

NETWORKS ASSOCIATES INC/

Form 11-K

June 28, 2004

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FORM 11-K

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

ANNUAL REPORT

PURSUANT TO SECTION 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

(X) Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2003

Commission file number 000-26994

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:  
NETWORK ASSOCIATES, INC.  
TAX DEFERRED SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:  
NETWORKS ASSOCIATES, INC.  
3965 FREEDOM CIRCLE  
SANTA CLARA, CA 95054

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SIGNATURE

Consent of Independent Accountants

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**SIGNATURE**

*The Plan.* Pursuant to the requirements of the Securities Exchange Act of 1934, the administrator has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

NETWORK ASSOCIATES, INC. TAX DEFERRED  
SAVINGS PLAN

Date: June 25, 2004

By /s/ Stephen C. Richards

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Stephen C. Richards  
Chief Operating Officer &  
Chief Financial Officer

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*Network Associates, Inc.*  
*Tax Deferred Savings Plan*  
*Financial Statements*  
*December 31, 2003 and 2002*

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**NETWORK ASSOCIATES, INC.  
TAX DEFERRED SAVINGS PLAN**

**Financial Statements and Supplemental Schedule  
December 31, 2003 and 2002**

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**INDEPENDENT ACCOUNTANTS REPORT**

**To the Participants and  
Plan Administrator of the  
Network Associates, Inc.  
Tax Deferred Savings Plan**

We have audited the financial statements of the Network Associates, Inc. Tax Deferred Savings Plan (the Plan) as of December 31, 2003 and 2002, and for the years then ended, as listed in the accompanying table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2003 and 2002, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule, as listed in the accompanying table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

By /s/ Mohler, Nixon &  
Williams

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MOHLER, NIXON &  
WILLIAMS  
Accountancy Corporation

Campbell, California  
May 5, 2004

**Table of Contents****NETWORK ASSOCIATES, INC.  
TAX DEFERRED SAVINGS PLAN****STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<hr/>	<hr/>
Investments, at fair value	\$90,706,864	\$68,338,943
Participant loans	1,584,516	1,282,532
	<hr/>	<hr/>
Assets held for investment purposes	92,291,380	69,621,475
Participants' contributions receivable	286,867	269,160
Employer's contribution receivable	276,477	81,521
Other receivable	76,741	571
	<hr/>	<hr/>
Total assets	92,931,465	69,972,727
Other liabilities		(15,143)
	<hr/>	<hr/>
Net assets available for benefits	<b>\$92,931,465</b>	<b>\$69,957,584</b>
	<hr/>	<hr/>

See notes to financial statements.



**Table of Contents****NETWORK ASSOCIATES, INC.  
TAX DEFERRED SAVINGS PLAN****STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

	<b>Years Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<hr/>	<hr/>
Additions to net assets attributed to:		
Investment income:		
Dividends and interest	\$ 1,154,354	\$ 976,706
Net realized and unrealized appreciation (depreciation) in fair value of investments	14,031,404	(14,871,910)
	<hr/>	<hr/>
	15,185,758	(13,895,204)
	<hr/>	<hr/>
Contributions:		
Participants	13,176,838	13,780,587
Employer s	4,516,083	3,774,489
	<hr/>	<hr/>
	17,692,921	17,555,076
	<hr/>	<hr/>
Total additions	32,878,679	3,659,872
	<hr/>	<hr/>
Deductions from net assets attributed to:		
Withdrawals and distributions	9,858,632	8,575,505
Administrative expenses	46,166	169,670
	<hr/>	<hr/>
Total deductions	9,904,798	8,745,175
	<hr/>	<hr/>
Net increase (decrease) in net assets	22,973,881	(5,085,303)
Net assets available for benefits:		
Beginning of year	69,957,584	75,042,887
	<hr/>	<hr/>
End of year	\$92,931,465	\$ 69,957,584
	<hr/>	<hr/>

See notes to financial statements.

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**NETWORK ASSOCIATES, INC.  
TAX DEFERRED SAVINGS PLAN**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2003 AND 2002**

**NOTE 1 - THE PLAN AND ITS SIGNIFICANT ACCOUNTING POLICIES**

**General** - The following description of the Network Associates, Inc. Tax Deferred Savings Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions. If a conflict exists between this document and the provisions of the Plan document, the Plan document will govern.

The Plan is a defined contribution plan that was established effective as of September 15, 1988 by Network General Corporation, a predecessor to Networks Associates, Inc. (the Company) to provide benefits to eligible employees, as defined in the Plan document.

Effective January 1, 2002, the Plan was amended to comply with recent changes to the relevant provisions of the Internal Revenue Code.

The Plan administrator believes that the Plan is intended to be and is currently designed and operated in material compliance with the applicable requirements of the Internal Revenue Code, as amended and the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

**Administration** - The Company has appointed an Administrative Committee (the Committee) to manage the operation and administration of the Plan. The Company and the Committee have contracted with Fidelity Management Trust Company (Fidelity) to act as the trustee and an affiliate of Fidelity to provide certain administrative and recordkeeping services for the Plan. Generally, expenses incurred for administering the Plan are paid by the Company.

**Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Basis of accounting** - The financial statements of the Plan are prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

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***Forfeited accounts*** - Forfeited nonvested accounts at December 31, 2003 and 2002 totaled \$32,610 and \$215,100, respectively, and will be used to pay Plan expenses and to reduce future employer contributions. Forfeitures utilized to pay Plan expenses and to reduce the employer's contribution for the years ended December 31, 2003 and 2002 amounted to approximately \$254,900 and \$447,800, respectively.

***Investments*** - Investments of the Plan are held by Fidelity and invested based upon instructions received from participants. The Plan is intended to qualify as a Section 404(c) Plan under ERISA. The Network Associates Unitized Stock Fund (NAI Stock Fund) consists primarily of Company common stock, as well as a small percentage of cash or other short-term liquid investments maintained to provide liquidity for participant transactions such as loans or withdrawals.

The Plan's investments in mutual funds are valued at fair value as of the last day of the Plan year, as measured by quoted market prices. The Plan's investment in the NAI Stock Fund is valued as of December 31, 2003 at the closing stock price of the Company stock plus the market value of the liquid investments included in the NAI Stock Fund. Participant loans are valued at cost, which approximates fair value.

***Cash and cash equivalents*** - All highly liquid investments purchased with an original maturity of three months or less (generally money market funds) are considered to be cash equivalents. These investments are usually held for a short period of time, pending long-term investment.

***Income taxes*** - The Plan has been amended since receiving its latest favorable determination letter dated September 10, 2001. The Company believes that the Plan is operated in substantial accordance with, and qualifies under, the applicable requirements of the Internal Revenue Code and related state statutes, and that the trust, which forms a part of the Plan, is exempt from federal income and state franchise taxes.

***Risks and uncertainties*** - The Plan provides for various investment options in any combination of investment securities offered by the Plan, including a unitized Company common stock fund. Investment securities are exposed to various risks, such as interest rate, market fluctuations and credit risks. Due to the risk associated with certain investment securities, it is at least reasonably possible that changes in market values, interest rates or other factors in the near term would materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits and the statements of changes in net assets available for benefits.

**NOTE 2 - RELATED PARTY TRANSACTIONS**

Certain Plan investments are managed by Fidelity, the trustee of the Plan. Any purchases and sales of these funds are performed in the open market at fair value. Such transactions, while considered party-in-interest transactions under ERISA regulations, are permitted under the Plan and are specifically exempt from the prohibition of party-in-interest transactions under ERISA.

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**NOTE 3 - PARTICIPATION AND BENEFITS**

***Participant contributions*** - Participants may elect to have the Company contribute their eligible pre-tax compensation to the Plan up to the amount allowable under the Plan document and current income tax regulations. Participants who elect to have the Company contribute a portion of their eligible compensation to the Plan agree to accept an equivalent reduction in taxable compensation. Participants also may contribute from 1% to 11% of eligible compensation to the Plan on an after-tax basis. Prior to September 2003, participants were allowed to contribute 12% to the Plan on an after-tax basis. Contributions withheld are invested in accordance with the participant's direction.

Participants are also allowed to make rollover contributions of amounts received from other employer-sponsored retirement plans. Such contributions are deposited in the appropriate investment funds in accordance with the participant's direction and the Plan's provisions.

***Employer contributions*** - The Company is allowed to make matching contributions as defined in the Plan and as approved by the Board of Directors. In 2003 and 2002, the Company matched on a per payroll period basis, the first 2% of each eligible participant's tax deferred contributions \$1.00 for \$1.00 and remaining tax deferred contributions were matched \$.50 for each \$1.00 up to a maximum of 4% of the participant's eligible compensation (the **Base Match**). In 2003 and 2002, the Company also made an **Additional True-Up Match** on a semi-annual basis under the same formula for eligible participants who completed a year of service, made tax-deferred contributions during the applicable period and, in most cases, were employed by the Company as of the last day of that semi-annual period. The combined total of the **Base Match** and **Additional True-Up Match** was capped at \$4,000. The Plan also allows for a discretionary profit sharing contribution. No discretionary profit sharing contribution has been made for the years ended December 31, 2003 and 2002.

***Vesting*** - All contributions made by the Company to eligible employees of the Company are 100% vested.

***Participant accounts*** - Each participant's account is credited with the participant's contribution, Plan earnings (gains or losses) and an allocation of the Company's contribution, if any. Allocation of the Company's matching contribution is based on participant contributions, as defined in the Plan. Allocation of any profit sharing contribution is based on participant eligible compensation, as defined in the Plan.

***Payment of benefits*** - Upon termination of employment, the participants or beneficiaries will generally receive their total benefits in a lump sum amount equal to the value of the participant's interest in his or her account. The Plan allows for the automatic lump sum distribution of participant account balances that do not exceed \$5,000.

***Loans to participants*** - The Plan allows participants to borrow not less than \$1,000 and generally up to the lesser of \$50,000 or 50% of their account balance. The loans are secured by the participant's balance. Such loans bear a reasonable rate of interest. Loans must be repaid to the Plan within a five-year period, unless the loan is used for the purchase of a principal residence in which case the maximum repayment period is 15 years. The specific terms and conditions of such loans are established by the Committee. Outstanding loans at December 31, 2003 carry interest rates ranging from 6% to 9.5%.

**Table of Contents****NOTE 4 - INVESTMENTS**

The following table presents the fair values of investments and investment funds that include 5% or more of the Plan's net assets at December 31:

	<b>2003</b>	<b>2002</b>
	<hr/>	<hr/>
Fidelity Management Trust Company:		
Magellan Fund	\$12,669,866	\$ 9,612,355
Intermediate Bond Fund	5,553,325	4,751,072
Blue Chip Fund	13,350,743	10,337,308
Low Price Stock Fund	7,559,083	4,492,276
Equity Income II Fund	6,659,862	4,459,113
Retired Government Money Market Fund	12,845,675	12,657,426
Spartan U.S. Equity Index Fund	6,929,745	5,132,683
NAI Stock Fund	4,974,760	6,734,133
Other funds individually less than 5% of net assets	21,748,321	11,445,109
	<hr/>	<hr/>
Assets held for investment purposes	\$92,291,380	\$69,621,475
	<hr/>	<hr/>

The Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows for the years ended December 31:

	<b>2003</b>	<b>2002</b>
	<hr/>	<hr/>
NAI Stock fund	(\$ 397,953)	(\$ 3,282,886)
Mutual funds	14,429,357	(11,589,024)
	<hr/>	<hr/>
	\$14,031,404	(\$ 14,871,910)
	<hr/>	<hr/>

As allowed under the Plan, participants may elect to invest a portion of their accounts in the NAI Stock Fund.. Aggregate investment in Company common stock included in the NAI Stock Fund at December 31 was as follows:

<b>Date</b>	<b>Number of shares</b>	<b>Fair value</b>
<hr/>	<hr/>	<hr/>
2003	330,769	\$4,729,321
2002	389,579	\$6,268,329

The NAI Stock Fund invests primarily in the Company's common stock. The remainder of the Fund is invested in Fidelity Money Market Fund Class I Shares to allow for timely handling of exchanges, withdrawals and distributions. Investments in the Money Market Fund were \$245,439 and \$465,804 at December 31, 2003 and 2002, respectively.

**NOTE 5 - PLAN TERMINATION OR MODIFICATION**

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The Company intends to continue the Plan indefinitely for the benefit of its participants; however, it reserves the right to terminate or modify the Plan at any time for any reason by resolution of its Board of Directors and/or the Committee, as detailed in the Plan and subject to the provisions of ERISA.

**NOTE 6 - SUBSEQUENT EVENTS**

In September 2003 the Company entered into a memorandum agreement of settlement relating to a pending securities class action lawsuit filed in the United States District Court for the Northern District of California. The settlement provided for payment to the plaintiffs (including the Plan) of \$70 million. The court approved the settlement in February 2004. As of May 5, 2004, the Plan's portion of this settlement had not been determined.

Effective January 1, 2004, participants were no longer allowed to direct new investments into the NAI Stock Fund. Effective June 30, 2004, the NAI Stock Fund will be eliminated as an investment option.

Effective July 1, 2004, the Additional True-Up Match will no longer be made under the Plan. The final Additional True-Up Match will be made for eligible participants for the period ending June 30, 2004. The Base Match will continue to be made each payroll period.

Effective January 1, 2005, the matching contribution (that is, the Base Match ) for any eligible Plan participant made by the Company will not exceed \$3,600 per Plan year.



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SUPPLEMENTAL SCHEDULE

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**NETWORK ASSOCIATES, INC.**  
**TAX DEFERRED SAVINGS PLAN**  
**SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)**  
**DECEMBER 31, 2003**

**EIN: 77-0316593**  
**PLAN #001**

<b>Identity of issue, borrower, lessor or similar party</b>	<b>Description of investment including maturity date, rate of interest, collateral, par or maturity value.</b>	<b>Current value</b>
Fidelity Management Trust Company:		
* Fidelity Magellan Fund	Mutual Fund	\$ 12,669,866
* Fidelity Intermediate Bond Fund	Mutual Fund	5,553,325
* Fidelity Blue Chip Fund	Mutual Fund	13,350,743
* Fidelity Low Priced Stock Fund	Mutual Fund	7,559,083
* Fidelity Equity Income II Fund	Mutual Fund	6,659,862
* Fidelity Diversified International Fund	Mutual Fund	4,405,016
* Fidelity Retirement Government Money Market Fund	Mutual Fund	12,845,675
* Fidelity Spartan U.S. Equity Index Fund	Mutual Fund	6,929,745
* Fidelity Puritan Fund	Mutual Fund	1,467,051
* Fidelity Growth Company Fund	Mutual Fund	1,212,046
* Fidelity Select Health Care Fund	Mutual Fund	559,428
* Fidelity Select Technology Fund	Mutual Fund	1,139,621
* Fidelity Select Utilities Growth Fund	Mutual Fund	121,812
* Fidelity Select Financial Services Fund	Mutual Fund	443,218
* Fidelity Select Natural Resources Fund	Mutual Fund	149,916
* Fidelity Select Cyclical Industries Fund	Mutual Fund	61,515
* Fidelity Select Consumer Industries Fund	Mutual Fund	83,080
* Fidelity Mid-Cap Stock Fund	Mutual Fund	1,227,435
* Fidelity Small-Cap Stock Fund	Mutual Fund	876,854
* Fidelity Freedom Income Fund	Mutual Fund	192,306
* Fidelity Freedom 2000 Fund	Mutual Fund	175,140
* Fidelity Freedom 2010 Fund	Mutual Fund	342,874
* Fidelity Freedom 2020 Fund	Mutual Fund	1,192,531
* Fidelity Freedom 2030 Fund	Mutual Fund	1,546,214
* Fidelity Freedom 2040 Fund	Mutual Fund	976,165
* Alger Mid-Cap Growth Fund	Mutual Fund	3,746,144
* NAI Stock Fund	Common Stock	4,974,760
* Fidelity Money Market Fund	Mutual Fund	245,439
* Participant loans	Interest rates ranging from 6% to 9.5%	1,584,516

Total

\$92,291,380

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\* Parties in interest

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**Index to Exhibits**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
23.1	Consent of Independent Accountants