Welcome to the McAfee Third Quarter 2008 Earnings Call. This conference call is being recorded and will be available for replay on McAfee's investor relations homepage at investor.mcafee.com.

On today's call are our Chief Executive Officer and President, Dave DeWalt, and our Chief Operating Officer and Chief Financial Officer, Rocky Pimentel. Dave will open the call with an overview of the quarter and a discussion of current market conditions and our corporate strategy. Then, Rocky will provide the financial details of the quarter and guidance. Dave will close the call with a quick wrap-up and we will be pleased to take your questions.

You will find, in our press release and on the investor relations section of our website, a GAAP to non-GAAP reconciliation of the third quarter 2008 financial results discussed in this conference call. The link is: investor.mcafee.com, and our results are posted under “quarterly results.” We will post our prepared remarks to the website following the conclusion of today's call.

This conference call, including the question and answer session, will contain forward-looking statements. These statements include, among others, those regarding market trends, our strategic positioning, guidance on revenue, operating income margins and earnings levels for the fourth quarter.
quarter of 2008, expectations regarding the benefits of our recent acquisitions and of our planned acquisition of Secure Computing, including those regarding future plans for the Secure Computing business, the expected closing date of the acquisition, the expected level and scope of security threats in future periods, expectations regarding the industry shift to security suites, expected industry growth rates of the market segments in which McAfee participates, expected new and future product introductions and the revenue opportunity associated with them, expected integrations of products from our pending acquisition of Secure Computing and recent acquisitions with McAfee’s existing product lines, expectations regarding McAfee’s business momentum, market position, business segments, statements regarding future partnership opportunities and our future growth opportunities, specific growth initiatives and strategies outlined for 2008 in McAfee’s business, plans regarding investment in our global systems and infrastructure, and future strategic acquisitions and other uses of cash by McAfee.

Forward looking statements are based on management’s current expectations and are subject to risks and uncertainties including that McAfee may not achieve its planned revenue realization rates, particularly in the aftermath of the current credit crisis and related global economic turmoil, succeed in its efforts to grow its business or effectively combat the security threats of the future, build upon its technology leadership or capture market share, or benefit from its acquisitions, strategic relationships or partnerships or its partnership distribution network as anticipated; we may not benefit from our investments in systems personnel and infrastructure as anticipated; McAfee customers may not respond as favorably as anticipated to the Company’s product or technical support offerings, the Company may not satisfactorily anticipate or meet its
customers’ needs or expectations and the industry shift to security suites may not be adopted to the extent anticipated; the Company’s product and service offerings may not continue to interoperate effectively with newly-developed operating systems; the Company may experience delays in product development or the release of previously-announced products; the Company may choose not to deliver a previously-announced product; the Company may experience delays or losses in revenue resulting from outages in the integrated systems on which it is highly dependent. In addition, a number of operational and other factors, including new product introductions, the mix of products and services sold, the size of deals closed in a quarter, the amount of revenue deferred in a quarter, the integration of acquired businesses and products, changes in senior management, the competition we face in the market, currency fluctuations, and the greater macroeconomic environment including the current credit crisis and related global economic turmoil, may cause our revenue, gross margins and operating results to fluctuate significantly from period to period.

We caution listeners that actual results may vary, perhaps materially, from the forward-looking statements referenced in this call, including any forward-looking statements made during the question and answer session. We encourage listeners to review the risk factors contained in today’s press release, as well as the Company’s filings with the Securities and Exchange Commission, including the Company’s Annual Report on Form 10-K filed February 27, 2008 and most recently filed Quarterly report filed on Form 10-Q August 7, 2008, for more detailed information on the risks and uncertainties related to the Company and its business. We do not undertake to update any forward looking statements.
Now, with all of that behind me, it is my pleasure to turn the call over to our CEO and President, Dave DeWalt …

**DAVE:**

Ok, thank you, Kelsey.

Good afternoon and welcome everyone. Thank you for joining us today.

**INTRODUCTION**

The third quarter was a very good quarter for McAfee, continuing the momentum we have seen throughout the past six quarters.

The strength of our business model and our focus on security market leadership is driving our performance - we exceeded both revenue and non-GAAP earnings per share expectations in the third quarter.

On a year-over-year basis revenue grew 27% to $410 million, marking our 11th consecutive quarter of double-digit, year-over-year revenue growth.

We also had double-digit, year-over-year growth in non-GAAP operating income of $96 million, non-GAAP net income of $82 million and non-GAAP earnings per share of $0.53 - a quarterly record for McAfee.

Third quarter bookings increased 22% year-over-year. We closed 28 transactions over $1 million in the enterprise space, a quarterly record, indicating that enterprises continue to standardize their security with McAfee.
Most importantly, the business model is well balanced. We had double-digit, year-over-year bookings growth in all market segments – consumer; small businesses which grew approximately 60%; mid-market which grew approximately 18%; and enterprise as well as across all five of our geographies.

North American revenue was $219 million, an increase of 32% from last year’s third quarter, and accounted for 53% of the business. This was a record revenue quarter for North America.

International revenue was $191 million, an increase of 22% from last year’s third quarter, and accounted for 47% of the business. We had double-digit revenue growth across all of our international segments as well including:

- Europe, the Middle East and Africa growing at 24%.
- Asia Pacific growing at 16%.
- Latin America at 42%.
- And, Japan at 10%.

Corporate revenue was $247 million, up 33% year-over-year, and another record revenue quarter for the corporate business.

On the consumer side, revenue was $163 million, up 20% year-over-year, and another record revenue quarter for the consumer business. This is the 14th out of 15 consecutive quarters where we grew consumer revenue double digits year-over-year.
McAfee reported third quarter deferred revenue of $1.1 billion dollars and at quarter end had just over $1 billion in cash and marketable securities on the balance sheet.

As you can see from our results, the sales force upgrade and improvements in our go-to-market model are working. We have invested in a sales force and channel – globally – who know how to sell security, how to structure close plans and how to close transactions. Overall we executed well in Q3 and did not see deals deferred or discounting pressure because of the recent and ongoing economic conditions.

We believe we have a durable business model that positions us for sustainable growth.

First, security spending remains a priority for our customers – we believe that it is the technology “must have”. While overall IT budgets may contract, customers are telling us – most recently at our first user conference held last week – that they intend to increase and consolidate security spend with the vendor who can offer the most complete and integrated solutions – and we continue to see evidence of this throughout our business.

Secondly, McAfee operates a balanced business model. Approximately 53% of our business in Q3 was in North America; 47% came from our other four international segments. Approximately 60% of our business comes from corporate - while 40% of our business is consumer.

Third, McAfee has a very loyal installed base. We believe enterprises, particularly those having deployed ePolicy Orchestrator or those protected
by McAfee Total Protection Suites, are not likely to switch vendors. We have very high retention rates – in excess of 90% in our Enterprise business. In consumer – where we continue to monitor spending trends very closely – we have pursued a partner driven distribution model, where we have nearly doubled distribution over the last year. We focus on obtaining a direct relationship with our customers and our software as a service delivery model is a powerful tool that has extended the economic life of a consumer with McAfee to over three years now.

Fourth, approximately 80% of our revenue during the quarter comes from the balance sheet – we operate a highly ratable model. To give you a sense of the deferred nature of our business, $209 million of revenue this quarter is service and support, up 27% year-over-year, and $167 million is subscription, up 19% year-over-year. That equates to $376 million - just over 91% of our total revenue for the quarter. The ratable nature of our business helps to reduce volatility and gives us greater visibility into future periods.

Fifth, McAfee’s business generates strong cash flows. Customers pay for purchases up front and they pay in cash. The business has a relatively low capital expenditure requirement of approximately $40 million annually and a very healthy balance sheet.

McAfee offers the rare combination of double-digit earnings and revenue growth coupled with strong free cash flow yields.
I know from experience that growth will come from relentless focus on strategy – one which we believe is responsive to the needs of our customers and gives us the best possible positioning in today’s market.

McAfee has led the industry with a strategy built on protecting the endpoint by converting point solutions to suites; interlocking those endpoint suites with the network, data protection and risk & compliance; and securing emerging platforms.

Our ability to deliver performance will be a result of the team continuing to execute successfully against the following business imperatives.

- The first imperative is technology leadership.
  - We are extending McAfee’s “in the cloud” capabilities which began more than 10 years ago with our consumer software as a service solution. The combination of McAfee’s new Artemis – the first “always on”, real-time threat prevention technology – with the planned acquisition of Secure Computing’s TrustedSource services should emerge and enhance our competitive positioning and create the most intelligent set of “in the cloud” security services on the market.
  - We announced the world’s first unified approach to solving network access control problems, McAfee Unified Secure Access. What makes this solution unique is the combination of intrusion prevention coupled with network access control. Our network strategy, which has already driven triple digit growth, should be further enhanced by this announcement.
  - And, we expect to continue our leadership position in securing new platforms with solutions like McAfee Total Protection for
Virtualization, which offers proven protection for virtualization, lower operational costs and simplified compliance.

- The second imperative is to focus on suite-based security solutions.
  - For McAfee, suite deployments entrench us in an organization; increasing McAfee’s asp per customer; building long-term relationships with recurring maintenance revenue and establishing a platform into which we can sell new solutions.
  - Customers benefit from McAfee’s technology leadership, management by ePO and our broad portfolio of solutions. They also benefit from improved return on their security investment through point product consolidation and more efficient security management.
  - We are focused on interlocking the endpoint with the network and plan to add suites for risk & compliance, as well as additional suites for the network to compliment our existing Total Protection Solutions for endpoint, data, virtualization and mid-market businesses. An example of this is our new mid-market suite – Total Protection for Secure Businesses.

- The third imperative is to execute small to medium sized security only acquisitions.
  - We intend to intelligently use the balance sheet to diversify our product portfolio and accelerate growth in the business. During the third quarter we made two very important announcements on the acquisition front.
  - The first acquisition which we closed in Q3, Reconnex, adds to our portfolio of data protection solutions with an industry leading technology that learns and adapts to automate the
ongoing protection of data. Data Protection is one of the fastest growing segments of our business having grown about 40% year-over-year during the third quarter.

- The second - our planned acquisition of Secure Computing - will bring Secure Computing’s complementary portfolio of products to McAfee, enhancing our network solution set for businesses of all sizes. We see growth drivers in cross-selling between our customer bases; merging our partner ecosystems; creating suites of solutions that leverage the network and the endpoint; and integrating under a single management console. With the addition of Secure, McAfee will be able to deliver complete content and data lifecycle management security.

- The fourth imperative is strengthening our partner eco-system.
  - Through partnerships we can broaden our distribution channels, more comprehensively meet the evolving needs of our customers, pursue product innovation and drive growth in the business.
  - Last week alone we announced 10 new relationships. These include a strategic relationship with Intel leveraging the Intel vPro technology to provide innovative security below the operating system layer on PCs. And, a relationship with HP ProCurve to jointly develop and deliver network security solutions designed to simplify networking and security from the edge to the network core.
  - In consumer, we signed or extended 18 new consumer partnerships including one with VMware to ship McAfee’s
VirusScan Plus software with VMware Fusion, VMware’s award-winning desktop virtualization product.

- Also on the partnership front - our Security Innovation Alliance or SIA. We consistently hear from customers that interoperability and simplified integration is important to them. In response we launched McAfee’s SIA which now features 34 alliance partners, including well-known names such as Alcatel-Lucent, ArcSight, and now CommVault.

We are very pleased with our third quarter results which reflect solid execution across all geographies and customer segments. The investments we have made in product portfolio, sales, personnel and distribution capacity over the last year are delivering results and we remain optimistic about what the team can accomplish.

I would now like to turn the call over to Rocky who will review our quarterly performance and provide guidance for the fourth quarter. Then I will come back for a brief conclusion, after which we will take your questions. Rocky…

**ROCKY:**

Thank you, Dave. Good afternoon everyone.

We are pleased to report third quarter 2008 revenue of $410 million, up 27% year-over-year, and ahead of expectations.

For the third quarter, 78% of total revenue came from deferred revenue on the balance sheet. Year-over-year we saw increased in-period revenue
recognition due primarily to the impact of product mix which reflects a more than 100% increase in sales of our Network Security Platform, formerly known as IntruShield. We are very excited about our next generation Intrusion Prevention products which are clearly gaining traction in a growing market.

Please note that appliances drive greater in-period revenue recognition with a more traditional 80/20 percent licensing and support pricing model.

Excluding the impact of foreign exchange, revenue grew 21% year-over-year. Our third quarter 2008 results include a favorable year-over-year revenue impact due to foreign exchange of approximately $21 million. Quarter-over-quarter, revenue was negatively impacted by approximately $4 million due to foreign exchange.

During the third quarter we closed 340 deals over $100,000 in value, 52 deals over $500,000 in value and 28 deals over $1 million in value. This compares to 8 deals over $1 million in the third quarter of 2007 and 21 deals over $1 million in the second quarter of 2008.

Highlights from our corporate business include:

- Sales of SafeBoot data encryption grew approximately 40% year-over-year, including several transactions over $1 million.
- Gartner, Inc. has placed McAfee in the leader’s quadrant in its “Magic Quadrant for Mobile Data Protection,” which was published on September 23, 2008.
- We continue to convert customers to Total Protection Endpoint, with bookings increasing more than 40% year-over-year.
• At the same time, penetration of ePO 4.0 is expanding with more than 50% of our customer base now deployed and live.
• And, finally, our third quarter performance in the mid-market segment was the best we have had in more than five years.

Highlights from our consumer business include:
• We signed or extended 18 new consumer partnership agreements and launched 55 new or enhanced consumer online partnerships during the quarter. This brings our total number of brand-name consumer partners worldwide to more than 190.
• We had a 22% increase in new, registered trial subscriptions year-over-year, with many of our new PC OEM partnerships in the early ramping phase.
• We had positive year-over-year revenue growth in all of our consumer geographies, with more than 60% growth in both our Asia Pacific and Latin American regions, demonstrating that our strategy of global expansion is working.
• Year-over-year, Total Protection was the fastest growing consumer product in the third quarter – growing more than 79%.
• We also have launched a new partnership with ATT, displacing our major competitor, which plans to offer McAfee services to its more than 15 million broadband users.

We know from experience that when the economy slows, the level of malicious activity increases, including identity theft attacks to steal the personal wealth of consumers. This drives greater press attention, raising the level of awareness among consumers who become more concerned about protecting themselves. This heightened awareness along with our
broadened distribution through the many new partnerships we have announced; our success in global expansion; our leadership in Web Security; and the release of our new consumer suites that include Active Protection should enhance our competitive positioning in the consumer market.

Moving down the income statement, GAAP gross profit margin for the third quarter was 76.0%, compared with the second quarter 2008 of 77.4% and third quarter 2007 of 75.8%. Non-GAAP gross profit margin for the third quarter was 79.6%, compared with last quarter's 81.0%, and a year-ago quarter gross profit margin of 78.3%. Year-over-year, gross margins trended up by 130 basis points due to an increase in volume of systems solution sales in the overall mix of business sold during the third quarter 2008. Quarter-over-quarter we saw record setting sales of our Network Security Platform product which contributed to gross margins trending down slightly.

Total GAAP operating expenses in the third quarter 2008 were $262 million, compared with $197 million for third quarter 2007. Total operating expenses, on a non-GAAP basis, in the third quarter 2008 were $230 million, compared with $173 million for the third quarter 2007. This year-over-year variance primarily reflects investments in future growth of the company.

- First, we have diversified our product portfolio including the acquisitions of SafeBoot, Scan Alert and Reconnex.
- Second, we have invested in new consumer PC OEM relationships where certain PC OEM payments are classified as sales and marketing expense. These relationships are dilutive initially, becoming increasingly profitable over time.
• Third, we have added to the core McAfee team, particularly in sales and marketing in the back half of 2007 and in the early part of this year to increase sales capacity and improve the coverage model.

• And, finally, we had a year-over-year increase in legal expenses reflecting litigation activities, some of which were concluded in the third quarter.

GAAP sales and marketing expenses for the third quarter 2008 were $136 million. Sales and marketing expenses, on a non-GAAP basis, in the third quarter 2008 were $127 million, or 31.0% of revenue. This was an increase of $8 million sequentially on a non-GAAP basis reflecting increased sales commissions and the impact of new consumer PC OEM relationships noted previously.

Third quarter 2008 GAAP research and development costs were $64 million. Third quarter 2008 research and development costs on a non-GAAP basis were $57 million, or 13.9% of revenue, flat sequentially on a dollar basis. We continue to invest in research and development in order to develop industry-leading solutions to our customers. During the third quarter 11 new patents were granted, bringing McAfee’s total patent portfolio to 344.

GAAP general and administrative expenses for the third quarter of 2008 were $52 million. On a non-GAAP basis, G&A expenses for the third quarter were $46 million, or 11.2% of revenue, compared to $43 million for the second quarter. This sequential increase on a non-GAAP basis is primarily associated with the litigation activities I just mentioned.
GAAP operating income for the third quarter was $49 million - resulting in an operating margin for the period of 12.0%.

Operating income for the third quarter, on a non-GAAP basis, was $96 million, resulting in a non-GAAP operating margin of 23.4%. Please note that third quarter non-GAAP operating margins were negatively impacted quarter-over-quarter by the impact to sales and marketing of new PC OEM relationships; the more than 1% decrease in gross margins driven by increased shipments of our Network Security Platform; increased legal expenses; and – to a lesser degree – accelerated sales compensation earned during the quarter; and the acquisition of Reconnex.

GAAP other income for the quarter was $5 million. This GAAP figure includes a $12 million impairment loss on our marketable securities portfolio resulting primarily from the recent credit market crisis. By policy we invest in high quality, investment grade securities.

Non-GAAP other income was $17 million, compared with $13 million in the second quarter 2008 and $20 million in the third quarter 2007. The sequential increase was related primarily to a foreign currency gain partially offset by lower interest income associated with acquisitions and the repurchase of common stock.

Total employee headcount at the end of the quarter was 4,612. This is up 54 employees from the second quarter 2008, due to the addition of 65 employees from the acquisition of Reconnex which closed during the quarter.
We have taken action to address the current environment which resulted in a $2.7 million restructuring charge near the end of the third quarter.

The GAAP tax rate for the quarter was 9%. On a non-GAAP basis, our tax rate was unchanged from a year ago at 27%.

In the third quarter of 2008 we reported net income, on a GAAP basis, of $49 million, or $0.31 per share on a diluted basis.

Our third quarter net income, on a non-GAAP basis, was $82 million, or $0.53 per diluted share, up 21% year-over-year. Non-GAAP earnings per share of $0.53 is an all-time quarterly record for McAfee.

Investors and potential investors are encouraged to review the complete reconciliation of GAAP to non-GAAP financial measures set forth in the attachment to our press release issued this afternoon.

Turning to the balance sheet, our net accounts receivable balance at the end of the third quarter 2008 was $209 million compared with $157 million for the same period last year. Days sales outstanding were 46 days for the third quarter 2008, compared to 44 days for the third quarter of last year and flat sequentially.

As I previously mentioned, our revenue profile continues to evolve with the expansion of our appliance business.

Deferred revenue at the end of the third quarter 2008 was $1.1 billion, up 11% year-over-year. Third quarter 2008 deferred revenue reflects a negative sequential foreign exchange impact of approximately $40 million.
Please note that we value our deferred revenue on a quarterly basis at the rates on the last day of the quarter.

We ended the third quarter with $818 million in short-term deferred revenue, down $25 million when compared with the second quarter 2008. This quarter-over-quarter decrease in short-term deferred was driven primarily by the strengthening dollar. Long-term deferred revenue was down by $4 million in the third quarter compared to the second quarter 2008, ending the quarter at $239 million. We did not see unusual contract extensions during the quarter or unusual discounting.

The composition of our deferred revenue balance at the end of the third quarter of 2008 was 62% related to Corporate and 38% for Consumer.

We ended the quarter with cash and marketable securities of $1 billion. Please note that this total reflects an outflow of cash associated with the acquisition of Reconnex which closed in August 2008, as well as stock repurchases made during the quarter.

During the third quarter we paid for the repurchase of 4 million shares of our common stock for $132 million. This brings the total number of shares repurchased to 14.5 million shares, representing an aggregate cost of approximately $500 million.

As of today, we have approximately $250 million in authorization available for share repurchases through July 2009.

In the third quarter 2008, we generated a total GAAP operating cash flow of $87 million. Operating cash flow was down compared to last year due
to the additional use of cash for working capital requirements resulting from a $25 million legal settlement which we announced in July and $16 million in incremental year-over-year investments in PC OEM partnerships.

At this point I would like to remind everyone that a full cash flow statement has been included with the financial tables attached to our press release issued this afternoon. We would also like to note that we currently expect our cash flows for the fourth quarter to be negatively impacted by a one-time cash tax payment of approximately $30 million.

Finally, we recognize that Wall Street tracks the current health of our business by analyzing revenue plus change in deferred revenue. While this calculation is not a perfect proxy for bookings, in the third quarter this is particularly the case as the calculation does not reflect $40 million in negative foreign exchange impact to deferred revenue nor does it capture the impact of contra-revenue or backlog. As Dave mentioned, third quarter bookings grew 22% year-over-year.

**SECURE COMPUTING UPDATE**

We would now like to provide an update on our planned acquisition of Secure Computing. On October 15, 2008, McAfee received notification from the U.S. Department of Justice and Federal Trade Commission had granted early termination of the Hart-Scott-Rodino waiting period for the proposed acquisition. Subject to additional regulatory and appropriate Secure Computing stockholder approvals, we currently expect to close the acquisition of Secure Computing within two business days of their November 14 stockholder meeting. We plan to issue a press release upon
closing the acquisition and look forward to updating you with further details regarding our financial expectations and strategy.

I would also like to clarify that we do not intend to make non-GAAP revenue adjustments as a result of the deferred revenue write-down on the Secure Computing acquisition. This is consistent with previous acquisitions.

GUIDANCE

Now I would like to turn to discuss guidance.

Although we believe McAfee is well positioned to make market gains in this environment, we are cautious as to what the spending environment may be in this quarter.

The following updated guidance replaces and supersedes any previous guidance with respect to future periods and is valid as of today only. I would like to remind our listeners that guidance is based upon management’s current judgments and that actual results may vary, perhaps materially, from those results anticipated in this guidance. Please see the footnotes to our press release for further details.

For the fourth quarter of 2008:

- We expect a revenue range of $400 million to $420 million.
- We expect a GAAP operating income margin of 14.0% to 16.0%.
- We expect an operating income margin, on a non-GAAP basis, of 23.0% to 26.0%.
• We expect a diluted share count in the range of 154 to 158 million shares.

Also for the fourth quarter of 2008:
• We expect GAAP earnings per share of between $0.54 and $0.60 per share on a diluted basis.
• On a non-GAAP basis, we expect earnings per share in a range from $0.50 to $0.56 per share on a diluted basis.

Please note the following:
Guidance for the remainder of 2008 outlined this afternoon does not contain our current expectations regarding the impact of the planned acquisition of Secure Computing.

In addition, guidance does not include any impact from future stock repurchases. We plan to provide updates on the repurchase program on a quarterly basis and adjust guidance based on actual repurchase program results.

At this point I will turn the call back over to Dave to conclude.

DAVE:

Thank you Rocky.

I also want to thank the more than 4,000 McAfee employees and thousands of partners worldwide for their hard work during the quarter –
and to thank our customers, many of whom attended our first ever user conference.

We came out of that very successful conference where we hosted more than 1,200 attendees from 47 countries believing that the strategy we outlined for you at the outset of the year puts us on the right track for continued financial performance.

Customers – from the consumer to the large enterprise – and partners value our focus on security and continue to expand their relationship with McAfee. While we continue to closely monitor the environment and any impact it may have on our business, the team is focused on a strong finish to the fiscal year.

Thank you for joining us this afternoon. We look forward to answering your questions.

Now, I will turn it back over to Kelsey.

**KELSEY:**

Thank you, Dave and Rocky. As the operator polls for questions, I would like to inform you that McAfee plans to attend the UBS Conference on Tuesday, November 18th in New York City and the Barclay’s Conference on Wednesday, December 10th in San Francisco.

In addition, please mark your calendar for Friday, May 15 for McAfee’s 2009 Investor Day.
Operator, please poll for questions. In the interest of time, please limit yourself to one question per person. Thank you.

Q&A