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NETWORKS ASSOCIATES INC/
Form S-3/A
January 10, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 10, 2002
REGISTRATION NO. 333-73112

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

NETWORKS ASSOCIATES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	000-20558	77-0316593
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(COMMISSION FILE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

3965 FREEDOM CIRCLE
SANTA CLARA, CALIFORNIA 95054
(408) 988-3832
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

GEORGE SAMENUK
CHIEF EXECUTIVE OFFICER AND CHAIRMAN
NETWORKS ASSOCIATES, INC.
3965 FREEDOM CIRCLE
SANTA CLARA, CALIFORNIA 95054
(408) 988-3832
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to
time after the effective date of this Registration Statement. If the only
securities being registered on this Form are being offered pursuant to dividend

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or interest reinvestment plans, please check the following box. []

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SECURITY(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)
5.25% Convertible Subordinated Note due 2006.....	\$345,000,000	100%	\$345,000,000
Common Stock \$0.01 par value per share.....	(2)	(2)	(2)

* Previously paid.

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933.
- (2) Includes 19,092,418 shares of common stock initially issuable upon conversion of the notes at the conversion price of \$18.07 per share of common stock. Pursuant to Rule 416 under the Securities Act, such number of shares of common stock registered hereby shall include an indeterminate number of shares of common stock that may be issued in connection with a stock split, stock dividend, recapitalization or similar event.
- (3) Pursuant to Rule 457(i) under the Securities Act, there is no additional filing fee with respect to the shares of common stock issuable upon conversion of the notes because no additional consideration will be received in connection with the exercise of the conversion privilege.

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The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED _____, 2002

NETWORKS ASSOCIATES, INC.

\$345,000,000 OF 5.25% CONVERTIBLE SUBORDINATED NOTES DUE 2006
19,092,418 SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THE NOTES

We issued the notes in a private placement in August 2001. This prospectus will be used by selling securityholders to resell their notes and the common stock issuable upon conversion of their notes.

The notes are convertible prior to maturity into common stock at an initial conversion price of \$18.07 per share, or approximately 55.3403 shares of common stock per \$1,000 principal amount of notes, in each case, subject to adjustment in certain events. We will pay interest on the notes on February 15 and August 15 of each year, beginning on February 15, 2002. The notes will mature on August 15, 2006, unless earlier converted or redeemed.

We may redeem all or a portion of the notes on or after August 20, 2004. In addition, the holders may require us to repurchase the notes upon a change of control of the company if we are not the surviving company.

The reported last sale price of our common stock on the Nasdaq National Market on _____, 2002 was \$[___] per share. Our common stock is traded on the Nasdaq National Market under the symbol "NETA."

THE SECURITIES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK.

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SEE "RISK FACTORS" BEGINNING ON PAGE 6 OF THIS PROSPECTUS FOR INFORMATION THAT YOU SHOULD CONSIDER BEFORE PURCHASING THESE SECURITIES.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This prospectus is dated , 2002

You should rely only on the information incorporated by reference or provided in this prospectus supplement or amendment. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume the information in this prospectus is accurate as of any date other than the date on the front this prospectus.

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SUMMARY

This summary highlights some information from this prospectus, and it may not contain all of the information that is important to you. It is qualified by the more detailed information and consolidated financial statements, including the notes to the consolidated financial statements, incorporated by reference in this prospectus. You should read the full text of, and consider carefully the more specific details contained in or incorporated by reference into this prospectus

NETWORK ASSOCIATES

We are a leading supplier of network security and network management solutions. The majority of our revenue has historically been derived from our McAfee anti-virus product group and our Sniffer network availability and performance management product group. These two flagship product groups form the base from which the balance of our product groups has developed.

In recent years, we have focused our efforts on building a full line of complementary network security and network management solutions. On the network security side, we strengthened our anti-virus lineup by adding complementary products in the firewall, intrusion detection, encryption, and virtual private networking categories. On the network management side, we built upon our Sniffer line by adding products in the help desk, asset management, network monitoring, and network reporting categories. We continuously seek to expand our product lines. In order to more effectively market our products, we have combined complementary products into separate product groups, as follows:

- McAfee, which primarily markets the McAfee Active Virus Defense product group;
- Sniffer Technologies, which primarily markets the Sniffer Total Network Visibility product group; and

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- Magic Solutions, which primarily markets the Magic Total Support Desk product group.

These product groups represent our infrastructure segment. The organization around our product groups is designed to allow us to, among other things, react quickly to customers' changing needs and specialize our sales forces. In addition to our product groups, we also have one publicly-traded subsidiary, McAfee.com. McAfee.com is an applications service provider, or ASP, targeted at consumers and small to medium-sized businesses.

In the fourth quarter of 2001, we substantially completed integrating the activities of our PGP product group into our McAfee and Sniffer product groups and we plan to sell other products. The PGP product group in recent quarters accounted for 7% to 9% of net revenue. Specifically, the PGP VPN, PGPfire (our distributed firewall) for corporate users and the PGP E-Business Server are now marketed and sold as McAfee products. The CyberCop vulnerability assessment technology was integrated into the Sniffer product line. We are looking for buyers for the PGP desktop encryption and Gauntlet firewall product lines. In connection with the PGP integration, among other things, we expect:

- to record a restructuring charge of approximately \$9.0 to \$11.0 million during the fourth quarter of 2001, consisting primarily of the costs related to severance packages for affected employees and other exit costs;
- expense savings of approximately \$50 million in fiscal 2002, primarily in the areas of operating expenses; and
- overall revenue to be adversely impacted in at least the near-term.

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PRODUCT GROUPS

McAfee

McAfee's products and services provide solutions designed to enforce anti-virus policies and measure the performance of anti-virus activities. The McAfee product group consists of products and services that provide multi-layer anti-virus protection, management and reporting for desktops, servers, GroupWare, Internet technologies, and wireless technologies. McAfee's services are provided by McAfee's Anti-Virus Emergency Response Team or AVERT. AVERT augments McAfee's product offerings by identifying new viruses and deploying anti-virus solutions to our customers. McAfee customers are primarily corporate customers, including customers in the managed service market, such as ASPs, and managed service providers, or MSPs. In the fourth quarter of 2001, we began branding and selling our PGP VPN, PGPfire (our distributed firewall) for corporate users and the PGP E-Business Server as McAfee products.

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Sniffer Technologies

Sniffer Technologies' products and services provide customers with network and application management solutions designed to maximize network availability and performance. Sniffer Technologies' products capture data, monitor network traffic and collect key network statistics for computer networks. Sniffer Technologies' products are also designed to optimize network and application performance and increase network reliability by uncovering and analyzing network problems and recommending solutions to such problems, automatically and in real-time for mid-level and high-speed networks. Sniffer Technologies' customers are primarily corporate customers, including customers in the managed service market. In the fourth quarter of 2001, our PGP CyberCop Scanning security tools technology was integrated into the Sniffer Technologies product group.

Magic Solutions

Magic Solutions' products provide customers with a set of tools to manage their customer support and problem management needs. Magic Solutions' product group consists of products that promote information sharing, facilitate workflow, and improve service delivery. Magic Solutions' customers are primarily corporations.

MCAFEE.COM

McAfee.com is a security ASP delivering security applications software and related services through an Internet browser. The McAfee.com applications allow users to detect and eliminate viruses on their PCs, repair their PCs from damage caused by viruses, optimize their hard drives and update their PCs' virus protection system with current software patches and upgrades. McAfee.com also offers customers access to McAfee.com Personal Firewall, McAfee.com Wireless Security Center and McAfee.com Internet Privacy Service. McAfee.com's customers include individuals and corporations.

Under the terms of our licensing agreement with McAfee.com, McAfee.com's business has historically been targeted exclusively at consumers. We recently entered into a reseller agreement with McAfee.com allowing it to expand its product offerings with McAfee.com for Business. McAfee.com for Business is a new website serving the security needs for small and medium-sized businesses delivering managed applications services that allow businesses to provide anti-virus and firewall security for their desktop PCs.

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As of December 31, 2001, we owned 36,000,000 shares of McAfee.com Class B common stock, entitled to three votes per share and representing approximately 76% of McAfee.com's outstanding common stock and 90% of its total voting power.

SALES AND MARKETING

Our sales and marketing efforts are directed primarily at large corporate and government customers, as well as to resellers, distributors and system integrators worldwide. Our North American direct sales force, constituting the majority of our sales force, is organized by product group. We also have direct sales and support operations in Europe, Asia, South America and

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Australia. To complement our direct sales efforts, we market many of our products through corporate resellers, distributors, and retailers. In addition, original equipment manufacturers, or OEMs, license our products and bundle them with PC hardware or software.

OPERATING RESULTS

We were not profitable in 1999 and 2000 and do not expect to be profitable in 2001. In the third quarter ended September 30, 2001, our consolidated net revenues were \$209.0 million and our net loss was \$11.3 million, or \$(0.08) per diluted share. In the third quarter of 2000, our consolidated net revenues were \$238.7 million with net income of \$4.1 million, or \$0.03 per share.

Network Associates' principal executive office is located at 3965 Freedom Circle, Santa Clara, California 95054 and its telephone number is (408) 988-3832.

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THE OFFERING

Securities Offered.....	\$345,000,000 aggregate principal amount of 5.25% Convertible Subordinated Notes due 2006 and 19,092,418 shares of common stock issuable upon conversion of the notes, subject to adjustment in certain circumstances.
Maturity.....	August 15, 2006, unless earlier converted or redeemed by us at our option or repurchased by us at your option.
Interest Rate and Payments.....	5.25% per year, payable on February 15 and August 15 of each year. Our annual interest payments under these notes will total approximately \$18.1 million.
Conversion Rights.....	You may convert your notes into our common stock at any time, unless previously redeemed or repurchased, at a conversion price of \$18.07 per share (equal to a conversion rate of approximately 55.3403 shares per \$1,000 principal amount of notes).
Redemption of Notes at Our Option.....	We may redeem all or a portion of the notes on or after August 20, 2004, at the redemption prices set forth in this prospectus.

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Change of Control..... Upon a change of control of Network Associates, you may require us to purchase all or a portion of your notes. We may pay the repurchase price in cash or in our common stock or other applicable securities if we are not the surviving corporation of the change of control transaction.

Subordination..... The notes are unsecured and will be subordinated to all of our existing and future senior indebtedness, as defined in the indenture, and are pari passu with respect to the \$745,500,000 principal amount at maturity outstanding as of September 30, 2001 of our Zero Coupon Convertible Debentures due 2018 (the "debentures"). As of December 31, 2001, we had no indebtedness outstanding that would have constituted senior indebtedness. As of September 30, 2001, our subsidiaries had approximately \$539 million of indebtedness and other liabilities outstanding, excluding intercompany liabilities and liabilities of a type not required to be reflected on a balance sheet in accordance with generally accepted accounting principles, to which the notes would have been effectively subordinated. The notes are solely obligations of Network Associates. Our subsidiaries are under no obligation to make any payments under

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the notes.

Use of Proceeds..... We will not receive any proceeds from the sale by any selling securityholder of the notes or the underlying common stock.

Trading..... Our common stock is quoted on the Nasdaq National Market under the symbol "NETA."

Original Issuance..... The notes were originally issued in a private placement on August 17, 2001. The initial purchaser in the placement was Lehman Brothers Inc., who sold the notes to qualified institutional buyers pursuant to Rule 144A.

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RISK FACTORS

Before you invest in the notes or shares of common stock underlying the notes, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included or incorporated by reference in this prospectus, before you decide whether to purchase the notes or the shares of common stock underlying the notes. The risks set forth below are not the only risks we face. If any of the following risks occur, our business, financial condition, results of operations and cash flows could be materially adversely affected. In such case, the trading price of the notes and common stock could decline and result in a loss of all or part of your investment.

Keep these risk factors in mind when you read "forward-looking" statements elsewhere in this prospectus and in the documents incorporated herein by reference. These are statements that relate to our expectations for future events and time periods. Generally, the words "anticipate," "expect," "intend" and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements

RISKS RELATED TO NETWORK ASSOCIATES

OUR FINANCIAL RESULTS WILL LIKELY FLUCTUATE.

We were not profitable in 2000 and 1999 and do not expect to be profitable in 2001. In 2000, we had a net loss of \$124.0 million on net revenues of \$745.7 million compared to a net loss of \$168.3 million on net revenues of \$683.7 million in 1999.

Operational Factors.

Operational factors that may cause our revenues, gross margins and operating results to fluctuate significantly from quarter to quarter include:

- volume, size and timing of new licenses and renewals of existing licenses;

- introduction of new products, product upgrades or updates by us or our competitors;

- the mix of products we sell and whether those products are sold directly by us or indirectly through distributors and whether, in the case of software licenses, the licenses are time-based subscription licenses or a perpetual licenses;

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We recently integrated most of the activities of our PGP products into our McAfee and Sniffer product groups and have been considering the sale of other assets. Risks related to the integration and possible sales include:

- overall net revenue may be adversely impacted due to the integration of some PGP product lines and our efforts to sell other assets;

- we may not realize our estimated expense savings of approximately \$50 million in fiscal 2002 in full or on a timely basis;

- we may experience increased customer dissatisfaction or customer losses, particularly from customers licensing the Gauntlet firewall and PGP desktop and wireless encryption technologies that we plan to sell; and

- we may be unable to dispose of the Gauntlet firewall and PGP desktop and wireless encryption technologies on favorable terms, on a timely basis, or at all.

WE HAVE RECENTLY EXPERIENCED SIGNIFICANT CHANGES IN SENIOR MANAGEMENT AND PLAN TO ADD NEW MEMBERS OF SENIOR MANAGEMENT.

On January 3, 2001, our board of directors appointed George Samenuk as our chief executive officer and president. In April 2001, Stephen C. Richards was hired as our new executive vice president and chief financial officer. In October 2001, Zachary Nelson, who was recently named our chief strategy officer, left that position. We have also recently hired new heads of our Asia-Pacific, European and Latin American operations. In December 2001, Gene Hodges, the president of our McAfee product group, was appointed president of Network Associates and we hired Art Matin to replace Gene Hodges as the president of the McAfee product group. We intend to continue to add new members to senior management, particularly in the international market. Changes in management may be disruptive to our business and may result in the

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departure of existing employees and/or customers. It may take significant time to locate, retain and integrate qualified management personnel.

CRITICAL PERSONNEL MAY BE DIFFICULT TO ATTRACT, ASSIMILATE AND RETAIN.

Our success depends in large part on our ability to attract and retain technically qualified and highly skilled sales, consulting, technical, marketing and management employees. Competition for qualified employees is intense, resulting in upward pressure on wages. In addition to our recent senior management additions, we hired a significant number of new employees in 2000 and 2001. We may continue to add new employees to fill positions vacated by departing employees and to expand our business. We expect that there may be

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reduced levels of productivity as recent hires are trained and otherwise assimilate and adapt to our organization.

Our employees are not typically subject to an employment agreement or non-competition agreement. We may be unsuccessful in retaining key personnel. For example, after April 22, 2000, the end of the 12-month lock-up period for options repriced in April 1999, we experienced a larger than normal level of employee departures as many of these employees elected to terminate their employment with us. We may also have difficulties in retaining employees because many of our employees hold options to purchase our stock at prices significantly above the current market price for our stock.

WE FACE RISKS RELATED TO OUR INTERNATIONAL OPERATIONS.

For the three months ended September 30, 2001 and 2000, net revenue from international sales represented approximately 34%, and 33%, respectively, of our net revenue. We intend to focus on international growth and expect international revenue to account for a significant percentage of our net revenue. Related risks include:

- longer payment cycles and greater difficulty in collecting accounts receivable;
- increased costs and management difficulties related to the building of our international sales and support organization;
- uncertainties relative to regional economic circumstances, including the continued economic weakness in Asia and a weak Euro;
- currency fluctuations and risks related to hedging strategies;
- political instability in emerging markets;
- tariffs, trade barriers and export restrictions; and
- a high incidence of software piracy in some countries.

WE DEPEND ON REVENUE FROM OUR FLAGSHIP ANTI-VIRUS AND SNIFFER PRODUCTS.

We have historically derived a majority of our net revenues from our flagship McAfee anti-virus software products and Sniffer network fault and performance management products. These products are expected to continue to account for a significant portion of our net revenues for the foreseeable future.

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Because of this revenue concentration, our business could be harmed by a decline in demand for, or in the prices of, these products as a result of, among other factors, any change in our pricing model, a maturation in the markets for these products or other risks described in this prospectus.

CUSTOMERS MAY CANCEL OR DELAY PRODUCT PURCHASES.

Weakening economic conditions, new product introductions and expansions of our business may increase the time necessary to sell our products and require us to spend more on our sales efforts. Our products may be considered to be capital purchases by our current or prospective customers. Capital purchases are often discretionary and, therefore, are canceled or delayed if the customer

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experiences a downturn in its business prospects or as a result of economic conditions in general.

WE FACE A NUMBER OF RISKS RELATED TO OUR PRODUCT SALES THROUGH DISTRIBUTORS.

We sell a significant amount of our products through intermediaries such as distributors. Our top ten distributors typically represent approximately 35% to 40% of our net revenue in any quarter. Our largest distributor, Ingram, accounted for approximately 15% of net revenue in the nine months ended September 30, 2001. No other distributor accounted for more than 5% of net revenue during the nine months ended September 30, 2001.

Loss of a Distributor.

Our distributor agreements may be terminated by either party without cause. If one of our significant distributors terminates its distribution agreement, we could experience a significant interruption in the distribution of our products.

Need for Accurate Distributor Information.

We recognize revenue on products sold by our distributors when distributors sell our products to their customers. To determine our business performance at any point in time or for any given period, we must timely and accurately gather sales information from our distributors' information systems, at an increased cost to us. Our distributors' information systems may be less accurate or reliable than our internal systems.

Sale of Competing Products.

Our distributors may sell other vendor's products that are complementary to, or compete with, our products. While we encourage our distributors to focus on our products through market and support programs, these distributors may give greater priority to products of other suppliers, including competitors.

Payment Difficulties.

Some of our distributors may experience financial difficulties, which could adversely impact our collection of accounts receivable. For example, in 1999 one of our large European distributors, CHS, entered bankruptcy requiring us to take a related accounts receivable write-off of approximately \$28.7 million. We regularly review the collectibility and credit worthiness of our distributors to determine an appropriate allowance for doubtful accounts. Our bad debt reserve was approximately \$15.3 million at December 31, 2000 and \$8.1 million at September 30, 2001. Our uncollectable accounts could exceed our current or future reserves.

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WE EXPECT SIGNIFICANT STOCK-BASED COMPENSATION CHARGES.

We expect to incur stock-based compensation charges related to employee options repriced in April 1999. The size of these charges could be significant depending on movements in the market value of our common stock and, in some cases, the market value of McAfee.com common stock. We may also incur additional

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stock-based compensation charges related to executive compensation arrangements.

WE FACE THE RISK OF FUTURE NON-RECURRING CHARGES IN THE EVENT OF IMPAIRMENT AND WILL EXPERIENCE SIGNIFICANT AMORTIZATION CHARGES RELATED TO PURCHASED TECHNOLOGY.

We adopted SFAS 142 beginning in fiscal 2002 and, as a result, we no longer amortize goodwill. However, we will continue to have significant amortization related to purchased technology and other identifiable intangibles, and we must evaluate our goodwill and purchased technology at least annually for impairment. For the three and nine months ended September 30, 2001 our amortization charge for purchased technology and other identifiable intangibles was approximately \$3.8 million and \$9.8 million, respectively, and our amortization charge for goodwill was \$12.5 million and \$38.1 million, respectively. If we determine that these items are impaired, we will be required to take a related non-recurring charge to earnings.

WE MAY NEED TO USE A LARGE PORTION OF OUR CASH BALANCES, ISSUE A SIGNIFICANT AMOUNT OF OUR COMMON STOCK OR INCUR ADDITIONAL INDEBTEDNESS TO REPURCHASE OUR OUTSTANDING DEBENTURES.

On February 13, 1998, we issued zero coupon debentures having an aggregate face amount at maturity of \$885.5 million and generating net proceeds to us of approximately \$337.6 million (after deducting fees and expenses). The initial price for the debentures was \$391.06 per \$1,000 of principal amount at maturity. At the option of the holder, we are required to repurchase the debentures as of February 13, 2003 at a repurchase price equal to the initial issue price plus the accretion of original issue discount on the debentures to such date (or \$494.52 per \$1,000 of principal amount at maturity, respectively). In the case of such a required repurchase, at our option, we may pay the aggregate repurchase price in cash, shares of our common stock or a combination of cash and common stock. The number of shares of common stock so issued by us would be based on the fair value of our common stock at the time of any required repurchase. On the same date and at the same repurchase price, we may at our option redeem the outstanding debentures for cash.

In the quarter ended September 30, 2001, we repurchased zero coupon debentures, which had an aggregate face amount at maturity of \$140.0 million, at a net price of \$442.50 per \$1,000 of principal amount at maturity. Assuming that as of February 13, 2003, all zero coupon debentures outstanding as of September 30, 2001 are redeemed the aggregate redemption price would equal approximately \$368.4 million. As of September 30, 2001, our aggregate cash, cash equivalents and marketable securities were approximately \$956.8 million, including \$89.0 million held by McAfee.com.

In anticipation of any repurchase or optional redemption of the debentures, we may issue additional indebtedness to pay all or a portion of the repurchase or redemption price. This indebtedness may be issued in a greater amount than, or on terms less favorable than, the outstanding debentures or notes.

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WE FACE RISKS RELATED TO ORGANIZING OUR U.S. PROFESSIONAL SERVICES ORGANIZATION AND SALES EFFORTS INTO PRODUCT GROUPS.

To more effectively market our products and related services, we have combined complementary products, and the related U.S. service organization, into

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separate product groups: McAfee, Sniffer Technologies, and Magic Solutions. This structure may be unsuccessful due to, among other things:

- customer confusion or irritation related to multiple sales calls from different members of our sales forces;
- potential losses of cross-selling opportunities and lead sharing between the separate product groups' sales representatives;
- possible failures by our centralized general and administrative group to meet each product group's individualized infrastructure and support requirements; and
- one or more of our product groups lacking sufficient qualified professional services personnel to support its products.

WE FACE RISKS ASSOCIATED WITH PAST AND FUTURE TRANSACTIONS.

Acquisitions.

We may buy or make investments in complementary companies, products and technologies. Since 1995, we have completed a large number of significant acquisitions involving both public and private companies including the acquisition of CyberMedia and Dr. Solomon's in 1998 and Network General and PGP in 1997. We and McAfee.com have also completed a number of smaller acquisitions and we have acquired a number of our international distributors.

Integration of an acquired company or technology involves a complex, time consuming and expensive process. The successful integration of an acquisition requires, among other things, that we:

- integrate and retain key management, sales and other personnel;
- integrate the acquired products into our product offerings both from an engineering and sales and marketing perspective;
- integrate and support preexisting supplier, distribution and customer relationships;
- coordinate research and development efforts; and

- consolidate duplicate facilities and functions.

The geographic distance between the companies, the complexity of the technologies and operations being integrated, and the disparate corporate

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cultures being combined may increase the difficulties of integrating an acquired company or technology. Management's focus on the integration of operations may distract attention from our day-to-day business and may disrupt key research and development, marketing or sales efforts. In addition, it is common in the technology industry for aggressive competitors to attract customers and recruit key employees away from companies during the integration phase of an acquisition.

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Our available cash and securities may be used to buy or invest in companies or products, possibly resulting in significant acquisition-related charges to earnings and dilution to our stockholders. Moreover, if we buy a company, we may have to incur or assume that company's liabilities, including liabilities that are unknown at the time of acquisition.

Investments.

We have made a number of venture and minority investments in private and publicly-traded companies with complementary products, services and technologies. As of September 30, 2001, the minority venture investments we continue to hold totaled \$1.2 million at estimated fair value. The \$1.2 million in minority venture investments include investments in public and private companies, amounting to \$1.0 million and \$200,000, respectively. For the nine months ended September 30, 2001, we recorded a \$19.1 million impairment charge in connection with these investments. We plan to continue making strategic investments.

WE COULD EXPERIENCE CUSTOMER AND MARKET CONFUSION DUE TO SIMILARITIES IN THE NAMES USED BY OUR DIFFERENT PRODUCT GROUPS AND SUBSIDIARIES.

Network Associates, our product groups and our subsidiaries, often have similar and potentially confusing names and products. For example, our online consumer anti-virus products are sold by our publicly traded McAfee.com subsidiary, our retail and large corporate anti-virus products are sold by our retail division, which is called McAfee Retail, and our hosted anti-virus products are marketed and sold by our McAfee product group.

WE FACE RISKS RELATED TO OUR APPLICATION SERVICE PROVIDER STRATEGY.

Customers of our ASP or hosted products and services "rent versus buy" our software. For example, McAfee ASAP offers hosted services to corporate customers and McAfee.com is dedicated to updating, upgrading and managing PCs over the Internet for consumers and small to medium-sized businesses. This web-based model is a relatively new concept, and our ASP products and services may fail to maintain or increase market acceptance. The growth, market acceptance and ultimate profitability of our ASP services is highly uncertain and subject to a number of factors, including:

- our ability to successfully adapt existing products or develop new or

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enhanced products that operate in a fast, secure and reliable manner over the Internet;

- increased expenditures associated with the creation of a new business or delivery platform, such as product development, marketing and technical and administrative support;
- the introduction of new products by third-party competitors; and
- our ability to properly price our products and services to generate the greatest revenue opportunities.

OUR MANAGED SERVICE PROVIDER STRATEGY EXPOSES US TO RISKS IN ADDITION TO THOSE GENERALLY EXPERIENCED AS AN ASP.

We also make our hosted products and services available over the Internet in what we refer to as a managed environment. Unlike our ASP solutions, these managed service provider, or MSP, solutions are

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customized, monitored and updated by networking professionals for a specific customer. To successfully offer MSP services we must:

- effectively monitor and customize each customer's managed services;
- attract and retain qualified networking professionals to manage customer accounts; and
- effectively price our products and services to account for the higher costs associated with selling managed services.

We also allow intermediaries, such as Internet Service Providers, to sell and host our products and services in a managed environment. This MSP reseller strategy exposes us to additional risks:

- we must select, train and maintain qualified and financially stable MSP resellers;
- it is more difficult for us to ensure customer satisfaction as we do not have direct customer contact and we rely on our resellers to timely and properly customize and administer our products and services;
- we must develop and maintain mutually satisfactory revenue sharing arrangements with our MSP resellers; and
- our MSP resellers may compete with our own MSP efforts.

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WE FACE RISKS RELATED TO OUR RELATIONSHIP WITH MCAFEE.COM.

We have entered into various inter-company arrangements with McAfee.com. At December 31, 2001, we owned 36,000,000 shares of McAfee.com's Class B common stock, which is generally entitled to three votes per share and converts to shares of McAfee.com Class A common stock if sold by us to a third party. McAfee.com Class A common stock is entitled to one vote per share. At December 31, 2001, our McAfee.com holdings represented approximately 76% of McAfee.com's outstanding capital stock and approximately 90% of its total voting power.

Pursuant to our cross license agreement with McAfee.com, we have licensed all our technology to McAfee.com for use in the markets specified below and McAfee.com has licensed its technology to us for our use outside of McAfee.com's markets. Our license and other agreements with McAfee.com exposes us to risks, including:

- subject to the reseller agreement described below, McAfee.com has the exclusive right to use the licensed technology for providing single-user consumer licenses for our products and services sold over the Internet or for Internet-based products and licensing the technology to original equipment manufacturers for sale to individual consumers;
 - we are permitted to continue to sell our consumer products through non-online channels, such as traditional retail stores, however McAfee.com's sales of online products and services could significantly reduce sales of these products;
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- we may not offer a product incorporating third-party technology if those products are competitive with products offered by McAfee.com;
 - McAfee.com is required to pay us a license fee of 7% of net revenue derived from product sales that include the licensed technology;
 - the license agreement is perpetual and may only be terminated by us if McAfee.com fails to cure a material breach of the license within 30 days after we notify it of the breach, subject to mandatory dispute resolution prior to the effectiveness of any proposed termination;
 - we are required to indemnify McAfee.com with respect to existing litigation related to the licensed technology to which we are a party;
 - generally, we are required to cause to be elected to the McAfee.com board of directors at least two independent directors, which excludes any serving Network Associates officer or director; and
 - if, without the prior approval of our continuing directors (being our current directors and directors approved or not objected to by our current directors), someone acquires 15% or more of our outstanding capital stock or our continuing directors cease to constitute a majority of our board (1) we are required to vote our shares of

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McAfee.com common stock and otherwise seek to cause the McAfee.com board of directors to consist of at least a majority of independent directors and (2) our shares of McAfee.com Class B common stock will be entitled to only one vote per share instead of three.

In March 2001, we entered into reseller agreements with McAfee.com. Under these agreements, McAfee.com may resell our products to business customers, except in Japan, and, in certain countries, we may sell McAfee.com products to OEMs and end-users directly or through ASPs.

WE ARE SUBJECT TO INTENSE COMPETITION IN THE NETWORK MANAGEMENT AND SECURITY MARKETS AND WE EXPECT TO FACE INCREASED COMPETITION IN THE FUTURE.

The markets for our products are intensely competitive and we expect competition to increase in the near-term. We believe that the principal competitive factors affecting the markets for our products include:

- performance;
- functionality;
- quality;
- customer support;
- breadth of product group;
- frequency of upgrades and updates;
- integration of products;

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- manageability of products;
- brand name recognition;
- reputation; and
- price.

Some of our competitors have longer operating histories, greater name recognition, larger technical staffs, established relationships with hardware vendors and/or greater financial, technical and marketing resources. These factors may provide our competitors with an advantage in penetrating the market with their network security and management products. We have been encountering, and we expect to further encounter, increasing competition. Increased competition could reduce average selling prices and, therefore, profit margins. Competitive pressures could also result in a decline in sales volume.

Anti-Virus Software.

Performance and quality of our anti-virus software products are measured by number and type of viruses detected, the speed at which the products run, ease of use and the ability to avoid falsely detecting viruses that do not exist. Our principal competitor in the anti-virus market is the Peter Norton Group of Symantec. Trend Micro remains the strongest competitor in the Asian

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anti-virus market, with Dr. Ahn's making recent inroads, particularly in Japan and Korea. Other anti-virus software competitors include numerous smaller companies and shareware authors that may in the future develop or be consolidated into larger competitors.

Network Security.

Our principal competitors in the security market vary by product type. For firewalls, our principal competitors include CheckPoint, Symantec, and larger companies such as Cisco Systems and Microsoft. For intrusion detection products, we compete with Cisco Systems ISS and Symantec. The markets for encryption and virtual private network, or VPN, products are highly fragmented with numerous small and large vendors. Public key infrastructure, or PKI, encryption vendors such as Entrust Technologies offer some products that compete with our PGP products. VPN competitors include hardware and software vendors, including telecommunications companies and traditional networking suppliers.

Network Management.

Our principal competitor in the network management market is Agilent. Other competitors include Acterna Corporation, Cisco Systems, Computer Associates, Compuware, Concord Communications, DeskTalk Systems, GN Nettest, Network Instruments, Radcom Technologies and Shomiti Systems.

Helpdesk.

Our principal competitors in the help desk market are FrontRange Solutions, Computer Associates and Peregrine.

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Other Competitors.

We also face competition from large software companies such as HP, Intel, Microsoft and Novell, which may offer network security and management products as enhancements to their operating system.

WE FACE PRODUCT DEVELOPMENT RISKS ASSOCIATED WITH RAPID TECHNOLOGICAL CHANGES IN OUR MARKET.

The network security and management market is highly fragmented and characterized by ongoing technological developments, evolving industry standards and rapid changes in customer requirements. Our success depends on our ability to timely and effectively:

- offer a broad range of network security and management software products;
- enhance existing products and expand product offerings;
- respond promptly to new customer requirements and industry standards;
- and

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- remain compatible with popular operating systems such as Windows XP, Windows 2000, Windows 98, Windows NT and NetWare, and develop products that are compatible with new or otherwise emerging operating systems.

We may experience delays in software development as we have at times in the past. Complex software products like ours may contain undetected errors or version compatibility problems, particularly when first released, which could delay or harm market acceptance.

Our long-term success depends on our ability to keep our products current. For example, the proliferation of new and changing viruses makes it imperative to update anti-virus products frequently to avoid obsolescence. Accordingly, we must upgrade and update existing product offerings, modify and enhance acquired products and introduce new products which meet our customers' needs. We believe that our ability to provide these upgrades and updates frequently and at low costs is key to our anti-virus success.

COMPETITORS MAY INCLUDE PRODUCTS SIMILAR TO OURS IN THEIR HARDWARE OR SOFTWARE AND RENDER OUR PRODUCTS OBSOLETE.

Vendors of hardware and of operating system software or other software (such as firewall or e-mail software) may enhance their products or bundle separate products to include network security and management software similar to our products. From time to time, Microsoft has indicated that it would incorporate its own anti-virus software or functionality into its products. The widespread inclusion of products that perform the same or similar functions as our products within computer hardware or other software could render our products obsolete and unmarketable. Furthermore, even if these incorporated products are inferior or more limited than our products, customers may elect to accept the incorporated products rather than purchase our products. If we are unable to develop new network security and management products to further enhance operating systems or other software and to successfully replace any obsolete products, our business could suffer.

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OUR HARDWARE BASED PRODUCTS FACE MANUFACTURING, SUPPLY, INVENTORY, LICENSING AND OBSOLESCENCE RISKS.

Third-Party Manufacturing.

We rely on third parties to manufacture some of our hardware-based Sniffer and E-ppliance products. We expect the number of our hardware-based products and our reliance on third-party manufacturers to increase as software-only network security and management solutions become less viable. Reliance on third-party manufacturers involves a number of risks, including the lack of control over the manufacturing process and the potential absence or unavailability of adequate capacity. If any of our third party manufacturers cannot or will not continue to manufacture our products in required volumes, on a cost-effective basis, in a timely manner, or at all, we will have to secure additional manufacturing capacity. Even if this additional capacity is available at commercially acceptable terms, the qualification process could be lengthy and could create interruptions in product shipments.

Sourcing.

Our hardware-based products contain critical components supplied by a single or a limited number of third parties. We have been required to purchase

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certain computer platforms around which we design our network fault and performance management products to ensure an available supply of these products for our customers. Any significant shortage of these platforms or other components or the failure of the third-party supplier to maintain or enhance these products could lead to cancellations of customer orders or delays in placement of orders.

Third-Party Licenses.

Some of our hardware-based products incorporate licensed software, such as operating system software. To successfully market these products, we must be able to obtain reasonably priced licenses from third-party software providers, as well as successfully integrate our hardware and software with the licensed software.

Obsolescence.

Hardware based products may face greater obsolescence risks than software products. If our hardware products are not easily upgradable to meet future market needs, they may become obsolete. In addition to lost future sales, we could incur losses or other charges in disposing of obsolete inventory.

WE RELY ON THE CONTINUED PROMINENCE OF MICROSOFT TECHNOLOGY.

Although we intend to support other operating systems, we seek to be the leading supplier of network security and management products for Windows NT/Intel based networks. Sales of our products would be materially and adversely affected by market developments that are adverse to the Windows operating environments, including the failure of users and application developers to accept Windows NT. In addition, our ability to develop products using the Windows operating environments is dependent on our ability to gain timely access to, and to develop expertise in, current and future developments by Microsoft, including the recently introduced Windows XP. We may be unable to gain the necessary access from Microsoft to its product development activities.

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WE MAY FAIL TO SUPPORT OPERATING SYSTEMS WHICH SUCCESSFULLY COMPETE WITH MICROSOFT'S TECHNOLOGY, INCLUDING COMPETING VERSIONS OF THE UNIX OPERATING SYSTEM.

We are expanding our product support to include the Unix operating system and the Linux operating system. Sales of our products could be materially and adversely impacted by our failure to support those versions of the Unix operating system or competing operating systems that receive broad market acceptance. The Unix system encompasses many separate operating systems of which we only support a few, including for example, Sun Microsystems' Solaris Unix operating system.

WE RELY HEAVILY ON OUR INTELLECTUAL PROPERTY RIGHTS WHICH OFFER ONLY LIMITED PROTECTION AGAINST POTENTIAL INFRINGERS.

We rely on a combination of contractual rights, trademarks, trade secrets, patents and copyrights to establish and protect proprietary rights in our software. However, the steps taken by us to protect our proprietary software

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may not deter its misuse or theft. We are aware that a substantial number of users of our anti-virus products have not paid any registration or license fees to us. Competitors may also independently develop technologies or products that are substantially equivalent or superior to our products. Changing legal interpretations of liability for unauthorized use of our software, or lessened sensitivity by corporate, government or institutional users to avoiding infringement of intellectual property could also harm our business.

INTELLECTUAL PROPERTY LITIGATION IN THE NETWORK SECURITY AND MANAGEMENT MARKET IS COMMON AND CAN BE EXPENSIVE.

Litigation may be necessary to enforce and protect trade secrets and other intellectual property rights that we own. Similarly, we may be required to defend against claimed infringement by others. In addition to the expense and distractions associated with litigation, adverse determinations could:

- result in the loss of our proprietary rights;
- subject us to significant liabilities, including monetary liabilities;
- require us to seek licenses from third parties; or
- prevent us from manufacturing or selling our products.

The litigation process is subject to inherent uncertainties. We may not prevail in these matters, or we may be unable to obtain licenses with respect to any patents or other intellectual property rights that may be held valid or infringed upon by our products or us.

If we acquire a portion of software included in our products from third parties, our exposure to infringement actions may increase because we must rely upon these third parties as to the origin and ownership of any software being acquired. Similarly, exposure to infringement claims increase if we employ or hire software engineers previously employed by competitors, notwithstanding measures taken by us or our competitors to protect our competitors' intellectual property.

PENDING OR FUTURE LITIGATION COULD HAVE A MATERIAL ADVERSE IMPACT ON OUR RESULTS OF OPERATION AND FINANCIAL CONDITION.

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In addition to intellectual property litigation, from time to time, we have been subject to litigation. Where we can make a reasonable estimate of the liability relating to pending litigation, we record a related liability. As additional information becomes available, we assess the potential liability and revise estimates as appropriate. However, because of uncertainties relating to litigation, the amount of our estimates could be wrong. In addition to the related cost and use of cash, pending or future litigation could cause the diversion of management's attention and resources. A putative securities class action is currently pending against us, our directors and our officers. The plaintiffs allege that we and the other defendants improperly engaged in a course of conduct by which we improperly accounted for revenue from our software license sales and that, as a result, certain of our financial statements were false and misleading and not in compliance with generally accepted accounting principles.

PRODUCT LIABILITY AND RELATED CLAIMS MAY BE ASSERTED AGAINST US.

Our network security and management software products are used to protect and manage computer systems and networks that may be critical to organizations. As a result, our sale and support of these products involves the risk of potential product liability and related claims. Our license agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions may not be effective under the laws of certain jurisdictions, particularly in circumstances involving unsigned licenses.

COMPUTER "HACKERS" MAY DAMAGE OUR PRODUCTS AND SERVICES.

Due to our high profile in the security software market, we have been a target of computer hackers who have, among other things, created viruses to sabotage or otherwise attack our products and services, including our various websites. For example, we have recently seen the spread of viruses, or worms, that intentionally delete antivirus and firewall software. Also, a number of websites have been subject to denial of service attacks, where a website is bombarded with information requests eventually causing the website to overload, which causes a delay or disruption of service. If successful, any of these events could damage users' computer systems. In addition, since we do not control diskette duplication by distributors or our independent agents, diskettes containing our software may be infected with viruses.

FALSE DETECTION OF VIRUSES AND ACTUAL OR PERCEIVED SECURITY BREACHES COULD ADVERSELY AFFECT OUR BUSINESS.

Our anti-virus software products have in the past and may at times in the future falsely detect viruses that do not actually exist. These false alarms, while typical in the industry, may impair the perceived reliability of our products and may therefore adversely impact market acceptance of our products. In addition, we have in the past been subject to litigation claiming damages related to a false alarm, and similar claims may be made in the future. An actual or perceived breach of network or computer security at one of our customers, regardless of whether the breach is attributable to our products, could adversely affect the market's perception of our security products.

BUSINESS INTERRUPTIONS MAY IMPEDE OUR OPERATIONS AND ADVERSELY AFFECT OUR BUSINESS.

We face a number of potential business interruption risks that are beyond our control. The State of California has recently experienced

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intermittent power shortages, sharp increases in the cost of energy and even interruptions of service to some business customers.

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Additionally, we may experience natural disasters that could interrupt our business. Our corporate headquarters is located near a major earthquake fault. The potential impact of a major earthquake on our facilities, infrastructure and overall operations is not known. Despite safety precautions that have been implemented, there is no guarantee that an earthquake would not seriously disturb our entire business process. We are largely uninsured for losses and business disruptions caused by an earthquake and other natural disasters.

WE FACE RISKS ASSOCIATED WITH U.S. GOVERNMENT CONTRACTING.

We are currently engaged in several research and development contracts with agencies of the U.S. government. The willingness of these government agencies to enter into future contracts with us depends in part on our continued ability to meet their expectations.

Minimum fee awards for companies entering into government contracts are generally between 3% and 7% of the costs incurred by them in performing their duties under the related contract. However, these fee awards may be as low as 1% of the contract costs. Furthermore, these contracts are subject to cancellation at the convenience of the government agencies. Although we have been awarded contract fees of more than 1% of the contract costs in the past, minimum fee awards or cancellations may occur in the future. Reductions or delays in federal funds available for projects we are performing could also have an adverse impact on our government business. Contracts involving the U.S. government are also subject to the risks of disallowance of costs upon audit, changes in government procurement policies, required competitive bidding and, with respect to contracts involving prime contractors or government-designated subcontractors, the inability of those parties to perform under their contracts.

OUR CRYPTOGRAPHY TECHNOLOGY IS SUBJECT TO EXPORT RESTRICTIONS.

Some of our network security products, particularly those incorporating encryption, may be subject to export restrictions. As a result, some products may not be exported to international customers without prior U.S. government approval. The list of products and end users for which export approval is required, and the regulatory policies with respect thereto, are subject to revision by the U.S. government at any time. The cost of compliance with U.S. and international export laws and changes in existing laws could affect our ability to sell certain products in certain markets, and could have a material adverse effect on our international revenues.

WE MUST ADAPT TO THE RAPIDLY CHANGING BUSINESS ENVIRONMENT BROUGHT ON BY THE WIDESPREAD USE OF THE INTERNET.

We utilize the Internet and depend on its functionality and reliability

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in many parts of our business, including sales, distribution and support of our products. There are still many uncertainties regarding many facets of the Internet, including reliability, security, access, tax, government regulation and cost. We also run the risk of not adapting to the latest changes in the Internet, which could affect our business operations. If continued growth of the Internet does not develop at the pace we expect, our operating results could be adversely affected.

RISKS RELATED TO THE NOTES AND THE COMMON STOCK INTO WHICH THE NOTES ARE CONVERTIBLE

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OUR INDEBTEDNESS AND DEBT SERVICE OBLIGATIONS MAY ADVERSELY AFFECT OUR CASH FLOW AND WE WILL BE PERMITTED TO INCUR ADDITIONAL INDEBTEDNESS IN THE FUTURE.

Our annual debt service obligations on the notes being offered hereby will be approximately \$18.1 million per year in interest payments. In addition, we may be required to repurchase our outstanding zero coupon debentures, by paying cash, common stock or a combination of cash and common stock, if the holders exercise their right to put the debentures to us in February 2003. We intend to fulfill our debt service and repayment obligations both from cash generated by our operations and from our cash and investments. As of September 30, 2001, our aggregate cash, cash equivalents and marketable securities were approximately \$968.6 million, including \$89.0 million held by McAfee.com. In the quarter ended September 30, 2001, we repurchased zero coupon debentures, which had an aggregate face amount at maturity of \$140.0 million, at a net price of \$442.50 per \$1,000 of principal amount at maturity. Assuming that as of February 13, 2003, all zero coupon debentures outstanding as of September 30, 2001 are redeemed the aggregate redemption price would equal approximately \$368.4 million. If we are unable to generate sufficient cash to meet these obligations and need to use existing cash or liquidate investments in order to fund our debt service obligations, we may have to delay or curtail research and development programs.

Our current and future indebtedness could have significant additional negative consequences, including:

- requiring the dedication of a substantial portion of our expected cash flow from operations to service our indebtedness, thereby reducing the amount of our expected cash flow available for other purposes, including capital expenditures;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete;
- placing us at a possible competitive disadvantage to less leveraged competitors and competitors that have better access to capital resources;
- affecting our ability to make interest payments on our indebtedness,

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including the notes; and

- in addition, the indenture permits us to incur additional indebtedness in the future, which could compound the risks described above.

WE CANNOT ASSURE YOU THAT AN ACTIVE TRADING MARKET WILL DEVELOP FOR THE NOTES, WHICH MAY REDUCE THEIR MARKET PRICE.

The notes are a new issue of securities for which there is currently no trading market. Although the notes not registered for resale under this Registration Statement are eligible for trading in PORTAL, we cannot assure you that an active trading market for the notes will develop or be sustained. Lehman Brothers, Inc., the "initial purchaser," has informed us that it intends to make a market in the notes. The initial purchaser, however, is not obligated to make a market in the notes and may discontinue this market making activity at any time without notice. In addition, market making activity by the initial purchaser will be subject to the limits imposed by the federal securities laws and governmental regulations. As a result, we cannot assure you that any market for the notes will develop, or if one does develop, that it will be actively sustained.

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In addition, the liquidity of the trading market in the notes and the market price quoted for the notes may be adversely affected by changes in the overall market for convertible securities, changes in our prospects or financial performance or in the prospects for companies in our industry generally. If an active market for our notes fails to develop or be sustained, the trading price of the notes could fall. If an active trading market were to develop, the notes could trade at prices that may be lower than the initial offering price. Whether or not they could trade at lower prices depends on many factors, including:

- prevailing interest rates;
- the markets for similar securities;
- general economic conditions; and
- our financial condition, historical financial performance and future prospects.

THE NOTES ARE SUBORDINATED TO ALL OUR EXISTING AND FUTURE SENIOR INDEBTEDNESS AND THE DEBT OF OUR SUBSIDIARIES WHICH MAY INHIBIT OUR ABILITY TO REPAY YOU.

The notes are unsecured and are subordinated to all of our existing and future senior indebtedness, as defined in the indenture, and are pari passu with respect to the \$745,500,000 principal amount at maturity of our debentures outstanding as of September 30, 2001. As defined in the indenture; senior indebtedness initially includes only secured indebtedness of Network Associates; however when less than \$60,000,000 aggregate principal amount at maturity of the zero coupon convertible debentures remain outstanding, the senior indebtedness definition expands to include both secured and unsecured obligations of Network Associates. As of December 31, 2001, we had no indebtedness outstanding that would have constituted senior indebtedness (including obligations that would only be included within the definition of senior indebtedness at such time as less than \$60,000,000 aggregate principal amount at maturity of the debentures remains outstanding). In the event of our bankruptcy, liquidation or

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reorganization or upon acceleration of the notes due to an event of default under the indenture and in specified other events, our assets will be available to pay obligations on the notes only after all senior indebtedness has been paid in full in cash or other payment satisfactory to holders of senior indebtedness. As a result, there may not be sufficient assets remaining to pay amounts due on any or all of the outstanding notes.

OUR CORPORATE STRUCTURE RESULTS IN SUBSTANTIAL STRUCTURAL SUBORDINATION OF THE NOTES AND MAY AFFECT OUR ABILITY TO MAKE PAYMENTS ON THE NOTES.

The notes are obligations exclusively of Network Associates. Since a significant portion of our operations are conducted through our subsidiaries, our cash flow and our consequent ability to service debt, including the notes, are dependent upon the earnings of our subsidiaries and the distribution of those earnings to us, or upon loans or other payments of funds by those subsidiaries to us. These subsidiaries are separate and distinct legal entities and have no obligation to make any payments on the notes or to make any funds available for payments on the notes, whether by dividends, loans or otherwise. In addition, the ability of our subsidiaries to make dividend payments or loans or advances to us may be subject to statutory or contractual restrictions and may be contingent on the earnings of the subsidiaries.

Our right to receive assets of any of our subsidiaries upon their liquidation or reorganization, and your consequent right to participate in those assets, will be effectively subordinated to any claims creditors may

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have against our subsidiaries, including trade creditors, unless we are recognized as a creditor to the subsidiary.

As of September 30, 2001, our subsidiaries had approximately \$539 million of indebtedness and other liabilities outstanding, excluding intercompany liabilities and liabilities of a type not required to be reflected on a balance sheet in accordance with generally accepted accounting principles, to which the notes would have been effectively subordinated. In addition, the indenture does not limit the creation of additional indebtedness by our subsidiaries.

OUR ABILITY TO REPURCHASE NOTES WITH CASH UPON A CHANGE OF CONTROL MAY BE LIMITED.

In certain circumstances involving a change of control, as defined in "Description of the Notes--Repurchase at Option of Holders Upon a Change of Control" you may require us to repurchase some or all of your notes. We may have insufficient financial resources at such time or may be unable to arrange financing to pay the repurchase price of the notes in cash. Our ability to repurchase the notes in such event may be limited by law, by the terms of other agreements relating to our senior indebtedness and by such indebtedness and agreements as may be entered into, replaced, supplemented or amended from time to time. We may be required to refinance our senior indebtedness in order to make such payments. We may not have the financial ability to repurchase the notes in cash if payment for our senior indebtedness is accelerated.

OUR STOCK PRICE HAS BEEN VOLATILE AND IS LIKELY TO REMAIN VOLATILE, WHICH MAY ADVERSELY AFFECT THE PRICE OF OUR STOCK AND THE NOTES.

During the 12-month period ended December 31, 2001, our stock price was

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highly volatile ranging from a per-share high of \$27.00 to low of \$4.19. Announcements, litigation developments, and our ability to meet the expectations of investors with respect to our operating and financial results may contribute to current and future stock price volatility. We may not discover, or be able to confirm, revenue or earnings shortfalls until the end of a quarter, which could result in an immediate drop in our stock price. In addition, similar events with respect to McAfee.com, our publicly traded subsidiary, and fluctuations in its stock price, may also contribute to the volatility of our stock price. Securities class action litigation has been instituted following previous periods of volatility. A number of putative class actions were brought against our officers, directors and us. This litigation, and any other litigation, could result in substantial costs and a diversion of management's attention and resources.

FUTURE SALES OF OUR COMMON STOCK IN THE PUBLIC MARKET OR OPTION EXERCISES AND SALES COULD LOWER OUR STOCK PRICE.

A substantial number of the shares of our common stock are subject to stock options and our outstanding debentures and the notes may be converted into shares of common stock. We cannot predict the effect, if any, that future sales of shares of common stock or notes, or the availability of shares of common stock or notes for future sale, will have on the market price of our common stock or notes. Sales of substantial amounts of common stock, including shares issued upon the exercise of stock options or the conversion of the notes or our outstanding debentures, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock and notes.

THE NOTES MAY NOT BE RATED OR MAY RECEIVE A LOWER RATING THAN ANTICIPATED.

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One or more rating agencies may rate the notes. If one or more rating agencies assigns the notes a rating lower than expected by investors, the market price of the notes and our common stock could be harmed.

DELAWARE LAW, OUR CHARTER DOCUMENTS AND CERTAIN PROVISIONS IN THE INDENTURE OF OUR OUTSTANDING DEBENTURES AND THE INDENTURE FOR THE NOTES MAY IMPEDE OR DISCOURAGE A TAKEOVER, WHICH COULD CAUSE THE MARKET PRICE OF OUR SHARES TO DECLINE.

Our board of directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote of action by our stockholders. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock.

In October 1998, our board of directors adopted a shareholders rights plan. Each right under this plan entitles the record holder to buy 1/1000 of a share of our series B participating preferred stock at an exercise price of \$200.00. The rights will become exercisable following the tenth day after a

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person or group announces acquisition of 15% or more of our common stock or announces commencement of a tender or exchange offer the consummation of which would result in ownership by the person or group of 15% or more of our common stock. If the rights become exercisable, the holders of the rights (other than the person acquiring 15% or more of our common stock) will be entitled to acquire in exchange for the \$200 exercise price shares of our common stock or shares of any company in which we are merged having a value of \$400. We are entitled to redeem the rights at \$0.01 per right at any time on or before the tenth day following acquisition by a person or group of 15% or more of our common stock.

Certain provisions of Delaware law and our certificate of incorporation and bylaws, such as a classified board, could delay or make a merger, tender offer or proxy contest involving Network Associates more difficult. While these provisions and our rights plan are intended to enable our board of directors to maximize stockholder value, they may have the effect of discouraging takeovers, which may not be in the best interest of certain stockholders. Our rights plan and these provisions could have an adverse effect on the market value of our common stock.

The indenture governing our outstanding debentures, as well as the indenture for the notes, may require that we offer to repurchase such debentures or the notes following the occurrence of certain types of change in control transactions. These repurchase provisions could have the effect of discouraging a merger or takeover of us, which may not be in the best interest of certain stockholders and could have an adverse effect on the market value of our common stock.

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WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the Commission, in accordance with the Securities Exchange Act of 1934. You may read and copy our reports, proxy statements and other information filed by us at the public reference facilities of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such materials can be obtained at prescribed rates from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information about the public reference rooms. Our reports, proxy statements and other information filed with the Commission are available to the public over the Internet at the Commission's World Wide Web site at <http://www.sec.gov>.

The Commission allows us to "incorporate by reference" into this prospectus the information we filed with the Commission. This means that we can disclose important information by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus. Information that we file later with the Commission will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made by us with the Commission under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until this offering is complete:

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- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2000 as filed with the Commission on April 2, 2001;
- Our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001 as filed with the Commission on May 15, 2001;
- Our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001 as filed with the Commission on August 6, 2001;
- Our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001 as filed with the Commission on November 13, 2001;
- Our Current Report on Form 8-K as filed with the Commission on August 8, 2001;
- Our Current Report on Form 8-K as filed with the Commission on August 14, 2001;
- Our Current Report on Form 8-K as filed with the Commission on October 11, 2001; and
- The description of our common stock which is contained in our Registration Statement on Form 8-A filed with the Commission on August 21, 1992 pursuant to Section 12 of the Exchange Act, the description of our preferred share purchase rights on Form 8-A filed on October 22, 1998, the description of our zero coupon convertible subordinated debentures on Form S-3 filed on May 6, 1998, and any description of any of our securities which is contained in any registration statement filed after the date hereof under Section 12 of the Exchange Act, including any amendment or report filed for the purpose of updating any such description.

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You may request a copy of these filings, at no cost, by contacting us at the following address:

Investor Relations
Networks Associates, Inc.
3965 Freedom Circle
Santa Clara, California 95054
Telephone: (877) 346-3575

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USE OF PROCEEDS

We will not receive any proceeds from the sale by any selling securityholder of the notes or the underlying common stock.

RATIO OF EARNINGS TO FIXED CHARGES

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The ratio of earnings to fixed charges for each period indicated is as follows:

	YEAR ENDED DECEMBER 31					NINE MONTHS ENDED
	1996	1997	1998	1999	2000	SEPTEMBER 2001
Ratio of earnings to fixed charges	23.6x	21.0x	8.5x	--x(1)	--x(1)	--x(1)

These computations include us and our consolidated subsidiaries. In calculating the ratio of earnings to fixed charges, "earnings" consist of net income (loss) before provisions for income taxes plus fixed charges. "Fixed charges" consist of:

- interest expense plus the portion of rental expense under operating leases deemed by us to be representative of the interest factor, and
- amortization of debt issuance costs.

(1) During the 9 months ended September 30, 2001 and the fiscal years ended December 31, 2000 and 1999, there was a deficiency of earnings to cover fixed charges of approximately \$104.8 million, \$97.8 million and \$131 million, respectively.

DIVIDEND POLICY

We have not paid any cash dividends since our reorganization into a corporate form in October 1992. We intend to retain future earnings for use in our business and do not anticipate paying cash dividends in the foreseeable future.

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DESCRIPTION OF NOTES

We issued the notes under an indenture dated as of August 17, 2001 between us and State Street Bank and Trust Company of California, N.A., as trustee. The following summarizes some, but not all, of the provisions of the notes and the indenture. A copy of the indenture, the resale registration rights agreement and the form of certificate evidencing the notes have been filed as exhibits to this registration statement.

References in this section to "Network Associates," "us," "we," and "our" are solely to Networks Associates, Inc. and not to our subsidiaries.

GENERAL

We issued \$345,000,000 in aggregate principal amount of the notes in a

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private placement in August 2001. The notes are general unsecured obligations of Network Associates and are junior in right of payment as described under "Subordination of Notes." The Notes are convertible into our common stock as described under "Conversion Rights." The Notes were issued only in denominations of \$1,000, or in multiples of \$1,000. The Notes will mature on August 15, 2006, unless earlier redeemed at our option by us or purchased by us at your option upon a change of control.

The notes bear interest at the rate of 5.25% per year. We will pay interest semiannually on February 15 and August 15 of each year beginning February 15, 2002, subject to limited exceptions if the notes are converted, redeemed or purchased prior to the interest payment date. The record dates for the payment of interest are February 1 and August 1. We may, at our option, pay interest on the notes by check mailed to the holders. However, a holder with an aggregate principal amount in excess of \$5,000,000 will be paid by wire transfer in immediately available funds at their election. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

We will maintain an office in New York, New York where the notes may be presented for registration, transfer, exchange or conversion. The office is initially an office or agency of the trustee.

CONVERSION RIGHTS

You may convert any outstanding notes (or portions of outstanding notes) into our common stock, at any time prior to maturity, unless previously redeemed or purchased, initially at the conversion price of \$18.07 per share (equal to a conversion rate of approximately 55.3403 shares per \$1,000 principal amount of notes), subject to adjustment as described below. We will not issue fractional shares of common stock upon conversion of notes. Instead, we will pay a cash adjustment based upon the closing sale price of our common stock on the business day immediately preceding the conversion date. You may convert notes only in denominations of \$1,000 and whole multiples of \$1,000.

You may exercise conversion rights at any time prior to the close of business on the final maturity date of the notes. However, if you are a holder of notes that have been called for redemption, you must exercise your conversion rights prior to the close of business on the second business day preceding the redemption date, unless we default in payment of the redemption price. In addition, if you have exercised your right to require us to repurchase your notes because a change of control has occurred, you may convert your notes into our common stock only if you withdraw your notice and convert your notes prior to the close of business on the business day immediately preceding the change of control repurchase date.

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Except as provided below, if you convert your notes into our common stock on any day other than an interest payment date, you will not receive any interest that has accrued on these notes. By delivering to the holder the number of shares issuable upon conversion, determined by dividing the principal amount of the notes being converted by the conversion price, together with a cash payment, if any, in lieu of fractional shares, we will satisfy our obligation with respect to the notes. That is, accrued but unpaid interest will be deemed to be paid in full rather than canceled, extinguished or forfeited. If you convert after a record date for an interest payment but prior to the corresponding interest payment date, you will receive interest accrued and paid on such notes on the interest payment date, notwithstanding the conversion of such notes prior to such interest payment date, because you will have been the holder of record on the corresponding record date. However, at the time of

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surrender of such notes for conversion, you must pay us an amount equal to the interest that has accrued and will be paid on the notes being converted on the interest payment date. The preceding sentence does not apply, however, to a holder that converts, after a record date for an interest payment date but prior to the corresponding interest payment date, notes that we call for redemption prior to such conversion on a redemption date that is on or prior to third business day after such interest payment date.

You will not be required to pay any taxes or duties relating to the issuance or delivery of our common stock if you exercise your conversion rights, but you will be required to pay any tax or duty which may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than your name. Certificates representing shares of common stock will be issued or delivered only after all applicable taxes and duties, if any, payable by you have been paid.

To convert interests in a global note, you must deliver to DTC the appropriate instructions form for conversion pursuant to DTC's conversion program. To convert a definitive note, you must:

- complete the conversion notice on the back of the note, or a facsimile of the conversion notice;
- deliver the completed conversion notice and the notes to be converted to the specified office of the conversion agent;
- pay all funds required, if any, relating to interest on the notes to be converted to which you are not entitled, as described in the second preceding paragraph; and
- pay all taxes or duties, if any, as described in the preceding paragraph.

The conversion date will be the date on which all of the foregoing requirements have been satisfied. The notes will be deemed to have been converted immediately prior to the close of business on the conversion date. A certificate for the number of shares of common stock into which the notes are converted, including any cash in lieu of any fractional shares, will be delivered as soon as practicable on or after the conversion date.

We will adjust the initial conversion price in certain circumstances subject to certain exceptions, including:

- issuances of our common stock as a dividend or distribution on all of our common stock;
- certain subdivisions and combinations of our common stock;

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- issuances to all holders of our common stock of certain rights or warrants to purchase our common stock at less than the current market price of our common stock;
- distributions to all holders of our common stock of shares of our capital stock, evidences of our indebtedness or assets, including securities, but excluding:
 - our common stock;

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- the rights and warrants referred to in the third bullet point above;
- any dividends and distributions in connection with a reclassification, change, consolidation, merger, combination, sale or conveyance resulting in a change in the conversion consideration pursuant to the second succeeding paragraph; or
- any dividends or distributions paid exclusively in cash;
- but including securities of our subsidiaries to the extent we do not elect to reserve such securities on a pro rata basis for the benefit of holders of notes as described below;
- distributions consisting exclusively of cash to all holders of our common stock to the extent that such distributions, combined together with:
 - all other such all-cash distributions made within the preceding 12 months for which no adjustment has been made, plus
 - any cash and the fair market value of other consideration paid for any tender offers by us or any of our subsidiaries for our common stock expiring within the preceding 12 months for which no adjustment has been made,
 - exceeds 10% of our market capitalization on the record date for such distribution; and
- purchases of our common stock pursuant to a tender offer made by us or any of our subsidiaries to the extent that the same involves an aggregate consideration that, together with:
 - any cash and the fair market value of any other consideration paid in any other tender offer by us or any of our future subsidiaries for our common stock expiring within the 12 months preceding such tender offer for which no adjustment has been made, plus
 - the aggregate amount of any all-cash distributions referred to in the preceding bullet point to all holders of our common stock within 12 months preceding the expiration of a tender offer for which no adjustments have been made,
 - exceeds 10% of our market capitalization on the expiration of such tender offer.

We will not make an adjustment in the conversion price unless such adjustment would require a change of at least 1% in the conversion price then in effect at such time. We will carry forward and take into account in any subsequent adjustment any adjustment that would otherwise be required to be made. Except as stated above, we will not adjust the conversion price for the issuance of our common stock or any securities convertible into or exchangeable for our common stock or carrying the right to purchase any of the foregoing.

If we:

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- reclassify or change any of our common stock, other than changes resulting from a subdivision or combination; or
- consolidate or combine with or merge into any person or sell or convey to another person all or substantially all of our property and assets.

and the holders of our common stock receive capital stock, other securities or other property or assets, including cash or any combination thereof, with respect to or in exchange for their common stock, the holders of the notes may convert the notes into the consideration they would have received if they had converted their notes immediately prior to such reclassification, change, consolidation, combination, merger, sale or conveyance.

If we distribute shares of common stock of a subsidiary of ours to all holders of our common stock, we may elect to reserve the pro rata portion of such shares for the benefit of the holders of notes in lieu of adjusting the conversion price pursuant to the fourth bullet point of the description of conversion price adjustments set forth above.

Under the provisions of our rights plan, upon conversion of the notes into common stock, to the extent that the rights plan is still in effect upon such conversion, the holders will receive, in addition to the common stock, the rights described in the rights plan, whether or not the rights have separated from the common stock at the time of conversion, subject to certain limited exceptions, and in such case there will be no adjustment to the conversion price.

If a taxable distribution to holders of our common stock or other transaction occurs which results in any adjustment of the conversion price, you may, in certain circumstances, be deemed to have received a distribution subject to U.S. income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of our common stock. See "United States Federal Income Tax Consequences" below.

We may from time to time, to the extent permitted by law, reduce the conversion price of the notes by any amount for any period of at least 20 days. In that case, we will give at least 15 days' notice of such decrease. We may make such reductions in the conversion price, in addition to those set forth above, as our board of directors deems advisable to avoid or diminish any income tax to holders of our common stock resulting from any dividend or distribution of stock or rights to acquire stock or from any event treated as such for income tax purposes.

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OPTIONAL REDEMPTION BY NETWORK ASSOCIATES

Optional Redemption

We may not redeem the notes in whole or in part at any time prior to August 20, 2004. At any time on or after August 20, 2004, we may redeem some or all of the notes on at least 20 but not more than 60 days' notice, at the following redemption prices, expressed in percentages of the principal amount:

DURING THE TWELVE MONTHS COMMENCING

REDEMPTION PRICE

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August 20, 2004.....	101.3125%
August 15, 2005.....	100.0000%

We will pay interest accrued and unpaid to, but excluding, the redemption date on notes called for redemption. If the redemption date is an interest payment date, we will pay the interest to the holder of record on the corresponding record date, which may or may not be the same person to whom we will pay the redemption price.

Partial Redemption

If we do not redeem all of the notes, the trustee will select the notes to be redeemed in principal amounts of \$1,000 or whole multiples of \$1,000 by lot or on a pro rata basis. If any notes are to be redeemed in part only, we will issue a new note or notes in principal amount equal to the unredeemed principal portion thereof. If a portion of your notes is selected for partial redemption and you convert a portion of your notes, the converted portion will be deemed to be taken from the portion selected for redemption.

REPURCHASE AT OPTION OF HOLDERS UPON A CHANGE OF CONTROL

If a change of control occurs, you will have the right to require us to repurchase all of your notes, or any portion of those notes that is equal to \$1,000 or a whole multiple of \$1,000 at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus interest accrued and unpaid to, but excluding, the repurchase date. Notwithstanding the foregoing, you will not have a right to require us to repurchase the notes unless prior to that repurchase we have made any applicable change of control offers required by our then outstanding senior indebtedness and have purchased all then outstanding senior indebtedness validly tendered for payment in connection with such change of control offers.

At our option, instead of paying the repurchase price in cash, we may pay the repurchase price in whole or in part our common stock (or in the case of a merger in which we are not the surviving corporation, common stock, ordinary shares or American Depository, shares of the surviving corporation or its direct or indirect parent corporation) or a combination of the applicable securities and cash. The number of shares of the applicable common stock, securities or a combination of the applicable common stock or securities will be valued at 95% of the average closing prices of the applicable common stock or securities, for the five trading days immediately preceding and including the third trading day prior to the repurchase date. However, we may not pay the purchase price in the applicable common stock or securities or a combination of the applicable common stock or securities and cash, unless we satisfy certain conditions prior to the repurchase date as provided in the indenture, including:

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- registration of the shares of the applicable common stock or securities to be issued upon repurchase under the Securities Act and the Exchange Act, if required;
- qualification of the shares of the applicable common stock or securities to be issued upon repurchase under applicable state securities laws, if necessary, or the availability of an exemption therefrom; and
- listing of the applicable common stock or securities on a United

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States national securities exchange or quotation thereof in an inter-dealer quotation system of any registered United States national securities association.

Within 30 days after the occurrence of a change of control, we are required to give you notice of the occurrence of the change of control and of your resulting repurchase right. Unless otherwise required by law, the repurchase date is 30 days after the date we give notice of a change of control. To exercise the repurchase right, you must deliver prior to the close of business on the business day immediately preceding the repurchase date, written notice to the trustee of your exercise of your repurchase right, together with the notes with respect to which your right is being exercised. You may withdraw this notice by delivering to the paying agent a notice of withdrawal prior to the close of business on the business day immediately preceding the repurchase date.

A "change of control" will be deemed to have occurred when any of the following has occurred:

- (i) the acquisition by any person of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchase, merger or other acquisition transactions of shares of our capital stock entitling that person to exercise 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors, other than any acquisition by us, any of our subsidiaries or any of our employee benefit plans; or
- (ii) our consolidation or merger with or into any other person, any merger of another person into us, or any conveyance, transfer, sale, lease or other disposition of all or substantially all of our properties and assets to another person, other than one or more of our wholly-owned subsidiaries, other than the occurrence of any of the following events:
 - (a) any transaction a result of which holders of 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors immediately prior to the transaction have, directly or indirectly, at least 50% of the total voting power of all shares of capital stock of the surviving entity entitled to vote generally in elections of directors of the surviving entity immediately after the transaction; and
 - (b) any merger solely for the purpose of changing our jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity.

However, a change of control will be deemed not to have occurred if:

- (a) the closing sale price per share of our common stock for any five trading days within the period of 10 consecutive trading days ending immediately after the later of the

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first clause above, or the period of 10 consecutive trading days ending immediately before the change of control, in the case of a change of control under the second clause above, equals or exceeds 110% of the conversion price of the notes (as adjusted); or

- (b) at least 90% of the consideration in the transaction or transactions (other than payments for fractional shares and cash payments pursuant to dissenters' appraisal rights) otherwise constituting a change of control consists of shares of common stock traded or to be traded immediately following such change of control on a national securities exchange or the Nasdaq National Market and, as a result of such transaction or transactions, the notes become convertible solely into such common stock (and any rights attached thereto).

The beneficial owner shall be determined in accordance with Rule 13d-3 of the Exchange Act. The term "person" includes any syndicate or group which would be deemed to be a "person" under Section 13 (d) (3) of the Exchange Act.

The term "all or substantially all" as used in the definition of change in control will likely be interpreted under applicable state law and will be dependent upon particular facts and circumstances. There may be a degree of uncertainty in interpreting this phrase. As a result, we cannot assure you how a court would interpret this phrase under applicable law if you elect to exercise your rights following the occurrence of a transaction which you believe constitutes a transfer of "all or substantially all" of our assets.

Rule 13e-4 under the Exchange Act, requires the dissemination of certain information to security holders if an issuer tender offer occurs and may apply if the repurchase option becomes available to holders of the notes. We will comply with this rule to the extent applicable at that time.

We may, to the extent permitted by applicable law and any agreement or indenture governing our then outstanding indebtedness, at any time purchase the notes in the open market or by tender at any price or by private agreement. Any note so purchased by us may, to the extent permitted by applicable law, be reissued or resold or may be surrendered to the trustee for cancellation. Any notes surrendered to the trustee may not be reissued or resold and will be canceled promptly.

The change of control feature of the notes may in certain circumstances make more difficult or discourage a takeover of Network Associates and, thus, the removal of incumbent management. The repurchase right is not the result of our knowledge of any effort to accumulate any common stock or to obtain control of Network Associates by means of a merger, tender offer, solicitation or otherwise, or part of a plan by us to adopt a series of anti-takeover provisions. Instead, this right is the result of negotiations between us and the initial purchaser.

The foregoing provisions would not necessarily protect holders of the notes if highly leveraged or other transactions involving us occur that may adversely affect holders.

Our ability to repurchase notes upon the occurrence of a change in control is subject to important limitations. The occurrence of a change of control could cause an event of default under, or be prohibited or limited by, the terms of senior indebtedness that we may incur in the future. As a result, any repurchase of the notes would, absent a waiver, be prohibited under the subordination provisions of the indenture until the

senior indebtedness is paid in full. Further, we cannot assure you that we would have the financial resources, or would be able to arrange financing, to pay the repurchase price for all the notes that might be delivered by holders of notes seeking to exercise the repurchase right. Any failure by us to repurchase the notes when required following a change of control would result in an event of default under the indenture, whether or not such repurchase is permitted by the subordination provisions of the indenture. Any such default may, in turn, cause a default under other indebtedness, including senior indebtedness, that we may incur in the future. See "Subordination of Notes" below.

SUBORDINATION OF NOTES

The notes are subordinated to the prior payment in full in cash or other payment satisfactory to the holders of senior indebtedness of all of our existing and future senior indebtedness. The subordination provisions of the indenture will not prevent the occurrence of any event of default under the indenture.

In the event we distribute our assets upon our dissolution, winding up, bankruptcy, insolvency, liquidation, reorganization, or similar proceeding, holders of our senior indebtedness will be entitled to receive payment in full, in cash or other payment satisfactory to the holders of senior indebtedness, before we may make any payments of principal of, or premium, if any, and interest, including any additional interest, on the notes. Until all senior indebtedness is paid in full in cash or other payment satisfactory to the holders of senior indebtedness, any payment on the notes to which the holders of notes would be entitled shall be made to the holders of senior indebtedness. In the event of our dissolution, winding up, bankruptcy, insolvency, liquidation, reorganization or similar proceeding, holders of senior indebtedness may receive more, ratably, and the holders of notes may receive less, ratably, than our other creditors.

If the notes are declared due and payable prior to maturity because of an event of default, we are obligated to notify promptly holders of senior indebtedness. We may not make any payments on the notes until 120 days have passed after the occurrence of this acceleration of the notes. We may then make payments on the notes if we are permitted to make such payments under the indenture at that time.

We may not make any payment on the notes if:

- a payment default on senior indebtedness occurs and is continuing, without regard to any applicable period of grace, or
- any other nonpayment default occurs and is continuing on designated senior indebtedness that permits holders of the designated senior indebtedness to accelerate its maturity and the trustee receives a payment blockage notice from us or from a representative of the designated senior indebtedness.

We may resume payments on the notes:

- in case of a payment default, the earlier of the date on which the payment default is cured, waived or ceases to exist, and
- in case of a nonpayment default, the earlier of the date on which such nonpayment default is cured, waived, or ceases to exist, or 179 days after the date on which the applicable payment blockage notice is

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received by the trustee if the terms of the indenture otherwise permit payment at that time.

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No new period of payment blockage for a non-payment default may be commenced pursuant to a payment blockage notice unless and until 365 days have elapsed since the initial effectiveness of the immediately prior payment blockage notice. No nonpayment default that existed or was continuing on the date of delivery of any payment blockage notice to the trustee shall be, or shall be made, the basis for a subsequent payment blockage notice unless such default shall not have been cured or waived for a period of not less than 90 days.

"senior indebtedness" means the principal of, premium, if any, interest, including any interest accrued after bankruptcy, original issue discount, rent, end of term payments, fees, costs, expenses, liquidated damages, indemnities, repurchase and other put obligations and other amounts on indebtedness, whether outstanding on the date of the indenture or thereafter created, incurred, assumed, guaranteed or in effect guaranteed by us, including all deferrals, renewals, extensions, refundings, amendments, modifications or supplements to the above.

However, senior indebtedness does not include:

- (1) any indebtedness of Network Associates that is not secured, but this requirement shall only apply so long as there is at least \$60 million aggregate principal amount at maturity of our debentures outstanding;
- (2) the notes;
- (3) the debentures;
- (4) indebtedness to any subsidiary of Network Associates, a majority of the voting stock of which is owned, directly or indirectly, by Network Associates;
- (5) accounts payable or other indebtedness to trade creditors created or assumed by us in the ordinary course of business; and
- (6) any particular indebtedness in which the instrument creating or evidencing the same or the assumption or guarantee thereof expressly provides that the indebtedness shall not be senior in right of payment to, or is on the same basis with, or is subordinated or junior to, the notes.

"indebtedness" means:

- all of our obligations and other liabilities for borrowed money, including overdrafts, foreign exchange contracts, currency exchange agreements, interest rate protection agreements, and any loans or advances from banks;
- all of our obligations and other liabilities evidenced by bonds, debentures, notes or similar instruments, whether or not the recourse of the lender is to the whole of our assets or to only a portion of our assets;
- all of our reimbursement obligations and other liabilities with respect to letters of credit, bank guarantees or bankers' acceptances;

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- all of our obligations and liabilities in respect of leases required, in conformity with generally accepted accounting principles, to be accounted for as capitalized lease obligations on our balance sheet;
- all of our obligations and liabilities in respect of leases required, in conformity with generally accepted accounting principles, to be accounted for as operating lease, provided either (A) such operating lease requires, at the end of the term thereof, that we make any payment other than accrued periodic rent in the event that we do not acquire the leased real property and related fixtures subject to such lease, or (B) we have an option to acquire the leased real property and related fixtures, whether such option is exercisable at any time or under specified circumstances;
- all of our obligations with respect to an interest rate swap, cap or collar agreement or other similar instrument or agreement;
- all of our direct or indirect guaranties or similar agreements in respect of, and obligations or liabilities to purchase or otherwise acquire or otherwise assure a creditor against loss in respect of indebtedness, obligations or liabilities of another person of the kind described in the above bullet points;
- any indebtedness or other obligations described in the above bullet points secured by any mortgage, pledge, lien or other encumbrance existing on property which is owned or held by us
- regardless of whether the indebtedness or other obligation secured thereby shall have been assumed by us; and
- any and all deferrals, renewals, extensions, refundings, amendments, modifications or supplements, to any indebtedness, obligation or liability of the kind described in the above bullet points.

"designated senior indebtedness" means any particular senior indebtedness that expressly provides that such senior indebtedness shall be "designated senior indebtedness" for purposes of the indenture, however such agreement may place limitations and conditions on the right of such senior indebtedness to exercise the rights of designated senior indebtedness.

The notes are obligations exclusively of Network Associates. Since a significant portion of our operations are conducted through our subsidiaries, our cash flow and our consequent ability to service debt, including the notes, are dependent upon the earnings of our subsidiaries and the distribution of those earnings to us, or upon loans or other payments of funds by those subsidiaries to, us. These subsidiaries are separate and distinct legal entities and have no obligation to make any payments on the notes or to make any funds available for payments on the notes, whether by dividends, loans or otherwise. In addition, the ability of our subsidiaries to make dividend payments or loans or advances to us may be subject to statutory or contractual restrictions and may be contingent on the earnings of the subsidiaries.

Our right to receive assets of any of our subsidiaries upon their liquidation or reorganization, and your consequent right to participate in those assets, will be effectively subordinated to any claims creditors may have against our subsidiaries, including trade creditors, unless we are recognized as a creditor to the subsidiary.

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As of December 31, 2001, we had no indebtedness outstanding that would have constituted senior indebtedness, and as September 30, 2001 our subsidiaries had approximately \$539 million of indebtedness and other liabilities outstanding, excluding intercompany liabilities and liabilities of a type not required to be reflected on a balance sheet in accordance with generally accepted accounting principles, to which the notes would have been effectively subordinated. In addition, the notes will rank on the same basis as our \$745.5 million principal amount at maturity of debentures outstanding as of September 30, 2001 so long as there is at least \$60 million aggregate principal amount at maturity of the debentures remaining outstanding. Neither we nor our subsidiaries are limited from incurring additional indebtedness, including senior indebtedness, under the indenture.

If either the trustee or any holder of the notes receives any payment or distribution of our assets in contravention of any of the subordination provisions of the indenture on the notes before all senior indebtedness is paid in full in cash or other payment satisfactory to the holders of senior indebtedness, then such payment or distribution will be held by the recipient in trust for the benefit of holders of senior indebtedness or their representatives to make payment in full in cash or other payment satisfactory to the holders of senior indebtedness of all senior indebtedness.

We will be obligated to pay reasonable compensation to the trustee and to indemnify the trustee against any losses, liabilities or expenses incurred by it in connection with its duties relating to the notes. The trustee's claims for such payments will be senior to those of holders of the notes in respect of all funds collected or held by the trustee.

EVENTS OF DEFAULT

Each of the following constitutes an event of default under the indenture:

- (1) our failure to pay when due the principal of or premium, if any, on any of the notes at maturity, upon redemption or exercise of a repurchase right or otherwise, whether or not such payment is prohibited by the subordination provisions of the indenture;
- (2) our failure to pay an installment of interest on any of the notes for 30 days after the date when due, whether or not such payment is prohibited by the subordination provisions of the indenture;
- (3) our failure to perform or observe any other term, covenant or agreement contained in the notes or the indenture for a period of 60 days after written notice of such failure, requiring us to remedy the same, shall have been given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the notes then outstanding;
- (4) (A) we or one of our significant subsidiaries fails to make any payment at maturity, including any grace period, in respect of any obligation for borrowed money evidenced by a bond, debenture, note or similar instrument (an "instrument") in an amount in excess of \$25 million and such failure continues or (B) we or one of our significant subsidiaries defaults with respect to any instrument,

which default result