy? Yes. If you are a stockholder whose shares are registered in your name, your proxy may be revoked at any time by:

- delivering to our secretary a written notice of revocation before the meeting;
- executing a proxy bearing a later date; or
- attending the annual meeting and voting in person.

If your shares are held in street name (through a broker, bank or other nominee), you cannot revoke your proxy and will not be permitted to vote in person at the meeting unless you first obtain a legal proxy issued in your name from the record holder (your broker, bank or other nominee).

What vote is required to pass an item of business? The holders of a majority of our outstanding stock, as of the record date, must be present in person or by proxy to transact business at the meeting. Abstentions and broker non-votes will be counted for quorum purposes, but will not affect voting results. Directors receiving the most votes will be elected. All other proposals require the affirmative vote of a majority of the shares of stock present or represented and voted at the meeting.

What is the deadline for making stockholder proposals for next year s meeting? Stockholders who wish to present proposals at our 2007 annual meeting must submit their proposals in accordance with our bylaws and be received by us no later than January 25, 2007 in order to be:

- considered for inclusion in the proxy statement and form of proxy relating to that meeting; and
- considered at the meeting.

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Stockholder proposals must be delivered to us at our offices at 5000 Headquarters Drive, Plano, Texas 75024, attention: Corporate Secretary.

PROPOSALS TO BE VOTED ON

Proposal No. 1 Election of Directors

The nominees for election at the annual meeting are Mr. Leslie Denend and Mr. George Samenuk. Mr. Denend and Mr. Samenuk are Class II directors. If elected, Mr. Denend and Mr. Samenuk will each serve as directors until the annual meeting in 2009. The nominees receiving the highest number of affirmative votes of the shares will be elected as Class II directors.

The board of directors recommends that you vote for the election of Mr. Denend and Mr. Samenuk.

Proposal No. 2 Amendment to the 1993 Stock Option Plan for Outside Directors

We believe that stock options are an important factor in securing the services of outside directors, who bring knowledge and experience that is essential to our success. Our non-employee directors receive an option to purchase 40,000 shares of our common stock when they first become a director. This initial grant vests one-third each year over three years from the date of grant. Each year after the initial grant, non-employee directors are entitled to receive an additional option to purchase 20,000 shares of our common stock. These subsequent grants vest in full three years from the date of grant. Options to purchase our common stock are granted under the 1993 Stock Option Plan for Outside Directors at a price equal to the fair market value on the date the stock options are granted, and only become valuable if the price of our common stock increases over time and as the options vest.

Currently, a maximum of 1,132,813 shares may be granted under the 1993 Stock Option Plan for Outside Directors. As of March 31, 2006, 1,105,628 shares had been granted and 27,185 shares remained available for grant.

The proposed amendment would increase the number of shares issuable under the 1993 Stock Option Plan for Outside Directors by 800,000 shares, bringing the total that may be granted under the 1993 Stock Option Plan for Outside Directors to 1,932,813 shares. As of March 31, 2006, no benefits or amounts relating to the additional 800,000 shares have been received by, or allocated to, any individuals.

The affirmative vote of the holders of a majority of the shares of common stock present or represented by proxy and voting at the annual meeting will be required to approve this proposal.

The board of directors recommends a vote for the amendment to the 1993 Stock Option Plan for Outside Directors.

If you would like more information about the 1993 Stock Option Plan for Outside Directors, a summary of its terms is included in Appendix A to this proxy statement.

Proposal No. 3 Ratification of Independent Public Accountants

The audit committee of our board of directors has selected Deloitte & Touche LLP (Deloitte), an independent registered public accounting firm, to audit our financial statements for the fiscal year ending December 31, 2006. This selection is being presented to the stockholders for ratification at the meeting. A representative of Deloitte is expected to attend the annual meeting in order to respond to appropriate questions from stockholders and will have the opportunity to make a statement.

Audit Fees

For the fiscal years ended December 31, 2005 and 2004, our principal independent accountant was Deloitte. Audit fees billed to us by Deloitte related to our 2005 and 2004 fiscal years for the audit of our consolidated annual financial statements, the audit of management s assessment of our internal control over

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financial reporting and Deloitte s own audit of our internal control over financial reporting, review of the consolidated financial statements included in our quarterly reports on Form 10-Q, statutory audits for foreign entities and securities filings totaled $5,213,000 and $5,927,000, respectively. Audit fees billed to us by PricewaterhouseCoopers LLP (PwC), our former independent accountants, related to our 2004 fiscal year totaled $75,000.

Audit-Related Fees

Audit-related fees billed to us by Deloitte related to our 2005 and 2004 fiscal years for assurance services and services related to our audits and reviews of our consolidated financial statements which are not considered audit fees totaled $8,000 and $136,000, respectively. These fees included amounts paid for consulting on accounting matters. We were billed $305,000 during 2004 for similar services performed by PwC.

Tax Fees

Fees billed to us by Deloitte related to our 2005 and 2004 fiscal years for tax related services, including compliance, planning and tax advice, totaled $1,955,000 and $2,168,000, respectively. We were billed $43,000 during 2004 for similar services performed by PwC.

All Other Fees

No other fees were billed to us by Deloitte during our 2005 or 2004 fiscal years, or by PwC during our 2004 fiscal year.

Our audit committee charter, attached as Appendix B, includes a requirement that the audit committee of the 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 and PwC described above under the captions Audit-Related Fees, Tax Fees and All Other Fees were pre-approved by our audit committee.

The board of directors recommends a vote for ratification of the appointment of Deloitte & Touche LLP as our independent accountants.

Independent Public Accountants

On March 11, 2004, we reported in a Form 8-K that the audit committee of the board of directors approved the engagement of Deloitte as our independent public accountants for the fiscal year ending December 31, 2004, replacing PwC. We formally terminated our relationship with PwC on March 9, 2004 and the audit committee authorized, effective March 10, 2004, the engagement of Deloitte as our independent accountants. The audit reports of PwC on our consolidated financial statements as of and for the years ended December 31, 2003 and 2002, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. In connection with the audits of the two fiscal years ended December 31, 2003 and 2002 and during the subsequent interim period through March 10, 2004, there were no disagreements with PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement. Except as may be related to the events described in the paragraph below, during the two fiscal years ended December 31, 2003 and 2002 and during the subsequent interim period through March 10, 2004, there were no reportable events requiring disclosure pursuant to Section 229.304(a)(1)(v) of Regulation S-K. During the two fiscal years ended December 31, 2003 and 2002 and during the subsequent interim period through March 10, 2004, neither we nor anyone on our behalf consulted Deloitte regarding the application of accounting principles to a specified transaction, either completed or proposed, or the type of

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audit opinion that might be rendered on our company s consolidated financial statements, nor has Deloitte provided to us a written report or oral advice regarding such principles or audit opinion.

As more fully described in our 2003 Form 10-K and Form 8-K filed with the SEC on March 9, 2004:

> During the preparation and analysis of our 2003 consolidated financial statements, we identified and reported to PwC and the audit committee of the board of directors required corrections to previously reported or announced financial information relating to the booking of international deferred revenue and the making of a $2.0 million manual journal entry. These corrections required restatement of previously reported first, second and third quarter 2003 quarterly information and adjustment of previously announced fourth quarter 2003 and full year 2003 information, with the aggregate impact on 2003 revenues being an increase of $3.8 million. In evaluating these corrections, PwC determined and reported to our audit committee that the underlying control issues should be considered a material weakness under standards established by the Public Company Accounting Oversight Board and that we should institute additional related control procedures. The audit committee has discussed the foregoing with PwC, and we have bolstered internal controls around the recognition of international revenues as part of our quarterly financial closing process and the manual journal entry process. We are also in the process of initiating additional internal control procedures to address the identified weaknesses, including the hiring of additional personnel, determining how to automate revenue recognition calculations so as to limit the number of manual adjustments, and engaging in additional testing of our control processes and procedures.

A letter stating that PwC agrees with these statements was filed as Exhibit 16.1 to our Form 8-K filed with the SEC on March 11, 2004.

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BOARD OF DIRECTORS

We have a classified board of directors which is divided into three classes with staggered three-year terms. At each annual meeting, the term of one class expires. Pursuant to our bylaws, ten directors are authorized for our board of directors. After our annual meeting, our board of directors will consist of eight serving directors with terms expiring in the years indicated below, and two vacancies. Proxies may not be voted for a greater number of directors than the two nominees stated in this proxy statement.

The table below shows the continuing directors and director nominees.

Name	Age	Principal Occupation	Year of Expiration of Term	Director Since
Nominees for Class II Directors:				
Leslie Denend	65	Director, Exponent, Inc., Verifone, Inc. and USAA	2006	1995
George Samenuk	50	Chairman of the Board and Chief Executive Officer, McAfee, Inc.	2006	2001
Continuing Class III Directors:				
Robert Dutkowsky	51	Chairman of the Board, President and Chief Executive Officer, Egenera, Inc.	2007	2001
Denis O Leary	49	Private Investor and Consultant	2007	2003
Robert Pangia	53	Partner, Ivy Capital Partners, LLC	2007	2001
Continuing Class I Directors:				
Robert Bucknam	55	Senior Vice President, Cross Match Technologies, Inc.	2008	2003
Dale Fuller	47	Private Investor	2008	2006
Liane Wilson	63	Consultant	2008	2002

Biographies

Leslie Denend has been a director of the company since June 1995. From December 1997 to April 1998, Mr. Denend was president of the company. From June 1993 to December 1997, Mr. Denend was chief executive officer and president of Network General Corporation, which merged with McAfee Associates to form the company. Mr. Denend serves as a director of Exponent, Inc., Verifone, Inc. and United Services Automobile Association (USAA).

George Samenuk has served as our chief executive officer and as a director since January 2001. In April 2001, Mr. Samenuk was named chairman of the board of directors. From January 2000 to January 2001, Mr. Samenuk served as president and chief executive officer of TradeOut, Inc., a private online exchange company. From April 1999 to January 2000, Mr. Samenuk served as general manager, Americas at IBM Corporation. From August 1996 to April 1999, Mr. Samenuk was general manager, ASEAN/South Asia at IBM Corporation. Mr. Samenuk serves as a director of Symbol Technologies, Inc.

Robert Dutkowsky has been a director of the company since April 2001 and lead independent director since March 2004. Since February 2004 Mr. Dutkowsky has been chairman of the board, CEO and president of Egenera, Inc. From January 2002 to July 2003 Mr. Dutkowsky served as president and CEO of J.D. Edwards & Company, and also served as the chairman of its board of directors from March 2002 until its acquisition by PeopleSoft, Inc. in July 2003. From October 2001 to January 2002, Mr. Dutkowsky served as president of the assembly test division of

Teradyne, Inc. From April 2000 to October 2001, Mr. Dutkowsky served as chairman, chief executive officer and president of GenRad Inc., which was acquired by Teradyne, Inc. in October 2001. From September 1997 to April 2000, Mr. Dutkowsky served as executive vice president, Markets and Channels of EMC Corporation.

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Denis O Leary has been a director of the company since July 2003. From May 1993 to February 2003, Mr. O Leary was executive vice president of J.P. Morgan Chase having joined the bank in June 1978. During his career at J.P. Morgan Chase & Co. Mr. O Leary held a number of senior positions including director of finance, chief information officer, and head of retail branch banking.

Robert Pangia has been a director of the company since April 2001. Since February 2003, Mr. Pangia has been a general partner and the managing member of Ivy Capital Partners, LLC, a private equity fund. Prior to February 2003, Mr. Pangia was self-employed as a private investor. From April 1987 to December 1996, Mr. Pangia held a number of senior level management positions at PaineWebber Incorporated, including director of Investment Banking. Mr. Pangia currently serves on the board of directors of ICOS Corporation and Biogen Idec Inc.

Robert Bucknam has been a director of the company since May 2003. Since April 2002, Mr. Bucknam has served as senior vice president of federal and international affairs with Cross Match Technologies, Inc., a fingerprint identification provider. From 1993 to June 2001, Mr. Bucknam was the Chief of Staff of the Federal Bureau of Investigation. Prior to joining the FBI, Mr. Bucknam served as deputy assistant attorney general with the U.S. Department of Justice and as deputy chief of the U.S. Attorney s office in the Southern District of New York.

Dale L. Fuller has been a director of the company since January 2006. From April 1999 to July 2005, Mr. Fuller served as chief executive officer and president of Borland Software Corporation, a leader in software delivery optimization. Before being named president and chief executive officer of Borland, Mr. Fuller was president and chief executive officer of WhoWhere? Inc., an internet community company. Prior to joining WhoWhere?, Mr. Fuller served in management positions with Apple Computer, Inc. and NEC Technologies, Inc. Mr. Fuller serves as a director of Borland Software Corporation.

Liane Wilson has been a director of the company since April 2002. Since March 2001, Ms. Wilson has been self-employed as a consultant. From June 1999 to March 2001, Ms. Wilson served as vice chairman of Washington Mutual, Inc. From February 1985 to March 2001, Ms. Wilson held a number of other senior level positions with Washington Mutual, including executive vice president for corporate operations and administration and senior vice president of information systems. During her tenure at Washington Mutual, she was responsible for corporate technology and integration activities relating to mergers and acquisitions.

Meetings of the Board of Directors and Board Committees

During 2005, the board of directors held 21 meetings. Each director, with the exception of Mr. Fuller who was appointed to the board of directors in January 2006, attended at least 75% of all board and applicable committee meetings during 2005. The board has determined that Messrs. Denend, Dutkowsky, Fuller, O Leary, Pangia, Bucknam and Ms. Wilson are independent and have no material relationship with us. Mr. Dutkowsky has been designated as our lead independent director.

The Audit Committee reviews, acts and reports to our board of directors on various auditing and accounting matters, including the appointment of our independent accountants, the scope of our annual audits, fees to be paid to the independent accountants, the approval of services to be performed by our independent accountants, the performance of our independent accountants and our accounting practices. The audit committee held 11 meetings during 2005. Mr. Dutkowsky, Ms. Wilson and Mr. Pangia are members of our audit committee. Mr. Pangia is the audit committee financial expert (as is currently defined under the SEC rules implementing Section 407 of the Sarbanes-Oxley Act of 2002). Each member of our audit committee is independent as defined under the New York Stock Exchange corporate governance standards.

The board of directors has adopted a written charter for the audit committee which is available on our website at *www.mcafee.com* under About McAfee, or may be obtained without charge by calling or writing the Corporate Secretary at our corporate headquarters.

The Compensation Committee reviews and approves executive salary levels and stock option grants. The compensation committee held 9 meetings during 2005. Mr. Dutkowsky, Mr. O Leary and Mr. Pangia are members of our compensation committee. Each member of our compensation committee is independent as defined under the New York Stock Exchange corporate governance standards.

The board of directors has adopted a written charter for the compensation committee which is available on our website at *www.mcafee.com* under About McAfee, or may be obtained without charge by calling or writing the Corporate Secretary at our corporate headquarters.

The Governance and Nominations Committee addresses issues relating to the board and board committees, including identifying prospective director nominees, developing and recommending governance principles applicable to the company, overseeing the evaluation of the board of directors and management and recommending nominees for the board committees. The governance and nominations committee held 3 meetings during 2005. Mr. Bucknam, Mr. Denend, Mr. O Leary and Ms. Wilson are members of our governance and nominations committee. Each member of our governance and nominations committee is independent as defined under the New York Stock Exchange corporate governance standards.

The board of directors has adopted a written charter for the governance and nominations committee which is available on our website at *www.mcafee.com* under About McAfee, or may be obtained without charge by calling or writing the Corporate Secretary at our corporate headquarters.

Compensation Committee Interlocks and Insider Participation

No member of the compensation committee has ever been an officer or employee of McAfee or of any of our subsidiaries or affiliates. During the last fiscal year, 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 or on our compensation committee.

Identification and Evaluation of Candidates for Board Membership

In evaluating director nominees, the governance and nominations committee evaluates each individual in the context of the board as a whole, with the objective of recommending a group that will best serve our interests and the interests of our stockholders. Nominees for director are selected on the basis of, among other criteria, their:

- broad experience in business, trade, finance or management;
- knowledge of regional, national and international business affairs;
- reputation for working constructively with others;
- absence of conflicts of interest;
- wisdom, integrity, and moral character;
- ability to make independent analytical inquiries; and
- understanding of our business and willingness to devote adequate time to board duties.

Other than the foregoing there are no stated minimum criteria for director nominees, although the governance and nominations committee may also consider such other factors as it may deem are in our best interests and the best interests of our stockholders.

The governance and nominations committee identifies nominees by first evaluating the current members of the board of directors willing to continue in service. Current members of the board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the board with that of obtaining a new perspective. If any member of the board does not wish to continue in service or if the governance and nominations committee or the board decides not to nominate a member for re-election, the governance and nominations committee identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the governance and nominations committee and board are polled for suggestions for individuals meeting the criteria of the governance and nominations committee. Research may

also be performed to identify qualified individuals and third parties that have been and in the future may be engaged to assist in identifying, evaluating and narrowing down the list of potential nominees.

Historically, we have not had a formal policy concerning stockholder recommendations to the governance and nominations committee; however, the governance and nominations committee considers nominees recommended by stockholders provided that the provisions in our bylaws which address the process by which a stockholder may nominate an individual to stand for election to the board of directors are followed. In order to be considered timely for our 2007 annual meeting, written notice of a stockholder s nominee must be received by our Corporate Secretary by January 25, 2007. The notice must include the name and address of the stockholder and nominee; a representation that the stockholder is a holder of record of our stock and intends to appear in person or by proxy at the annual meeting to nominate the nominee; a description of all arrangements or understandings between the stockholder and nominee and any other persons pursuant to which the nomination is made; all other information regarding the nominee as required to be included in a proxy statement filed with the SEC had the nominee been nominated by the board of directors; and the consent of the nominee to serve as a director.

A stockholder desiring to recommend a nominee to the governance and nominations committee should review all of the requirements contained in our bylaws which address the process by which a stockholder may nominate an individual to stand for election to the board. Our bylaws are available on our website at *www.mcafee.com* under About McAfee.

It is our desire to position our company as a leader in corporate governance best practices. Therefore, the governance and nominations committee will periodically consider whether to adopt a formal policy concerning stockholder recommendations of board nominees.

Stockholder Communications with the Board of Directors

Stockholders who want to communicate directly with the board should send their communications in writing to the attention of our Corporate Secretary at our offices at 5000 Headquarters Drive, Plano, Texas 75024. Our Corporate Secretary will review the communication and deliver it to the director or directors named in the correspondence, provided that it relates to our business and it is not determined to be inappropriate. If the communication requires a response, the Corporate Secretary will prepare and send a response by working with the director or directors named in the correspondence.

Corporate Governance Matters

Although we do not have a formal policy regarding attendance by members of the board of directors at our annual meeting of stockholders, our directors are encouraged to attend. Including our chairman and chief executive officer, three of our board members attended the 2005 annual meeting.

The board of directors has adopted corporate governance guidelines, a code of business conduct and ethics, and a chief executive officer/finance code of ethics, all of which are available on our website at *www.mcafee.com* under About McAfee, or may be obtained without charge by calling or writing the Corporate Secretary at our corporate headquarters.

Also, during 2005, the board of directors conducted a self-evaluation of its performance.

Compensation of Directors

Directors fees, paid only to directors who are not employees, are as follows:

$40,000 annual retainer, payable in quarterly installments (an additional $10,000 annual retainer, payable in quarterly installments, is paid to our lead independent director and the chairpersons of our board committees);

$1,500 for each board and board committee meeting attended in person;

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- $1,000 (reduced from $1,500 in March 2006) for each board and board committee meeting attended by telephone;
- expenses of attending board and committee meetings; and
- medical insurance benefits for directors and their families.

Under our current Stock Option Plan for Outside Directors non-employee directors are automatically granted an option to purchase 40,000 shares of our common stock when they first become a director, reduced from 50,000 shares in March 2006. Each year after the initial grant they are entitled to receive an additional option grant to purchase up to 20,000 shares of our common stock, reduced from 25,000 shares in March 2006. All options under this plan are granted at the fair market value on the date of grant. The initial grant vests one-third each year over three years from the date of grant. The subsequent grants vest in full three years from the date of grant. All options granted under this plan become fully exercisable in the event of certain mergers, sales of assets or sales of the majority of our voting stock.

Our employee directors are eligible to receive options and be issued shares of common stock directly under the 1997 Stock Incentive Plan and are eligible to participate in our 2002 Employee Stock Purchase Plan and, if an executive officer, to participate in the Executive Bonus Plan.

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STOCK OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table shows as of April 3, 2006, the number of shares of our common stock owned by (i) our chief executive officer, (ii) each of our four other most highly compensated executive officers during fiscal 2005, (iii) each of our current directors and nominees, and (iv) each stockholder known by us as of that date 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(2)	Percent of Outstanding Shares(3)
George Samenuk	175,000	971,041	*
Robert Bucknam		45,000	*
Leslie Denend	6,297	86,875	*
Robert Dutkowsky	50	77,500	*
Dale Fuller			
Denis O Leary		30,000	*
Robert Pangia		77,500	*
Liane Wilson		65,000	*
Gene Hodges(4)			
Kevin Weiss	28,100	282,290	*
Eric Brown	68,171(5)	100,000	*
Kent Roberts		171,979	*
FMR Corp.(6) 82 Devonshire St., Boston, MA 02109	13,072,183		8.2%
Lord, Abbett & Co. LLC(7) 90 Hudson Street, Jersey City, NJ 07302	11,360,362		7.1%
Oppenheimer Capital LLC(8) 1345 Avenue of the Americas, 49th Floor, New York, NY 10105	10,051,250		6.3%
Putnam Investments(9) One Post Office Square, Boston, MA 02109	9,495,143		6.0%
All executive officers and directors as a group (12 persons)	277,618	1,907,185	*

* Less than 1%.

(1) Ownership includes direct and indirect (beneficial) ownership, as defined by SEC rules. To our knowledge, each person has sole voting and investment power over the shares unless otherwise noted. The SEC rules for the determination of beneficial ownership are very complex. Generally, however, shares owned directly, plus those controlled (e.g., owned by members of their immediate families), are considered beneficially owned. Excludes shares that may be acquired through stock option exercises. Unless otherwise indicated, the address of each beneficial owner is c/o. McAfee, Inc., 3965 Freedom Circle, Santa Clara, CA 95054.

(2) Consists of options that are currently exercisable or will become exercisable within 60 days of April 3, 2006.

(3) Based upon 159,243,694 shares outstanding as of April 3, 2006.

(4) Mr. Hodges left the company in January 2006.

(5)

Includes 50,000 shares of restricted stock issued to Mr. Brown that will vest in equal installments in January 2007 and January 2008.

(6) According to the Schedule 13G filed February 14, 2006 by FMR Corp. (FMR). FMR is the beneficial holder of 13,072,183 shares of our common stock. FMR has sole dispositive power over 13,072,183 shares and has sole voting power with respect to 4,632,483 shares. FMR Corp. is the beneficial holder of our common stock as a result of the investment-related activities of certain subsidiaries of FMR Corp.

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Members of the Edward C. Johnson 3d family and trusts for their benefit are the predominant owners of Class B Shares of common stock of FMR Corp., representing approximately 49% of its voting power.

(7) According to the amended Schedule 13G filed February 14, 2006 by Lord, Abbett & Co. LLC (Lord Abbett). Lord Abbett is the beneficial holder of 11,360,362 shares of our common stock. Lord Abbett has sole dispositive power over 11,360,362 shares and has sole voting power with respect to 11,360,362 shares.

(8) According to the Schedule 13G filed February 13, 2006 by Oppenheimer Capital, LLC (Oppenheimer). Oppenheimer is the beneficial holder of 10,051,250 shares of our common stock. Oppenheimer has sole dispositive power over 10,045,950 shares and has sole voting power with respect to 10,045,950 shares.

(9) According to the Schedule 13G filed February 10, 2006 by Putnam Investments (Putnam). Putnam is the beneficial holder of 9,495,143 shares of our common stock. Putnam has sole dispositive power over none of the shares and has sole voting power with respect to none of the shares.

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COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The compensation committee of the board of directors consists of three independent directors, Messrs. Dutkowsky, O Leary and Pangia. The members of our compensation committee have not served as our employees or officers. The compensation committee is responsible for setting and administering policies governing compensation of executive officers, including the annual Executive Bonus Plan and the 1997 Stock Incentive Plan. In addition, the compensation committee reviews compensation levels of other management level employees, evaluates the performance of management, reviews and makes recommendations regarding the compensation policy for directors and reviews other compensation-related issues.

Compensation Philosophy

Our compensation programs are designed to enable us to attract, motivate, retain and reward executive officers who are likely to contribute to our long-term success and the creation of stockholder value. The compensation committee believes that compensation decisions are complex and best made after a deliberate review of our performance and industry compensation levels. The compensation committee also believes that a strong correlation should exist between executive compensation, business objectives and our overall performance. The compensation committee awards compensation that is based upon company and individual performance, and that is designed to motivate our executive officers to achieve strategic business objectives and to continue to perform at the highest levels. The total compensation paid to our executive officers includes a significant equity component because the compensation committee believes that equity-based compensation aligns the long-term interests of the executive officers and employees with those of our stockholders.

In preparing the performance graph for this proxy statement, we have selected the CRSP Total Return Index for the NASDAQ Stock Market and the CRSP Total Return Industry Index for NASDAQ Computer and Data Processing Services Stock Index (collectively the CRSP Index). The companies which we use for comparison of salary and compensation information are not necessarily those included in the CRSP Index, because they were determined not to be competitive with us for executive talent or because compensation information was not available.

Components of Compensation

There are three components of our executive compensation program that are intended to attract and retain executive officers and to motivate them to improve our financial position and to create value for our stockholders.

Salary

We strive to offer salaries to our executive officers that are competitive with salaries offered by companies of similar size and capitalization in the software industry. Base salaries are reviewed on an annual basis and are subject to adjustment based upon the individual s contribution to us, responsibilities, tenure and changes in salary levels offered by comparable companies. In determining executive officers salaries, the compensation committee considers information provided by our chief executive officer with respect to individual officer responsibilities and performance, as well as salary surveys and similar data available from independent sources. In addition, the compensation committee makes an independent assessment of the chief executive officer s responsibilities and performance.

Bonuses

Awards under our Executive Bonus Plan for 2005 were contingent upon our achievement of certain performance goals established by the board of directors. For executive officers other than the chief executive officer, awards were also contingent on the achievement of individual performance objectives. Target amounts of bonuses for each executive officer are set annually by the compensation committee and are specifically weighted for identified financial, management, strategic and operational goals. The compensation committee reviews performance against the goals and approves payment of the bonuses. In 2005, bonuses awarded under the plan to Mr. Samenuk, our chief executive officer, totaled $1,000,000. The bonus received by Mr. Samenuk under the plan was 55% of his total cash compensation. Bonuses awarded under the plan in 2005 to other executive officers represented between 35% and 48% of their total cash compensation.

Equity Incentives

The compensation committee believes that employee equity ownership is highly motivating, provides a major incentive to employees in building stockholder value and serves to align the interests of employees with the interests of our stockholders. Annual equity compensation grants for executive officers are a key element of our executive compensation program. In determining the amount of equity compensation to be awarded to executive officers in any fiscal year, the compensation committee considers the position of the officer, the current stock ownership of the officer, the number of shares which continue to be subject to vesting under outstanding options and the expected future contribution of the officer to our performance, giving primary weight to the officer s position and his expected future contributions. In addition, we compare the stock ownership, options and other equity awards held by each officer with the other officers equity positions and the officer s experience and value to us.

Compensation of the Chief Executive Officer

George Samenuk s annual base salary for 2005 increased from $800,000 to $850,000 in the second quarter of 2005. Mr. Samenuk was paid a performance-based bonus of $1,000,000 in March 2006 for his performance in 2005. Annually, the compensation committee evaluates the chief executive officer based upon both qualitative and quantitative key performance measures including: financial performance, strategic positioning, product excellence, leadership, executive team development, operational processes and control. Following the filing of the Form 10-K, the compensation committee conducts a comprehensive performance review of the chief executive officer, including obtaining a self-assessment from Mr. Samenuk and input from each member of the board of directors. In addition, a performance assessment summary is prepared, reviewed by the board of directors, approved by the compensation committee and then presented to Mr. Samenuk by the compensation committee. As a result of this process, the chief executive officer s salary and maximum bonus eligibility for the then current fiscal year are established. The compensation committee followed this process in determining Mr. Samenuk s 2005 annual base salary and maximum bonus eligibility. The compensation committee s criteria for determining Mr. Samenuk s 2006 annual base salary and maximum bonus eligibility included the successful achievement of key performance measures set during the first quarter of 2005 such as the implementation of strategic direction for the company which, during 2005, included the acquisition of Wireless Security Corporation and the divestiture of McAfee Labs. For 2006, Mr. Samenuk s annual base salary and maximum bonus eligibility have been set at $900,000 and $1,350,000, respectively. Payment of Mr. Samenuk s 2006 bonus will be subject to the attainment of certain objectives, including objectives relating to financial performance, the strategic positioning and growth of the company, the quality and depth of our executive team, and the quality and control of our internal processes.

Compensation of Executive Officers

The chief executive officer evaluates the performance of all other executive officers on an annual basis and recommends salary adjustments, which are subject to review and approval by the compensation committee. Performance evaluations for individual executive officers are based both on individual performance and on predetermined individual goals proposed by management and approved by the compensation committee.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code limits deductions, for federal income tax purposes, of certain executive compensation exceeding $1,000,000 for any executive officer in any year. Our 1997 Stock Incentive Plan enables compensation recognized in connection with the exercise of options and the vesting or payout of restricted stock or restricted stock units with certain performance-based vesting conditions to qualify as an exception to the deduction limit. The compensation committee will continue to evaluate the issues relating to executive compensation and will take appropriate action where necessary. The compensation

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committee s policy is to consider the impact of deductibility under applicable tax laws when structuring its total executive compensation packages, while retaining the flexibility to design them appropriately.

New Accounting Rules

In January 2006, the company adopted Statement of Financial Accounting Standards No. 123 (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. In conjunction with the adoption of SFAS 123(R), we reviewed the company s existing equity compensation programs and made the determination for 2006 to include full-value awards as a component of total equity compensation. As a result of this review, in March 2006 we granted restricted stock units to certain executive officers and employees.

Conclusion

Attracting and retaining talented and motivated executive officers and employees are essential to creating long-term value for our stockholders. Offering a competitive compensation program with a significant equity component helps to achieve this objective by aligning the interests of our executive officers and other key employees with those of our stockholders. The compensation committee believes that our compensation program meets these objectives.

Compensation Committee

Denis O Leary, Chair
Robert Dutkowsky
Robert Pangia

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AUDIT COMMITTEE REPORT

The audit committee of the board of directors consists of three independent directors, Messrs. Dutkowsky and Pangia and Ms. Wilson. The members of our audit committee have not served as our employees or officers. The audit committee is responsible for acting on behalf of the board of directors in the oversight of all aspects of our financial reporting, internal control and audit functions. The audit committee has the sole authority and responsibility to select, evaluate, compensate and replace our independent registered public accountants. Our management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls.

In fulfilling its oversight responsibilities, the audit committee reviewed and discussed the audited consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2005 with management. The audit committee discussed with management our major financial risk exposures and the steps management has taken to monitor and control such exposure, including our risk assessment and risk management policies. The audit committee also met with our internal auditors, with and without management present, to discuss the overall scope and plans