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[Home](#) | [Previous Page](#)**U.S. Securities and Exchange Commission**[Litigation Release No. 19520 / January 4, 2006](#)[Accounting and Auditing Enforcement Release No. 2360 / January 4, 2006](#)[Securities and Exchange Commission v. McAfee, Inc., Civil Action No. 06-009 \(PJH\) \(N.D. Cal.\) \(January 4, 2006\)](#)**[SEC SUES MCAFEE, INC. FOR ACCOUNTING FRAUD](#)****[MCAFEE AGREES TO SETTLE AND PAY A \\$50 MILLION PENALTY](#)**

The Securities and Exchange Commission today filed securities fraud charges against McAfee, Inc. (formerly known as Network Associates, Inc.), a Santa Clara, California-based manufacturer and supplier of computer security and antivirus tools. The Commission's complaint alleges that from the second quarter of 1998 through 2000, McAfee misled investors when it engaged in a fraudulent scheme to overstate its revenue and earnings by hundreds of millions of dollars in violation of the federal securities laws. The complaint specifically alleges that, during the period 1998 through 2000, McAfee inflated its cumulative net revenues by \$622 million and that, for 1998 alone, McAfee overstated revenues by \$562 million (a misstatement of 131 percent).

McAfee has consented, without admitting or denying the allegations of the complaint, to the entry of a Court order enjoining it from violating the antifraud, books and records, internal controls, and periodic reporting provisions of the federal securities laws. The order also requires that McAfee pay a \$50 million civil penalty, which the Commission will seek to distribute to harmed investors pursuant to the Fair Funds provision of the Sarbanes-Oxley Act of 2002. In addition, McAfee has agreed to appoint an Independent Consultant to examine and recommend improvements to McAfee's internal accounting controls and revenue recognition and reserves practices to better ensure compliance with the federal securities laws. This proposed settlement is subject to court approval.

According to the complaint, McAfee defrauded investors into

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believing that it had legitimately met or exceeded its revenue projections and Wall Street earnings estimates during the 1998 through 2000 period. In reality, however, McAfee had used a variety of undisclosed ploys during the period to aggressively oversell its products to distributors in amounts that far exceeded the public's demand for the products. While engaging in this "channel stuffing," McAfee improperly recorded the sales to distributors as revenue. McAfee offered its distributors lucrative sales incentives that included deep price discounts and rebates in an effort to persuade the distributors to continue to buy and stockpile McAfee products. McAfee also secretly paid distributors millions of dollars to hold the excess inventory, rather than return it to McAfee for a refund and consequent reduction in McAfee's revenues. In other instances, McAfee used an undisclosed, wholly-owned subsidiary, Net Tools, Inc., to repurchase inventory that McAfee had oversold to its distributors. All of these actions were inconsistent with Generally Accepted Accounting Principles and led to McAfee's October 2003 restatement of its financial results for 1997 through 2003.

The complaint further alleges that McAfee took action to conceal the fraud from investors by, among other things, wrongly recording in its books the payments and discounts that it offered to distributors, and improperly manipulating reserve accounts to increase inadequate sales reserves and cover the costs of the distributor payments. The complaint alleges that McAfee defrauded investors by reporting false and materially misleading financial and other information in periodic reports, financial statements, and securities registration statements that McAfee filed with the Commission, in press releases, and in other public statements.

The Final Judgment would enjoin McAfee from violating Section 17(a) of the Securities Act of 1933, Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934, and Exchange Act Rules 10b-5, 12b-20, 13a-1, and 13a-13 thereunder.

This is the fourth lawsuit that the Commission has filed in connection with fraudulent accounting issues at McAfee. See *SEC v. Terry W. Davis*, [Litigation Release No. 18189](#) (June 12, 2003); *SEC v. Prabhat K. Goyal*, [Litigation Release No. 18748](#) (June 16, 2004); *SEC v. Evan S. Collins*, [Litigation Release No. 18986](#) (November 30, 2004).

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▶ [SEC Complaint in this matter](#)

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