

McAfee, Inc.
Form 8-K/A
July 30, 2004

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K/ A

Current Report

Pursuant to Section 13 or 15(d) of

The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 16, 2004

McAfee, Inc.

(Exact name of registrant as specified in its charter)

Commission file number: 0-20558

Delaware

*(State or other jurisdiction of
incorporation or organization)* **77-0316593**

(I.R.S. Employer

Identification Number) **3965 Freedom Circle**

Santa Clara, California

(Address of principal executive offices) **95054**

(Zip Code)

Registrant's telephone number, including area code:

(408) 988-3832

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Item 2. *Acquisition or Disposition of Assets*

On July 16, 2004, McAfee, Inc. (formerly Networks Associates, Inc.) (the Company) completed the sale of its Sniffer Technologies (Sniffer) product line to Network General Corporation, an entity controlled by Silver Lake Partners and Texas Pacific Group. The transaction was effected by means of an asset purchase agreement. After giving effect to the initial closing date working capital adjustments, the total consideration being received by the Company from the Buyer is approximately \$217 million in cash.

The final transaction consideration received from the Buyer is subject to adjustment based on actual modified working capital balances on the closing date.

As part of the transaction, the Company retained pre-closing Sniffer accounts receivable.

This report amends and restates Item 7 of the Form 8-K filed by the Company with the Securities and Exchange Commission on July 16, 2004.

Table of Contents**Item 7. Financial Statements and Exhibits**

(a) Financial Statements of business acquired:

Not applicable

(b) Pro Forma Financial Information:

The unaudited pro forma condensed consolidated financial information with respect to the disposition of the Company's Sniffer product line required by Item 7 of Form 8-K is included on pages 3 through 8 of this report and is incorporated herein by reference. This unaudited pro forma information (i) reflects pro forma adjustments primarily to eliminate revenue, cost of revenues and other costs and expenses directly related to the Sniffer product line, (ii) eliminates the assets that were sold and liabilities that were assumed by the buyer, and (iii) does not purport to represent either what the Company's financial position or results of operations would have been had the sale occurred on the dates indicated or what Sniffer's financial results would have been if it were a stand-alone organization for the periods presented.

(c) Exhibits:

*2.1	Asset Purchase Agreement (the "APA") made and entered into as of April 22, 2004, by and among, (i) Network General Corporation (formerly named Starburst Technology Holdings, Inc.), on the one hand, and (ii) McAfee, Inc. (formerly named Networks Associates, Inc.), Network Associates Technology, Inc., Network Associates International BV, Network Associates (India) Private Limited, McAfee Japan Co., Ltd (formerly named Network Associates Japan Co., Ltd.), on the other hand
*2.2	Amendment No. 1 to the APA dated as of July 15, 2004.
*99.1	Press Release of McAfee, Inc. dated July 16, 2004.

* Incorporated by reference to Form 8-K filed by the Company with the Securities and Exchange Commission on July 16, 2004.

Pro Forma Financial Information

In April 2004, McAfee, Inc. (formerly Networks Associates, Inc.) (the Company) entered into an agreement to sell its Sniffer Technologies (Sniffer) product line to Network General Corporation (the Buyer). The transaction consideration paid to the Company consisted of approximately \$217 million in cash. The sale closed on July 16, 2004.

The unaudited pro forma condensed consolidated financial statements reported below consist of unaudited pro forma condensed consolidated statements of operations for the three months ended March 31, 2004 and for the year ended December 31, 2003 and an unaudited pro forma condensed consolidated balance sheet as of March 31, 2004. The unaudited pro forma financial statements should be read in conjunction with the Company's historical consolidated financial statements and the related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (and the planned amendment thereto).

The following unaudited pro forma condensed consolidated financial statements have been prepared giving effect to the sale of the Company's Sniffer product line, as if it had occurred as of March 31, 2004 for the unaudited pro forma condensed consolidated balance sheet, and as of January 1, 2003 for the unaudited pro forma condensed consolidated statements of operations. The unaudited pro forma condensed consolidated statements of operations do not include any estimated gain on the sale of Sniffer, nor do they include any amounts related to the Transaction Services Agreement between the Company and Buyer. The Company is providing certain transactional services for

the Buyer beginning July 16, 2004, for a period of up to nine months and is being reimbursed for costs plus a profit margin.

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The Company believes that the pro forma adjustments used in the unaudited pro forma condensed consolidated financial statements provide a reasonable basis on which to present such statements. The unaudited pro forma condensed consolidated financial statements included in this Form 8-K/A have been derived from the Company's consolidated financial statements and do not purport to represent what the Company's financial position or results of operations actually would have been had the sale occurred on the dates indicated.

On July 27, 2004, the Company filed an 8-K with the SEC indicating that it would restate operating results for the quarter ended March 31, 2004 to increase revenue by \$2.5 million, reduce expenses by \$0.2 million, increase net income by \$2.0 million and increase diluted earnings per share by \$0.01. In conjunction with this restatement, the Company is preparing and will file a Form 10-Q/A for the quarter including the restated condensed consolidated financial statements. The financial information for the quarter ended March 31, 2004 (marked as restated), and the corresponding pro forma information giving effect to the Sniffer disposition, reflects the currently anticipated impact of the restatement.

Table of Contents**McAFEE, INC. AND SUBSIDIARIES****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET****March 31, 2004**

	McAfee Historical	Pro Forma Adjustments	McAfee Pro Forma
	(As Restated)		
	(In thousands)		
ASSETS			
Current assets:			
Cash and cash equivalents	\$430,329	\$218,486 (A)	\$648,815
Short-term marketable securities	217,432	217,432	
Accounts receivable, net	109,559	109,559	
Prepaid expenses, income taxes and other current assets	108,260	(13,350)(B)	94,910
Deferred taxes	176,333	(24,130)(C)	152,203
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Total current assets	1,041,913	181,006	1,222,919
Long-term marketable securities	293,449	293,449	
Restricted cash	20,647	20,647	
Property and equipment, net	110,294	(5,039)(D)	105,255
Deferred taxes	169,980	(42,471)(C)	127,509
Intangible assets, net	98,974	98,974	
Goodwill	441,488	(50,876)(E)	390,612
Other assets	6,314	6,314	
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Total assets	\$2,183,059	\$82,620	\$2,265,679

LIABILITIES

Current liabilities:

Accounts payable

\$25,848 \$(524)(F) \$25,324

Accrued liabilities

123,568 (3,385)(F) 141,747 21,564 (C)

Deferred revenue

383,175 (36,875)(G) 346,300

Convertible debt

345,275 345,275

Total current liabilities

877,866 (19,220) 858,646

Deferred revenue, less current portion

102,077 (11,019)(G) 91,058

Other long term liabilities

232,082 232,082

Total liabilities

1,212,025 (30,239) 1,181,786 **STOCKHOLDERS EQUITY**

Preferred stock

Common stock

1,648 1,648

Additional paid-in capital

1,111,287 1,111,287

Deferred stock-based compensation

(537) (537)

Accumulated other comprehensive income

35,252 35,252

Accumulated deficit

(171,909) 112,859(H) (59,050)

Treasury stock

(4,707) (4,707)

Total stockholders equity

971,034 112,859 1,083,893

Total liabilities and stockholders' equity
\$2,183,059 \$82,620 \$2,265,679

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

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McAFEE, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the Three Months Ended March 31, 2004

	McAfee Historical	Pro Forma Adjustments	McAfee Pro Forma
	(In thousands, except per share data) (As Restated)		
Net revenue:			
Product			
\$83,731 \$(24,582) (I) \$59,149			
Services and support			
135,347 (17,671) (I) 117,676			
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Total net revenue			
219,078 (42,253) 176,825			
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Cost of net revenue:			
Product			
22,952 (8,020) (I) 14,932			
Services and support			
10,847 (1,636) (I) 9,211			
Amortization of purchased technology			
3,393 3,393			
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Total cost of net revenue			
37,192 (9,656) 27,536			
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Operating costs:

Research and development	45,379	(6,402) (J)	38,977
Marketing and sales	92,958	(5,195) (K)	87,763
General and administrative	28,066	(614) (L)	27,452
Gain on sale of assets and technology	(46,505)	(46,505)	
Litigation settlement	(19,101)	(19,101)	
Amortization of intangibles	3,573	3,573	
Restructuring charge	2,190	2,190	

Total operating costs	106,560	(12,211)	94,349
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Income from operations	75,326	(20,386)	54,940
Interest and other income	4,351	4,351	
Interest and other expenses	(741)	(741)	
Gain on sale of marketable securities	488	488	

Income before provision for income taxes and cumulative effect of change in accounting principle	79,424	(20,386)	59,038
Provision for income taxes	21,454	(7,135) (M)	14,319

Income before cumulative effect of change in
accounting principle
\$57,970 \$(13,251) \$44,719

Basic income per share:

Income before cumulative effect of change in
accounting principle
\$0.35 \$0.27

Shares used in per share calculation basic
163,423 163,423

Diluted income per share:

Income before cumulative effect of change in
accounting principle
\$0.33 \$0.26

Shares used in per share calculation diluted
186,564 186,564

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

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McAFEE, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2003

	McAfee Historical	Pro Forma Adjustments	McAfee Pro Forma
	<u> </u>	<u> </u>	<u> </u>
	(In thousands, except per share data)		
Net revenue:			
Product			
\$513,610 \$(149,467) (I) \$364,143			
Services and support			
422,726 (60,709) (I) 362,017			
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Total net revenue			
936,336 (210,176) 726,160			
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Cost of net revenue:			
Product			
86,646 (36,180) (I) 50,466			
Services and support			
51,611 (6,329) (I) 45,282			
Amortization of purchased technology			
11,369 11,369			
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Total cost of net revenue			
149,626 (42,509) 107,117			
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Operating costs:			

Research and development
 184,606 (30,456) (J) 154,150
 Marketing and sales
 363,306 (20,100) (K) 343,206
 General and administrative
 128,704 (672) (L) 128,032
 Amortization of intangibles
 15,637 15,637
 Restructuring charge
 22,204 22,204
 In process research and development
 6,600 6,600

Total operating costs
 721,057 (51,228) 669,829

Income (loss) from operations
 65,653 (116,439) (50,786)
 Interest and other income
 15,454 15,454
 Interest and other expenses
 (7,543) (7,543)
 Loss on disposal of assets
 (788) (788)
 Loss on redemption of zero coupon convertible
 debentures
 (2,727) (2,727)
 Gain on sale of marketable securities
 3,076 3,076

Income (loss) before provision for (benefit
 from) income taxes and cumulative effect of
 change in accounting principle
 73,125 (116,439) (43,314)
 Provision for (benefit from) income taxes
 13,220 (40,754) (M) (27,534)

Income (loss) before cumulative effect of
change in accounting principle
\$59,905 \$(75,685) \$(15,780)

Basic income (loss) per share:

Income (loss) before cumulative effect of
change in accounting principle
\$0.37 \$(0.10)

Shares used in per share calculation basic
160,338 160,338

Diluted income per share:

Income before cumulative effect of change in
accounting principle
\$0.36

Shares used in per share calculation diluted
164,489

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

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McAFEE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Pro Forma Condensed Consolidated Balance Sheet

(A) The unaudited pro forma condensed consolidated balance sheet reflects the receipt of net cash proceeds of approximately \$218 million from the sale of Sniffer, based upon the working capital calculation had the sale occurred on March 31, 2004. At the actual closing on July 16, 2004, the Company received approximately \$217 million in cash due to changes in balances included in the working capital calculation.

(B) The pro forma adjustment to prepaid expenses reflects the elimination of assets sold.

(C) The pro forma adjustment to deferred income taxes reflects the reversal of deferred taxes related to Sniffer and the addition to accrued liabilities relates to the estimated income taxes payable on the gain on sale of Sniffer at a statutory income tax rate of 35%.

(D) The pro forma adjustment to property and equipment reflects the elimination of assets sold.

(E) The pro forma adjustment to goodwill reflects allocation of goodwill associated with Sniffer.

(F) The pro forma adjustment to accounts payable and accrued liabilities reflects the elimination of liabilities assumed by the Buyer.

(G) The pro forma adjustments to deferred revenue reflects the deferred revenue associated with Sniffer assumed by the Buyer.

(H) The adjustment reflects the net realized gain of approximately \$113 million as of March 31, 2004, including estimated income taxes at a 35% statutory income tax rate.

Unaudited Pro Forma Condensed Consolidated Statements of Operations

(I) The operating results of Sniffer have been removed from the unaudited pro forma condensed consolidated statements of operations. The pro forma adjustment to net revenue reflects direct revenues in fiscal 2003 and the first quarter of 2004 generated by Sniffer. The corresponding cost of net product revenue has also been removed, as well as removal of salaries related to the Company's former employees that have joined the Buyer.

(J) The pro forma adjustment to research and development expenses removes all expenses directly incurred by Sniffer during fiscal 2003 and the first quarter of 2004.

(K) The pro forma adjustments to marketing and sales expenses include the removal of marketing expenses directly incurred by Sniffer, and the salaries of the Company's former employees that have joined the Buyer. The adjustments to marketing and sales expenses exclude commission expenses paid to sales personnel because the expenses can not be isolated and objectively measured.

(L) The pro forma adjustments to general and administrative expenses reflect the salaries of the Company's former employees that have joined the Buyer and costs incurred during 2004 related to the sale of Sniffer. Other general and

administrative costs are shared across the Company, and therefore, no allocations were made.

(M) The pro forma adjustments to income taxes were made at a statutory income tax rate of 35%.

These unaudited pro forma condensed consolidated financial statements have been derived from the Company's consolidated financial statements and do not purport to represent what the Company's financial position or results of operations would have been had the sale occurred on the dates indicated, nor do these unaudited condensed consolidated financial statements intend to purport what Sniffer's financial results would have been if it were a stand-alone organization for the periods presented.

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EXHIBIT INDEX

Exhibit Number	Description
*2.1	Asset Purchase Agreement (the "APA") made and entered into as of April 22, 2004, by and among, (i) Network General Corporation (formerly named Starburst Technology Holdings Inc.), on the one hand; and (ii) McAfee, Inc. (formerly named Networks Associates, Inc.), Network Associates Technology, Inc. Network Associates International BV, Network Associates (India) Private Limited, McAfee Japan Co., Ltd. (formerly named Network Associates Japan Co., Ltd.), on the other hand.
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