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MCAFEE (A)

It just sort of grew beyond what any of us anticipated.

Ari Goretsky, Employee #2

It was an early morning in May 1991 in Santa Clara, California. After another sleepless night, John McAfee, founder of McAfee Associates, decided to bike to work at 4:25 a.m. to get an early start on the accumulating paperwork that he had neglected during the last several weeks. John was clearly preoccupied with several recent events that threatened to change McAfee Associates' simple and straightforward business.

John founded McAfee Associates in 1986 to develop and to distribute software that detected, identified, and eradicated viruses in personal computers. As McAfee emerged as the leader in the anti-virus industry, John consciously focused on keeping the operations as straightforward as possible, thus avoiding many of the headaches involved with managing a rapidly growing organization. John enjoyed the resulting simplicity of his job.

On a typical day at work, he arrived to a six-inch stack of mail on his desk which he separated into two batches: purchase orders and checks. He forwarded purchase orders to Martha Schramm who spent all day typing invoices. John spent the rest of the morning endorsing each check and logging the payor's name and the amount. Upon finishing, he walked to the bank and deposited the checks, which usually totalled $40,000 - $50,000. Ari Goretsky and John spent the afternoon together identifying new viruses. Before departing the office, John wrote an e-mail to Dennis Yelle, a developer, with instructions for updates to the anti-virus software. With the existing momentum, John expected McAfee Associates' five person "order taking and check processing" operation to collect $10,000,000 in 1991.

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In April 1991, John discovered that his success had not gone unnoticed. Gordon E. Eubanks, President and CEO of Symantec, called John and stated that "it would be mutually beneficial to discuss possibilities." Symantec, a public company with a market capitalization of $460 million, was the largest supplier of packaged utility software. Since 1989, Symantec had unsuccessfully tried to dominate the anti-virus market. During their initial meeting, Gordon proposed to buy McAfee Associates for $23 million – $20 million in Symantec stock and $3 million in cash from the receivables and cash already in McAfee Associates' balance sheet. After an intense week of meetings, Gordon delivered an ultimatum to John. As John recalls, Gordon stated:

> If you don't let us acquire you soon, we will just target you. I will have my entire 300-person sales force focus exclusively on our anti-virus product and I will buy multiple page ads in every conceivable newspaper and magazine. Basically, I will pretend you are a squirrel and I will just roll over you.

Soon after Gordon's threat, John was independently approached by two blue-chip private equity groups, TA Associates and Summit Partners. Both firms initially reviewed McAfee's operations believing that "this was too good to be true." While both firms were intrigued by the business model, they had a lot of questions regarding McAfee's operations and John. After conducting initial due diligence, TA and Summit proposed to jointly purchase fifty percent of McAfee Associates for $10 million in cash. This preliminary proposal, however, was contingent on the satisfactory completion of an extensive due diligence process.

For the first time in McAfee Associates' history, John faced an extremely difficult and gut-wrenching decision: sell the company to Symantec, partner with TA Associates and Summit Partners, or continue operating the company as a sole proprietorship.

JOHN MCAFEE

During the 1970's and early 1980's, John McAfee worked as a software engineer with several large companies, including Booz•Allen & Hamilton, General Electric, UNIVAC, and Xerox. On a few occasions, John held management responsibilities. For example, in the early 1980's, John worked as a Director of Software and Hardware Engineering for Logical Business Systems, an IBM clone manufacturer. John's true passion, however, involved pursuing his different hobbies. As John explained:

> I am not much of a social creature and so I would rather spend most of my time alone tinkering with my computer related hobbies. I am in no way attracted to the administrative burdens and the politics of a large corporation.

In the early 1980's, John set up an electronic bulletin board system (BBS) in his home with four dedicated phone lines[1]. With this system, users anywhere in the world could anonymously connect to John's BBS, read and leave messages from/to any other BBS user, and electronically download available third party software programs, known

[1] An electronic bulletin board system (BBS) consists of a personal computer with several modems, software enabling the computer to automatically answer the calls and catalogue messages and files, and one or more dedicated phone lines.

as shareware. Most of the shareware was developed by computer enthusiasts on their spare time. John recalls:

> My bulletin board system was my connection to the world. It was a computer geek's equivalent of a hot rod. Slowly through word of mouth, my system became popular. A user, for example, would tell a hacker: "You should check-out this great bulletin board system. There is a lot of good software available to download." After two years, I had over 3,000 users of my BBS.

In 1983 John found an additional hobby – developing voice recognition products for personal computers. John developed a crude product prototype for handicapped computer users. John soon founded Interpath and began to pursue his hobby full-time. In order to keep the operations as simple as possible, John decided to outsource most functions: a company in Los Angeles manufactured the product; a development house was responsible for software engineering; and a logistics company was responsible for shipping the product with all the appropriate documentation. John only managed the suppliers and "took the checks to the bank."

By 1985, Interpath had sold more than 6,000 units and captured approximately sixty percent of its market. John, however, decided to gradually shut the Company down due to limited growth opportunities and increased competition from Interpath's supplier of computer chips, InterState Voice Products – after cloning Interpath's technology, InterState began to sell a comparable product at a lower price.

John joined Lockheed in 1985 as a consultant. He worked in a variety of classified programs for the Air Force and also helped Lockheed create a blueprint for their use of personal computers. With the advent of the HIV epidemic, John soon decided to start another hobby – "the Safe Sex Club." Members of this club sent in a blood sample and, upon proper analysis, received an HIV negative card that certified them as a safe partner. After four months of operations, however, John decided to close the club.

THE ANTI-VIRUS OPPORTUNITY

The personal computer (PC) revolution of the 1980's created an ideal environment for viruses to thrive. Before the introduction of PCs, the higher end computer market was dominated by IBM's mainframes and the lower-to-middle end of the market was dominated by microcomputers from IBM, DEC, Control Data and Wang.

Due to their high cost, only a few relatively large companies, government agencies, and other institutions had access to computing power; although the cost of hardware had fallen over time, customers still paid a high price to develop and maintain their hardware and customized software. A small population of widely scattered and customized systems was not conducive to the interchange/transmission of files – viruses could not thrive in a universe of remote and isolated environments.

In 1982 IBM introduced an open systems personal computer, the PC AT, and forever changed the dynamics of the computer industry[2]. IBM's low cost open system platform enabled other manufacturers to easily clone its design and offer lower prices, thus expanding the market (See Table 1). Furthermore, the exponential growth of this platform led software developers to introduce standard software packages. This massive and widespread adoption of PCs and standard packages created an ideal environment for the exchange of information and, as a result, a virus could now easily thrive.

Table 1: Single User PC/Workstation Systems Market (in thousands)

	United States		Worldwide	
Year	**Number of Systems Shipped**	**Cumulative Number in Use**	**Number of Systems Shipped**	**Cumulative Number in Use**
1985	5,670	22,270	10,655	38,462
1986	6,850	28,190	13,016	50,048
1987	8,320	35,120	17,484	64,993
1988	8,935,	43,270	19,680	81,289
1989	9,196	50,744	21,386	95,427
1990F	9,464	53,887	23,442	107,067
1991F	9,616	59,161	25,485	120,810
1992F	10,191	63,528	28,073	135,093
1993F	10,970	68,110	30,971	150,820
1994F	11,720	72,044	34,125	167,383
1995F	12,506	75,840	37,396	185,305

Source: International Data Corporation

The first known computer virus, the Pakistani Brain, was written in 1985 in Lahore, Pakistan, by two budding entrepreneurs in their mid-twenties who owned a PC distribution business. The second virus, aptly named the Jerusalem Virus, was developed in Jerusalem, Israel. For the first three years, viruses erupted spontaneously and their existence was always classified as a "rumor." Since a majority of PC users were oblivious to their existence, most affected users never recognized the presence of viruses and thus attributed any problems to the hardware. By late 1988, after widespread media coverage, users started becoming more familiar with viruses.

A new strain of more complex and dangerous viruses erupted in the early 1990's after the fall of the Iron Curtain. During the Cold War, Warsaw Pact countries specialized in the development of different technologies. Bulgaria, for example, was the

capital of software automation. With the collapse of the Russian Empire and the spread of PCs, a subset of these very educated and unemployed software engineers began writing different types of viruses – from humorous viruses that caused a computer screen to read "Your PC is Stoned," to stealthy polymorphic viruses that mutated and changed themselves and could easily destroy files.

[2] The open systems PC was based on an MS-DOS operating system and chip design by Intel.

SEIZING THE OPPORTUNITY

In early 1986, John sat at his kitchen table to read an article in the San Jose Mercury News regarding the rumored existence of a computer virus. The article stated that a PC user in Georgia had reported a strange event on his computer and a user in Philadelphia, who claimed to posses a copy of the virus, categorized this strange event as an appearance of the Pakistani Brain. John recalled his reactions to the article:

> I had not thought of it before. Nobody had thought of it before – the idea of a program able to replicate itself and take a life of its own. It took me only a few seconds to perceive how someone could develop such a program. I sat back in my chair and concluded: "You know, it doesn't matter whether or not this rumor is real. It will be real."

John felt viruses would eventually become a larger problem than anyone had anticipated. If his instinct proved correct, John could then transform his fascination with viruses into a significant business opportunity. John began to sketch an approach to counter a virus' basic replication techniques. When he was ready to develop an anti-virus program, he contacted Dennis Yelle, a brilliant programmer and frequent user of his BBS. Dennis was an asocial person who had never held a full-time job. John sent him an e-mail explaining the potential program. Dennis replied and agreed to write the program for $2,200 under one condition – that they communicate exclusively via e-mail; a personal meeting or phone conversation was out of the question.

After developing a product, VirusScan, for a market that did not yet exist, John developed a business model for his new venture. John wanted a model that allowed him to "seed" the marketplace without requiring him to "start a large company with sales, advertising, manufacturing, logistics, etc." He wanted a model where the product sold itself and he just collected checks. Posting VirusScan as shareware would allow John to seed the market as users electronically distributed copies to other BBSs throughout the world from which the program was further copied and distributed.

John realized that given the impracticality of enforcing shareware author rights against infringing home users, most home users would fail to pay the required license fees. John, however, recognized that if shareware was useful in a work environment, home users would bring the programs to their offices. Given the sensitivity of most businesses to copyright infringement, John believed that corporate, government and institutional entities would license the Company's products once they determined the products were being used, provided a significant benefit and were well supported and competitively priced. Although most home users would not pay a license fee, they were clearly an important link to the successful distribution of VirusScan.

John designed VirusScan to ensure both its widespread distribution as well as the payment of license fees by institutional users. McAfee encouraged the unhindered distribution of VirusScan. For example, in 1989 John discovered that an Asian company pirated VirusScan and sold it as packaged software. John recalled his response to this event:

> If this software pirate was actually selling VirusScan in a package, then that meant that they were filling an empty seat with my product and not a competitor's product. I thus sent them the most recent release of VirusScan for them to copy.

To encourage payments, anytime VirusScan found a virus, a screen appeared stating that the program could not be used in corporate, government, or other institutional environments without a negotiated site license. John priced VirusScan cheaply in order to motivate potential customers to pay. As he explained:

> My experience with corporations suggested that a corporate client would not try to avoid paying for a license. I wanted to make this decision so simple that even an idiot would not have to think about it. I knew that a first level engineering supervisor at a major corporation had a $2,000 budget, that a second level supervisor had a $15,000 budget, and so on. I thus set the price for VirusScan at $1.00 per seat per year and a term on each license of two years. By making this sale a no-brainer, I did not have to get involved in making the sale. Instead, I just collected the checks.

John explained how his shareware model worked:

> For example, I would get a call from an engineering supervisor who had conducted an audit of his system and found 30,000 copies of VirusScan. The supervisor stated that "we truly apologize but we had no idea of how this happened. We would like to make it right." Instead of saying "you owe me 5,000,000," I would say "oh, don't worry, it is no big deal. Just take them out and send me a notification stating that you have removed them, or alternatively pay me a $2 per seat fee for a two year license." I knew from experience that the audit and removal of a piece of software cost a minimum of $15 per computer and I was thus assured a sale.

By invisibly and effortlessly populating the entire market, John's shareware model also ensured the continued superiority of VirusScan. In addition to distributing or buying the product, most VirusScan users also supplied viruses to McAfee. That is, if they suffered from a virus and VirusScan failed to work, they instantly called McAfee Associates with a complaint. John simply asked for a copy of the virus. Upon examining the virus, McAfee incorporated any appropriate changes to VirusScan and immediately posted the new program on the BBS. Once VirusScan dominated the market, McAfee Associates had access to the most recent viruses.

BUILDING MCAFEE ASSOCIATES

The few human and capital needs required to pursue the anti-virus opportunity enabled John to quickly establish a presence in this nascent market. Outside of the initial $2,200 payment to Dennis for the development of VirusScan, John incurred little additional monetary expense; his distribution channel, his BBS, already existed. Initially, when not consumed with his consulting engagement at Lockheed, John spent his free time trying to identify new viruses.

Due to the initial scarcity of viruses and the market's ignorance of their potential impact, John saw little activity in his BBS during the first year of operations – the first download of VirusScan only occurred after three months. Each download, however, had a multiplicative effect and by mid-1988 most active BBS users knew of the existence VirusScan. As media coverage of the viruses increased, John founded a non-profit industry association, the Computer Virus Industry Association. John explained his intentions:

> The Computer Virus Industry Association was basically McAfee's marketing platform. It was an indirect marketing approach. The existence of this association prompted the media to frequently call. That is, after a virus breaks in Ireland, who does the media want to talk to? To the President of the Computer Virus Industry Association, and that person happens to be me. So suddenly you get taglines that read: "John McAfee, President of the Computer Virus Industry Association." Now, in the corporate world, every time somebody makes a decision regarding an anti-virus product, they would say "McAfee? Oh, yeah, that is the President of the Computer Virus Industry Association. Let's buy his product."

John also used the Computer Virus Industry Association to strengthen McAfee's relationships with Fortune 500 companies. After founding the Association, John sent a letter to each corporation stating that they all faced a problem of epic proportions and that he thought a serious industry approach was necessary. Over 300 corporations soon subscribed to the association and paid a nominal fee of $300 per year. John used these funds to finance a monthly bulletin and frequent press releases.

By the end of 1988, the growth of viruses and the increased public awareness caused the phones at John's 700 ft^2 bungalow in Santa Clara to "ring off the hook." By that time, John had focused on his hobby full-time. Furthermore, by April 1989, the unrelenting growth led John to hire Ari Goretsky, a seventeen-year-old "hacker." Ari described how he began working for John:

> I was a regular user of John's bulletin board system. I met him a few times when he threw pizza parties for his BBS users. Eventually, I just started hanging out with him and doing go-fer type tasks.

The continued growth led John to soon hire Martha Schramm. Martha explained:

> My husband was involved with John's BBS. I started using it. We met John a couple of times at pizza parties for members of his BBS. Then in October, 1989, there was some media hit about viruses that were going to take the country by storm and John said that the phones were ringing off the hook. John asked me if I was interested in answering phones and providing basic information. I was literally working from a script and saying: "No, it is not going to be a big deal. Not this virus. However, there is this other virus that will cause some problems but if you use …"

By April 1991, John's home was a zoo. Martha answered the phones and worked on top of the washing machine; John's wife did the books and wrote invoices on the kitchen table; Ari used a corner of the kitchen table; and John had a little corner office in the living room. A phone system did not exist. Finally, customers and reporters sporadically visited McAfee's "office." Despite these inconveniences, McAfee's team had an upbeat and service oriented attitude, and a "laid back shareware culture" permeated the organization.

John left on his bike one morning and, upon his return, announced that he had found an office. The 1,200-ft^2 office consisted of four tiny rooms, a little entry room, a hallway and a bathroom. Due to the growth in customer calls, John hired Ileah Crawford in April and Judy Smith in October. The team was soon squeezed in their new facilities.

During 1990, John decided to relieve some of the pressures facing McAfee Associates by allowing independent agents to distribute VirusScan. In return for a thirty percent commission, these agents distributed VirusScan through their own BBSs, provided technical support and collected and renewed license fees. As John explained:

> Just as in the case of the Asian pirate, I wanted to fill every available seat with VirusScan instead of a competitor's product. If these agents could help me fulfill this goal, more power to them. Furthermore, these agents provided on-site sales and technical support which allowed McAfee to compete with the on-site sales and support capabilities of the larger competitors.

John continued to subcontract the product development to Dennis Yelle. Most specifically, John and Ari identified viruses and only made slight modifications to VirusScan while Dennis handled most of the significant changes as well as the development of new products. At Dennis' wishes, all communication was handled via e-mail. John recalled a stage in this folkloric relationship:

> During the first five years, I met Dennis only once. I can still recall this instance. He had been programming for a year and the system clock on my bulletin board was off and it kept slowing down. This bothered Dennis since every time he used the BBS, the time stamp was incorrect. At his insistence, I unsuccessfully tried to fix the clock on several occasions. So he sent me an e-mail saying that he was going to come to fix it. He drives up, knocks on the door, and, as I open it, he continues to stare at the floor and just asks: "Where is the computer?" I point to it, he goes to the room, powers it down, replaces the clock chip, puts it all back together, tests it, and then leaves without a word.

Throughout this explosive growth period, McAfee Associates remained a sole proprietorship. With the exception of John, all employees were paid as contractors. Financially, John was not a generous employer. As he described:

> I paid less than half of what they could have received somewhere else. I am pretty legendary with respect to paying employees. In my current company, people also make less than half of what they could earn somewhere else. The reason they work for me is because I am one of them. You can work for somebody else but they are not one of you; you work for me, and you are working for one of you. Everyone that I have ever hired has never left.

Throughout its early history, McAfee never bothered to protect its intellectual property. As of 1991, McAfee had not registered a copyright or trademark. Furthermore, while the company began to send customers a printed license in 1990, it did not require the customers to sign the license.

Despite the intellectual property shortfalls, an ill-conceived product development approach and a haphazard management of the Company's growth (especially with regards to staffing and systems), McAfee enjoyed tremendous success. By early 1991, John believed that VirusScan had captured more than sixty percent of the anti-virus market. In addition, it had a stellar list of corporate clients – over half of the Fortune 100 companies were strong McAfee users. Finally, it enjoyed tremendous financial success (See Exhibit I for financial information).

THE COMPETITIVE ENVIRONMENT

During the early years, McAfee did not face any competition. Despite the absence of competition, John was subjected to intense criticism from the shareware community because, in sharp contrast to most shareware authors, John was making money. Shareware authors and users, for example, stated:

> "He has blurred the lines between an industry association and a company."
> "He and his teammates are creating the anti-virus market by authoring and distributing viruses."

At the end of 1988, McAfee Associates began to face competition from numerous shareware authors who started distributing software through their network of BBSs. Due to the relatively low barriers to entry in the shareware market, John expected the number of shareware authors competing with McAfee to increase as viruses became more popular. These entrants, however, could not compete with McAfee in the corporate, government and institutional environments since they lacked administrative, marketing and support capabilities.

McAfee faced more formidable opponents at the end of 1989 when traditional software vendors began recognizing the anti-virus opportunity. These vendors included Central Point Software, Fifth Generation Systems, IBM, Intel and Symantec. They all distributed their products in a tangible medium (floppy disk and CD-ROM) through traditional distribution channels.

Central Point Software, Fifth Generation Systems and Symantec, three companies several times the size of McAfee Associates, sold PC utility software that provided many benefits to the users – data recovery, security and protection, fast and reliable back-ups, and virus protection. Several industry experts forecasted the advent of matrix pricing which could adversely affect McAfee. Under such pricing practices, the seller would bundle several products into a suite of products. As long as the suite was sold at a certain price, the seller could then discount certain components of the suite – for example, anti-virus software.

John was especially worried about the threat from Symantec (See Exhibit II for a company profile). As he recalled:

> Late in 1989 we found that some companies were calling us and asking: "We are purchasing Symantec products, and we want to know if they are compatible with VirusScan." So my radar came on full alert at that point.

Since its initial public offering in June 1989, Symantec had pursued an aggressive internal development and acquisition strategy to develop a complete product line for its targeted customer base, Fortune 500 companies. To this end, in May 1990, Symantec acquired Peter Norton Computing. This acquisition enabled Symantec to offer Norton Utilities, the leading PC utility software, to its customers. Symantec distributed Norton through its 300-strong sales force, major distributors and resellers.

PRELUDE TO AN ENGAGEMENT?

On an early Monday in April, John was interrupted from his check endorsing routine by a call from Gordon Eubanks, CEO and President of Symantec. Gordon requested a personal meeting with John at Symantec. The following Wednesday, John recalled that Gordon opened the meeting by stating:

> Everywhere we go, we meet with you. I would like to tell you how much I admire what you have done . . .

Throughout the rest of the meeting, Gordon discussed the possibility of McAfee Associates and Symantec "joining forces." Gordon stressed that McAfee could benefit significantly from Symantec's superior sales and distribution operations as well as from possible bundling opportunities. John did not accept or reject Gordon's offer and they mutually agreed to continue their discussions.

During the following week, a parade of Symantec senior officers marched through McAfee's offices: Robert Dykes, Vice President of Finance and Operations on Tuesday; Gary Hendrix, Vice President of Advanced Technology, and John Laing, Vice President of Sales, on Wednesday; and Rodney Turner, Executive Vice President, Utilities, on Thursday. On Friday, Gordon invited John to Los Angeles to visit Peter Norton. John recalled his meeting with Peter:

> Norton was their major acquisition in life and they wanted to show me what life could be like after an acquisition. Peter was working on a massive office with fine furniture and art and with a great view. Gordon had clearly primed him for my visit. Peter discussed what a wonderful company Symantec was to work for, how much freedom they gave him, and how they liberated him from all the administrative nightmare that he had to deal with as a stand-alone company. He argued that this allowed him to focus on creative projects.

Upon his return, John met with Gordon at Symantec's offices. John remembered:

> I went up six floors, each full of desks, to meet with Gordon. Gordon pressured me for an answer. Since he was not receiving one, he proceeded with a threat that boiled down to "sell out or I will roll over you."

After the meeting, John could not help but wonder if Gordon was bluffing and if Symantec was capable of literally rolling over McAfee.

Once the intense week with Symantec was over, John had learned several things regarding Symantec's intentions. First, the price was clear: $20 million in Symantec stock and $3 million in cash from the receivables and cash already on McAfee Associates' balance sheet. Second, rumors existed that Symantec wanted to shut down McAfee and discontinue VirusScan. Third, John Laing had mentioned that if John decided to sell McAfee but did not want to personally join Symantec, they would consider allowing him to keep his BBS distribution system.

Two weeks after their last meeting, Gordon began to indirectly pressure John for a decision by beginning to publish ads for Norton Utilities (See Exhibit III for a copy of an advertisement). John countered with a first, a McAfee ad. This ad, however, attracted unexpected guests – TA Associates and Summit Partners.

John was first approached by Sonja Hoel, an Associate at TA Associates. Jeff Chambers, a General Partner at TA, recalls receiving the following message from Sonja:

> Jeff, you have to look at this business. Its forecasted revenue growth rate is in excess of ninety percent and its pre-tax margins run between eighty and ninety percent of sales. The problem is that John is seriously considering selling McAfee to Symantec.

Jeff immediately scheduled a meeting with John.

During their first meeting, John gave Jeff a brief tour of his "check processing" operation. While John had an answer for every question, Jeff noticed that McAfee Associates had few systems or reports that could be used to more objectively evaluate the company's internal operations and performance. Shortly thereafter, Walter Kortschak, a Vice-President at Summit Partners, also visited McAfee.

After initial meetings, TA and Summit agreed to work together on this opportunity. Both firms proposed to jointly buy half of McAfee Associates for $10 million in cash (See Exhibit IV for an outline of the terms). The deal would be structured to allow John and the two-investor groups to receive any excess cash that the operations generated. This proposal, however, was contingent on a successful due diligence process that included interviewing customers, hiring Coopers & Lybrand to construct financials, and conducting a thorough background check on John.

After several weeks of flirting with TA and Summit and working with them through the due diligence process, John had a complete idea of what these two partners could potentially provide. First, both companies had plenty of "dry powder"; combined, they controlled more than $1.5 billion. Second, they were very seasoned veterans. Historically, both companies had participated in numerous deals where they had provided liquidity for company founders, recapitalized companies, taken minority interests, conducted leveraged buy-outs, or consolidated multiple participants in an industry. In several instances, they helped take companies public. In addition, TA alone had more investments in the software industry than any other venture capital firm. Third, both companies could provide valuable management expertise. Lastly, John felt very comfortable interacting with both Jeff and Walter.

THE DECISION

John realized that the increasing competition would force McAfee Associates to drastically change in order to preserve its lead in the anti-virus marrket. As John recalled:

> We were five people, perfectly happy without any overhead or anything. Yet, as we continued to grow, we would simply need to be for real. I know that five funky people in an office in Santa Clara will not be able to compete with Symantec two years from now when we have to begin renewing our licenses. At that point, the virus problem would be real enough that the bigger decision-makers in corporations would have to get involved. They would say: "Jesus, this is an important thing for the company. I mean viruses are dangerous and they can bring us down. We need to make sure that we are with a company that will be around and that will support us."

John now faced three options to confront this challenging future. First, he could stay true to his desire for simplicity and decide to collect \$23 million from Symantec. He could even try to negotiate with Symantec to get perhaps \$26 million or keep his BBS distribution system. Alternatively, John could choose to partner with TA Associates and Summit Partners. If this was the case, John needed to very deliberately negotiate the terms of the partnership – both monetary and non-monetary. Lastly, he could choose to "batten down the hatches and proceed full steam ahead." That is, he could try to address McAfee's weaknesses to better position the company for the future and, in the meantime, continue to collect checks.

John needed to make a decision since he feared that the confrontation with Symantec would soon escalate.

Exhibit I

McAfee Associates Financials

Table I: McAfee Associates Income Statement ($)

	1991 (Period ending June 30, 1991)	1990
Net revenues	5,080,783	5,413,259
Operating costs and expenses		
Research and development	106,422	134,347
Sales and marketing	259,604	150,365
General and administrative	138,218	112,383
Total operating costs	*504,244*	*397,095*
Net income	**4,576,539**	**5,016,164**

Source: TA Associates

Table II: McAfee Associates Statement of Cash Flows ($)

	1991 (Period ending June 30, 1991)	1990
Net cash from operating activities	5,068,789	5,283,460
Net cash used in investing activities	(26,400)	(65,088)
Net cash provided by (used in) financing activities (Withdrawals by sole proprietor)	(4,445,289)	(4,658,639)
Increase (decrease) in cash equivalents	597,100	559,733
Beginning cash and cash equivalents	574,365	14,632
Ending cash and cash equivalents	1,171,465	574,365

Source: TA Associates

Table III: McAfee Associates Consolidated Balance Sheet ($)

	1991 (Period ending June 30, 1991)	1990
Assets:		
Current assets		
Cash and short term investments	1,171,465	574,365
Trade accounts receivables	1,244,998	977,927
Total current assets	2,416,463	1,552,292
Property and equipment (net of depreciation)	59,900	53,583
Other	1,970	1,970
Total Assets	2,478,333	1,607,845
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payables	8,464	0
Accrued compensation and benefits	29,757	0
Deferred revenues	1,117,794	662,084
Total current liabilities	1,156,015	662,084
Deferred revenues, less current portion	647,451	402,144
Total liabilities	1,803,466	1,064,228
Shareholders equity-Sole proprietorship capital (deficiency)	674,867	543,617
Total Liabilities and Shareholders' Equity	2,478,333	1,607,845

Source: TA Associates

Exhibit II

Symantec Corporation

By 1991 Symantec was the largest supplier of packaged utility software for stand-alone and networked personal computers. The company grouped its products into four areas:

- Utilities. Norton Utilities provided superior data recovery, security, and protection; fast and reliable backup; and comprehensive virus protection.
- Project Management. Symantec's Time Line products provided high-end users with project management software for the coordination of people and resources used to meet accelerated completion schedules and financial objectives.
- Data Management. Symantec's Q&A was a leading flat-file database with plain-language commands. Symantec also entered the promising word processing market by introducing JustWrite. Furthermore, its award winning GrandView and MORE communication products were widely regarded by its customers.
- Language Products. Symantec's THINK languages allowed developers to produce applications quickly and efficiently.

Symantec products were sold worldwide through retail and distributor channels, original equipment manufacturer (OEM) agreements and a direct sales force (for major corporations). To enhance the level of service provided by the sales force, Symantec sent systems engineers into the field to assist with both pre- and post-sale support. Furthermore, its salespeople and systems engineers communicated customer suggestions and requests to the development teams. See Table I for a list of Symantec's largest customers.

Table I: Symantec's Largest Customers

Customer	1991	1990	1989
Ingram Micro D	14%	25%	30%
Kenfil Distribution	<10%	20%	12%
Merisel	<10%	12%	12%
Egghead Discount Software	11%	<10%	<10%

Source: Annual Reports

See Tables II, III, IV and V for Symantec's financial information and Figure 1 for its stock price history.

Exhibit II (cont.)

Symantec Corporation

Table II: Symantec Income Statement (in thousands of dollars)

	1991	1990	1989
Net revenues	116,344	74,466	55,453
Cost of revenues	24,232	17,729	14,597
Gross margin	*92,112*	*56,737*	*40,856*
Operating expenses			
Research and development	16,868	9,230	6,682
Sales and marketing	47,841	28,998	18,973
General and administrative	7,842	8,168	9,364
Merger costs	6,500	0	0
Total operating costs	*79,051*	*46,396*	*35,019*
Operating income	*13,061*	*10,341*	*5,837*
Interest income	1,742	1,620	242
Interest expense	(458)	(886)	(198)
Income before income taxes	*14,345*	*11,075*	*5,881*
Provision for income taxes	4,934	2,090	995
Net income	**9,411**	**8,985**	**4,886**

Source: Annual Reports

Table III: Symantec Statement of Cash Flows (in thousands of dollars)

	1991	1990	1989
Net cash from operating activities	5,112	16,291	5,779
Net cash used in investing activities	(11,504)	(4,310)	(220)
Net cash provided by (used in) financing activities	740	7,800	(1,919)
Effect of exchange rate fluctuations	9	0	0
Increase (decrease) in cash equivalents	(5,643)	19,781	3,640
Beginning cash and cash equivalents	25,078	5,297	1,657
Ending cash and cash equivalents	19,435	25,078	5,297

Source: Annual Reports

Exhibit II (cont.)

Symantec Corporation

Table IV: Symantec Consolidated Balance Sheet (in thousands of dollars)

	1991	1990
Assets:		
Current assets		
Cash and short term investments	24,872	25,078
Trade accounts receivables	18,568	8,815
Inventories	3,920	1,477
Deferred income taxes	2,000	1,350
Other	3,146	1,448
Total current assets	52,506	38,168
Equipment and leasehold improvements	8,644	5,859
Purchased intangibles	3,528	2,289
Other	771	1,070
Total Assets	65,449	47,386
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payables	10,490	4,602
Accrued compensation and benefits	2,806	2,243
Accrued other expenses	8,001	5,339
Income tax payables	539	1,464
Current portion of long term obligations	976	1,727
Total current liabilities	22,812	15,375
Long term obligations	1,622	7,437
Shareholders equity	41,015	24,574
Total Liabilities and Shareholders' Equity	65,449	47,386

Source: Annual Reports

Table V: Symantec Common Share Earnings ($)

Quarter	1991 - 92	1990 - 91	1989 – 90	1988 - 89
June	0.32	0.18	0.23	(deficit) 0.16
September		(deficit) 0.10	0.25	0.12
December		0.39	0.27	0.15
March		0.44	0.30	(deficit) 0.19

Source: Standard & Poor's Corp.

Exhibit 11 (cont.)

Symantec Corporation

Figure 1: Symantec (NASDAQ - SYNIC) Stock Price History

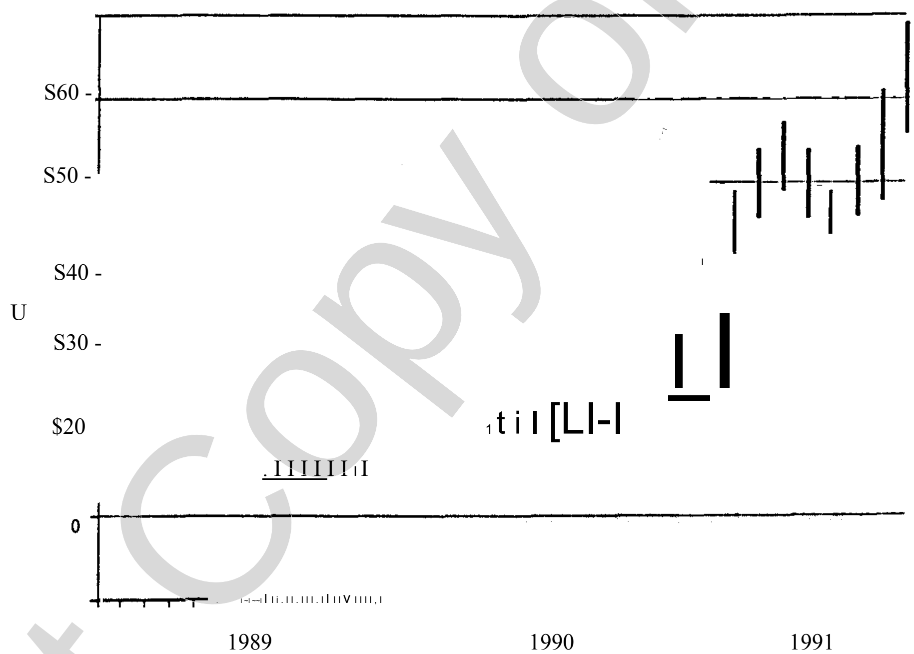

Exhibit III

Symantec Advertising

Peter Norton NOW CURES VIRUSES

Warning. Peter Norton has deter. mined that PC viruses can be hazardous to your data. So to combat the threat, he's developed

The Norton Anti-Virus

the on!y comprehensive virus protection, detection and elirnination software for DOS.

The Norton AntiVirus stops viruses dead in their tracks before they infect your system.. It also exterminates viruses already living on your hard disk or floppies. And it operates invisibly in the backqround, alerting you only when a virus is detected.

For protection against new viral strains, just call the 24-hour Virus Newsline. It's a free service that pro vides new virus information and easy instructions to keep your virus protection up to date, without the need to upgrade your software.

The,Norton AntiVirus is 100% compatible with PC netvorks like Novell and 3Com. MIS managers can configure and password protect the Norton AntiVirus to meet their corporate needs.

And of course, it's Windows compatible.

All this protection is yours for only $129 with a 60-day money back guarantee.

Take it from Peter Norton. If your PC is unprotected, do the right thing. Pick up a copy of the Norton AntiVirus. Call for more information

1-800-343-4714 Ext 711-IS

Exhibit IV

Outline of Terms for McAfee Associates

Bost-, a Vit(A),11-911 a Palo Alit)

TA Associates

TAA.Nsoci~ttes. Inc.
435 Two Street. Suite 2100
Palo Allo, Califortlia 94.30 1
Telephone: 413 T-N-1210
Te I cc-1tx: - I 1 .5 32 t 4 93'.
1

May 9, 1991

Mr. John McAfee
President
McAfee Associates
1900 Wyatt Drive, Suite 8
Santa C1ara, CA 95054

RE: Investment by TA Associates and Summit Partners in McAfee Associates (the "Company)

Dear John:

We at TA Associates and Summit Partners (the "Investor Group") have enjoyed our meetings and discussions with you. TA and Summit are excited about this business opportunity and want to work with you to build a very successful company.

We have now agreed on the general terms and conditions upon which we will purchase a Debenture from McAfee Associates, a limited partnership, to be formed under either California or Delaware law. Those terms and conditions are attached hereto as Schedule 1 (Outline of Terms for McAfee Associates). The purchase of the Debenture will be made pursuant to a Debenture Purchase Agreement drafted by counsel to the Investor Group. This term sheet does not constitute a contractual commitment of the Company or the Investor Group.

It is understood and agreed that the obligations of the Investor Group are subject to satisfactory completion of our normal due diligence review of the Company and negotiation, execution and delivery of definitive legal documents reflecting the terms in Schedule 1. In consideration of such commitment by the Investor Group, you nor the Company will, prior to sixty (60) days after the execution of this letter, solicit, entertain or accept any proposal from any third party (other than the Investor Group) concerning a possible investment, initial public offering, merger, acquisition, or other business accommodation.

Please indicate your agreement to the contents of this letter by *signing* the copy *which is* enclosed and returning such copy to the undersigned.

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

Mr. John McAfee
McAfee Associates
Page 2
May 9, 199 1

We look forward to working with you towards the successful completion of this financing.

Sincerely,

TA ASSOCIATES

Jeffrey T. Chambers

By: Jeffrey T. Chambers
General Partner

SUMMIT PA*RTNERS. L.P.*
By: Stamps, Woodsum & Co.

By: Walter G. Kortschak
Vice President

Accepted and agreed this day of May, 1991.

McAFEE ASSOCIATES

By: John ,McAfee
President

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

OUILWE *OF TEILNIS FOR* MCAFEE ASSOCIATES

A. Formation, McAfee Associates, a California limited partnership (the "Partnership") will be formed as follows":

1. The existing California corporation, McAfee Associates, *will* be the sole general partner (the "General Partner") and will elect "S" Corporation status for tax purposes. The General Partner will covenant to maintain a net worth of at least $1,00,000, exclusive of the value of its *partnership interest* but including non-recourse loans to its shareholder, at all times prior to a reorganization of the Partnership into a corporation. At the time of such reorganization, the General Partner shall be entitled to distribute all of its assets to its shareholder.

2. Mr. McAfee will be the sole shareholder of the General Partner.

3. Mr. McAfee and/or his affiliates will be the Class A limited partner(s) of the Partnership (the "Limited Partner(s)"). -

4. 7he Partnership will have two classes of limited partnership interests. Class A units will be issued to Mr. McAfee and/or his affiliates and Class B units will be issuable upon the exercise of employee options.

5. Mr. McAfee will contribute the technology and tangible persona! property & his sole proprietorship to the Partnership in exchange for his partnership units. Mr. McAfee will sell all rights to the tradename and trademarks owned by his sole proprietor-ship and the associated goodwill to the Partnership in exchange for a $9,000,000 demand note.

B. Partnership Units. The General Partner and the Limited Partner(s) will be issued 1,000,000 partnership units which will represent 100% of the outstanding partnership units, subject to dilution resulting from issuances to employees as described below and the issuance of Class A partnership units to Investors upon the contribution of their debentures as provided below.

C. Repayment of Note. Immediately following the sale of the debentures as described below, the Partnership will repay the $9,000,000 owing to Mr. *McAfee* under the demand note referred to in Section A above and the Partnership will distribute $1,000,000 to the General Partner (subject to minimum cash requirements). The General Partner may in turn distribute such funds to its

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

shareholder, subject to the minimum net worth requirements set forth in Section A above.

D. Reorganization Into A Corporation. In the event that the Partnership is reorganized into a corporation ("Newco") in accordance with Section 351 of the Intemal Revenue Code, such reorganization shall be effected by the exchange of [outstanding partnership interests for common stock of Newco].

II. Securities To Be Issued To Investors

A. Issuance. The Partnership will sell and issue to affiliates of TA Associates and Summit Partners (the "Investors") $10,000,000 of unsecured debentures (the "Debentures").

B. Terms of the Debentures

1. Interest

a. The Debentures will have a fixed interest rate of 10% per annum payable quarterly.

b. The Debentures will have a contingent interest component equal to 22.5% of the Partnership's collected revenue derived through the activities of its agents and 35% of all other collected revenue of the Partnership during each quarter, payable one quarter in arrears.

2- **Term.** Maturity of five years, interest only payments until maturity.

3. **Optional Exchange** The Debentures may be contributed to the Partnership at any time at the option of the holder in exchange for 1,000,000 Class A partnership units, subject to adjustment in the event of dilutive issuances as described in Section 6 below.

4. **Events of Default** The following events would entitle the Investors to accelerate the maturity of the Debentures:

a. The failure to pay interest or principal when due

b. The Wing of a petition for bankruptcy, an assignment by the Partnership for the benefit of creditors or the institution of involuntary proceedings for bankruptcy against the Partnership which is not dismissed within sixty days.

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

c. The material breach of any covenant or agreement contained in the Debenture or any other agreement between the Partnership and the Investors.

d. A default under any other debt instrument of the Partnership.

c. The sale or other transfer of at least 5015'o of *the* outstanding partnership units either directly or through a sale or transfer of interests in the General Partner.

The definitive documents shall provide for mutually acceptable cure periods for the foregoing events of default.

6. Antidilution Protection. The Debentures will provide for art adjustment in the number of Class A partnership units to be received upon the exchange of Debentures for Class A partnership units in the event that any partnership units are issued for a price of less than SIO per share after the issuance of the Debentures other than the Class B partnership units issuable upon the exercise of options to be issued to employees to purchase up 220,000 partnership units. The adjustment will be based upon a standard weighted average anti-dilution formula.

7. Redemption of Debentures. In the event that Mr. McAfee ceases to devote a majority of his normal working time to the Partnership, as determined by *the* holders of a majority in interest of the Debentures, the Partnership shall be required to redeem all outstanding Debentures at their fact amount plus accrued and un paid interest; provided, however, that the definitive documents shall provide that in certain situations the obligation of the *Partnership to* redeem the Debentures shall be limited to a percentage of its cash flow. If the Partnership is unable to redeem the Debentures in a single installment, the Debentures shall be redeemed on a pro-rata basis among Investors.

C. Purchase Agreement. The Debentures will be issued pursuant to a Debenture Purchase Agreement (the "Agreement") that will contain among other things:

1. Representations and Warranties. The Agreement will contain standard representations and warranties from the Partnership and Mr. McAfee.

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

2. Covenants of Partnership. The Agreement will contain certain standard covenants including the following:

a. Certain financial covenants related to the Partnership's balance sheet and operating statement to be agreed upon between Mr. McAfee and the Investors.

b. A covenant providing that the Partnership will not merge or consolidate with any other entity or sell all or substantially all of its assets without the consent of a majority in interest of the holders of the Debenture.

c. A covenant providing that the Partnership will not be reorganized into *a* corporation without the consent of a majority in interest of the holders of the Debentures.

d. A covenant regarding the compensation of officers.

e. A covenant entitling two representatives of the Investors to attend all meetings of the Partnership, and all Board of Directors meetings of the General Partner.

f. A covenant to provide the Investors with the following financial information for the Partnership: (i) annual audited financial statements within 90 days after the end of the fiscal year, (ii) *unaudited monthly* statements within 30 days after the end of each *month, and (iii) an* annual operating budget at least 30 days prior to the commencement of each fiscal year and modifications thereto promptly after such modifications are approved.

9. A covenant requiring the consent of a majority in interest of the holders of the Debentures to effect a public offering of partnership units.

h. A covenant providing that the Partnership will not incur any indebtedness for borrowed money without the consent of the holders of a majority in interest of the Debentures.

i. A covenant providing that the partnership agreement will not be amended without the consent of the holders of a majority in interest of the Debentures.

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

j. A covenant providing that after the issuance of the Debentures the Partnership will not issue any partnership units other than the 220,000 Class B partnership units issuable to employees upon the exercise of options without the consent of the *holders of a majority* in interest of the Debentures.

3. Closing Conditions. The Agreement will contain customary closing conditions.

4. Right of First Refusal on Newco Issuances. T'he Investors will be granted a right of first refusal for issuances of stock of Ncwco after the reorganization (other than upon the exercise of outstanding employee options) which would allow the Investors to maintain their percentage ownership of Newco, assuming conversion of all convertible securities. T'he right *of* first refusal would terminate on an initial public offering or sale of Newco.

III. Other Rights of the Investors

A. Rcgistration Rights.

1. Registrable Securities. "Registrable Securities" shall include the shares of common stock of Newco issued or issuable to the Investors upon the conversion of the preferred stock issued or issuable to then following the reorganization of the Partnership into a corporation. Registrable Securities shall also include the shares of Newco issued or issuable to Mr. McAfee and his affiliates except that (a) the shares issued or issuable to Mr. McAfee and his affiliates shall not be deemed to be Registrable Securities for purposes of determining the percentage of Registrable Securities necessary to initiate a demand or S-3 registration. and (b) the rights of Mr. McAfee and his affiliates shall be subordinate to the rights of the Investor3 until such time as the Investors as a group have sold shares in a reptered offering or offerings which resulted in their receipt of gross proceeds equal to $10,000,000.

2. Dcmand Rights. If after the earlier of (a) 180 days after the initial public offering of Newco and (b) August 31, 1992, holders of a majority of the Registerable Securities request that the Partnership or Ncwco (collectively, the "Registrant") file a registration statement covering the public sale of Registerable Securities with an aggregate offering price of at least $7,500,000, then the. Registrant will use its best efforts to cause the Registerable Securities to be registered under the Securities Act of 1933, A s amended (the "Act"). If, at the time of the demand, the Partnership

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

has not been reorganized into Newco, the Partnenhip will effcct such reorganization prior to the closing of sale of the securities pursuant to the registration. The Registrant shall not be obligated to effect more than two registrations under this provision and shall not br- obligated to effect a registration within 180 days of the closing of any other registration under the Act.

3. Piggyback Rights. The holders of Registrable Securities shall be entitled to "piggyback" rights with respect to all registrations of the Registrant (other than registrations related to employee benefit plans and corporate reorganizations), subject to standard underwriter cutbacks; provided, however, that for any registration after the initial public offering, the number of shares to be registered by the holders of Registerable Securities may not be reduced below 30% of the total shares to be offered.

4. S-3 Rights S-3 rights for any offering with aggregate proceeds of at least $1,000,000; provided, however, that the Registrant shall not be required to effect more than one registration under this provision within any 1-2 month period.

5. Expenses The Registrant shall bear all registration expenses (exclusive of underwriting discounts and commissions) including the fees of one counsel for the selling holders for all demand, piggyback and S-3 registrations.

6. Lock-up Provisions. No holder of Registerable Securities will sell any securities of the Registrant within the period requested by the Registrant's underwriter (not to exceed 120 days) after the effective dateof the Registrant's initial public offering; provided that all officers, directors and holders of more than a one percent interest in the Registrant agree to simi1ar restrictions.

B. Right of First Refusal.

1. The Right. The Investors shall have a right of first refusal to Purchase any partnership interests or shares of Newco which Mr. McAfee or his affiliates (including the General Partner) propose to transfer. The right of first refusal will terminate on an initial public offering or a sale of Newco.

2. Exempt Transfers. This right shall not apply to transfers to family members or trusts for the benefit of Mr. McAfee or his family members

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

as long as (a) such transfers in the aggregate do not represent more than 20% of Mr. McAfee original interests in the partnership units or shares of Newco and (b) the transforees agree to be bound by the right of first refusal.

3. Assignment. The rights of the Investors may be assigned to affiliated entities.

C. CoSale Rights.

1. The Right. The Investors shall have a right to participate pro rata, based upon their beneficial interest in the Partnership or Newco (assuming the exchange of the Debentures for units or shares) on a fully diluted basis, in any sale of securities of the Partnership or Newco by Mr. McAfee or his affiliate (including the General Partner). The co-sale rights shall terminate on an initial public offering or a sale of Newco.

2. Alternative Securities If the Investors do not hold securities of the type being offered by Mr. McAfee and his affiliates they shall have a right to sell such portion of their Debentures as is exchangeable for the number of shares or units which they would have otherwise been entitled to sell.

D. Expenses. The Partnership will pay for all reasonable fees and expenses incurred by the Investors with respect to the purchase of the Debentures if the purchase is consummated, including the ftes and expen5CS of Goodwin, Proctor and Hoar, counsel for the Investors. The Partnership will be responsible for all of the fees and expenses of its counsel and of Coopers & Lybrand.

IV. Liquidity Events

A. Initial Public Offering or Merger. The Partnership will give the Investors at least 30 days written notice prior to its reorganization into Newco which states, that the reorganization is in preparation for a proposed public offering or merger transaction. Prior to the reorganization into Newco the Investors may elect to either (a) contribute their Debentures in exchange for Class A partnership units of the Partnership or (b) to contribute their Debentures in exchange for a number of shares of preferred stock of Newco (the "Newco Preferred") equal to the number of partnership units which they were entitled to receive upon their contribution of the Debentures in exchange for partnership units. Upon the consummation of the reorganization, all amounts due and owing under the Debenture will be accelerated and will become due and

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

payable and the Debentures will cease to be convertible. The Newco Preferred will have the following rights, preferences and privileges:

1. Liquidation. Non-participating liquidation preference equal to $10 per share (assuming 1,000,000 shares).

2. Dividends. Cumulative 8% dividend payable annually.

3. Redemption. Redeemable at the option of either Ncwco or the holders of a majority of the outstanding Newco Preferred on the fifth anniversary of the issuance of the Debentures.

4. Conversion. Convertible at the option of the holder into one share of Newco common stock per share of Newco Preferred. Weighted average anti-dilution protection for issuances below $10 per share, other than pursuant to the exercise of employee options for 220,000 shares issued in exchange for options to purchase a like number of partnership units. Automatic conversion upon the closing of an initial public offering resulting in gross proceeds of at least S10,000,000 at a price per share of at least $30.

B. Sale of Assets.

1. Sale of Assets of Newco. Newco shall give the Investors at least 30 days prior written notice of a proposed sale of all or substantially all of the Newco assets. A sale of assets will be treated as a liquidation under Newco's charter documents.

2. *Sale of Assets of Partnership.* The Partnership shall give the Investors at least 30 days prior written notice of a proposed sale of all or substantially all of the assets of the Partnership. Upon the closing of' such sale, the Investors shall have the option to either (i) accelerate all amounts owing under the Debentures or (ii) "put" the Debentures to the Partnership at a price equal to the fair market value of the partnership interests they would receive upon thcir contribution of the Debentures in exchange for units. A merger of the Partnership with another entity shall be deemed to be a sale of Partnership assets for purposes of this provision.

C. Forced Reorganization. At any time after the fourth annivcrsary of the issuance of the Dcbcntures, the hcldcr3 of a majority in interest of the outstanding Debentures may cause the Partnership to reorganize into Ncwco. As a part of such forced rcorg&nization, the holdcrs of the Debentures *will*

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

receive in exchange for the contribution of their Debentures a number of shares of Newco common stock equal to the number of partnership units receivable upon the contribution of their Debentures to the -Partnership. The Investors will have a contractual right to "put" the shares of common stock that they reocive. upon the forced reorganizatfon to Newco for a period of twelve months after the issuance of the shares for a price per share equal to the greater of $10 per share or the fair market value of the Newco cona-mon stock.

V. Employee Equity

A. Employec Reserve. Up to 220,WO Cass B partnership units will be reserved for issuance to employees of the Partnership. The Class B units will be subordinate with respect to rights to distri"butions to the Class A units.

B. Terms of Options.

1. Form. The employees shall receive non-qualificd options with an exercise price equal to the fair market value of the Class B units.

2. Vesting. The employee options will bee 2517c vcsted upon grant and continue to vest in equal monthly installments thereafter over a three year period.

3. Exercise. The options will generally become exercisable upon the earlier of (i) a merger, consolidation or sale of all or substantially all of the assets of the Partnership, (ii) the formation of Newco, or (iii) the fifth anniversary of the grant. However, certain employees will be entitled to exercise their vested options at the inception of the partnership.

4. Termination. Unvested options -terminate immediately upon termination of employment. Vested options terminate ninety days after the later of (i) termination of employment or (ii) the date on which the option first becomes exercisable.

VI. MISCELLANEOUS

A. Confidentiality Agreements. Mr. McAfee and all ernployces of the Partnership will enter into confidentiality and proprietary rights assignment agreements with the Partnersh.ip in a form acccptable to the Investors.

B. Non-Compete. Mr. McAfee will enter into a covenant not to compete with the business of the Partnership which w-Ul terminate at the earlier of two years after the termination of his employment with the Partnership or Newco or four years from the date of the issuance of the Dcbenturcs.

Exhibit IV

Outline of Terms for McAfee Associates (cont.)

B. Non-Cornpete. Mr. McAfee will enter into a covenant not to compete with the business of the Partnership ~~for a period of three~~ which will terminate at the earlier of two years after the termination of his employment with the Partnership or Newco or four years from the date of the issuance of the Debentures.