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NETWORKS ASSOCIATES INC/
Form 11-K
June 28, 2002

FORM 11-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

ANNUAL REPORT

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

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

For the fiscal year ended December 31, 2001

Commission file number 000-26994

A. Full title of the plan and the address of the plan, if different from that
of the issuer named below:

NETWORK ASSOCIATES, INC.
TAX DEFERRED SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the plan and the address
of its principal executive office:

NETWORK ASSOCIATES, INC.
3965 FREEDOM CIRCLE
SANTA CLARA, CA 95054

SIGNATURE

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

NETWORK ASSOCIATES, INC. TAX
DEFERRED SAVINGS PLAN

Date: June 28, 2002

By /s/ Stephen C. Richards

Stephen C. Richards
Executive Vice President
Chief Financial Officer

NETWORK ASSOCIATES, INC.
TAX DEFERRED SAVINGS PLAN
Financial Statements
December 31, 2001 and 2000

NETWORK ASSOCIATES, INC.
TAX DEFERRED SAVINGS PLAN

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
DECEMBER 31, 2001 AND 2000

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INDEPENDENT ACCOUNTANTS' REPORT

TO THE PARTICIPANTS AND
PLAN ADMINISTRATOR OF THE

NETWORK ASSOCIATES, INC.
TAX DEFERRED SAVINGS PLAN

We have audited the financial statements of the Network Associates, Inc. Tax Deferred Savings Plan (the Plan) as of December 31, 2001 and 2000, and for the years then ended, as listed in the accompanying table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2001 and 2000, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

By /s/ Mohler, Nixon & Williams

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MOHLER, NIXON & WILLIAMS
Accountancy Corporation

Campbell, California
May 8, 2002

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NETWORK ASSOCIATES, INC.
TAX DEFERRED SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

| | DECEMBER 31, | |
|--|---------------|---------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Investments, at fair value | \$ 73,311,225 | \$ 59,979,821 |
| Participant loans | 1,162,093 | 742,951 |
| | ----- | ----- |
| Assets held for investment purposes | 74,473,318 | 60,722,772 |
| Participants' contributions receivable | 280,931 | 584,953 |
| Employer's contribution receivable | 366,795 | 195,012 |
| Other receivable | 33,068 | |
| | ----- | ----- |
| Total assets | 75,154,112 | 61,502,737 |
| Other liabilities | (111,225) | (356,192) |
| | ----- | ----- |
| Net assets available for benefits | \$ 75,042,887 | \$ 61,146,545 |
| | ===== | ===== |

See notes to financial statements.

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NETWORK ASSOCIATES, INC.
TAX DEFERRED SAVINGS PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

YEARS ENDED
DECEMBER 31,

2001

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| | | |
|---|--|--------------|
| ----- | | ----- |
| Additions to net assets attributed to: | | |
| Investment income: | | |
| Dividends and interest | | \$1,398,902 |
| Net realized and unrealized appreciation (depreciation) in fair value of investments | | 2,490,083 |
| | | ----- |
| | | 3,888,985 |
| | | ----- |
| Contributions: | | |
| Participants' | | 13,332,604 |
| Employer's | | 4,454,366 |
| | | ----- |
| | | 17,786,970 |
| | | ----- |
| Total additions | | 21,675,955 |
| | | ----- |
| Deductions from net assets attributed to: | | |
| Withdrawals and distributions | | 7,734,992 |
| Administrative expenses | | 44,621 |
| | | ----- |
| Total deductions | | 7,779,613 |
| | | ----- |
| Net increase (decrease) | | 13,896,342 |
| Net assets available for benefits: | | |
| Beginning of year | | 61,146,545 |
| | | ----- |
| End of year | | \$75,042,887 |
| | | ===== |
| | | ===== |

See notes to financial statements.

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NETWORK ASSOCIATES, INC.
TAX DEFERRED SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

NOTE 1 - THE PLAN AND ITS SIGNIFICANT ACCOUNTING POLICIES

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

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

Effective January 1, 2001, the Plan was amended to change the eligibility requirements for matching contributions, the rate of matching contributions and the vesting provisions of the Plan. The matching contributions and profit sharing contributions, if any, to eligible employees of the Company on or after January 1, 2001 are 100% vested. The Plan was also amended to comply with recent changes to the relevant provisions of the Internal Revenue Code.

The Plan administrator believes that the Plan is currently designed and operated

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in compliance with the applicable requirements of the Internal Revenue Code and the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

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

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

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

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

The Plan's investments in mutual funds are valued at fair value as of the last day of the Plan year, as measured by quoted market prices. The Plan's investment in the NAI Stock Fund is valued at the closing stock price as of December 31, 2001 of the Company stock plus the market value of the liquid investments included in the NAI Stock Fund. Participant loans are valued at cost, which approximates fair value.

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

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

RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500 - The differences between the information reported in the financial statements and the information reported in the Form 5500 arise primarily from presenting the financial statements on the accrual basis of accounting.

RISKS AND UNCERTAINTIES - The Plan provides for various investment options in any combination of mutual funds, stocks, bonds, fixed income securities and other investment securities offered by the Plan. Investment securities are exposed to various risks, such as interest rate, market fluctuations and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the

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statements of net assets available for benefits and the statements of changes in net assets available for benefits.

NOTE 2 - RELATED PARTY TRANSACTIONS

Certain Plan investments in mutual funds are managed by Fidelity. Such transactions, while considered party-in-interest transactions under ERISA regulations, are permitted under the provisions of the Plan and are specifically exempt from the prohibition of party-in-interest transactions under ERISA.

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NOTE 3 - PARTICIPATION AND BENEFITS

PARTICIPANT CONTRIBUTIONS - Participants may elect to have the Company contribute from 1% to 15% of their eligible pre-tax compensation not to exceed the amount allowable under current income tax regulations. Participants who elect to have the Company contribute a portion of their compensation to the Plan agree to accept an equivalent reduction in taxable compensation. Participants also may contribute from 1% to 12.5% of compensation to the Plan on an after-tax basis. Contributions withheld are invested in accordance with the participant's direction.

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

EMPLOYER CONTRIBUTIONS - The Company is allowed to make matching contributions as defined in the Plan and as approved by the Board of Directors. In 2001, the Company matched the first 2% of each participant's tax deferred contribution \$1.00 for \$1.00 and remaining contributions were matched \$.50 for each \$1.00 up to maximum of 4% of the participant's tax deferred contribution, not to exceed \$4,000. The Plan also allows for a discretionary profit sharing contribution. No discretionary contribution has been made for the years ended December 31, 2001 and 2000.

VESTING - Effective January 1, 2001, participants are 100% vested in their account at all times.

PARTICIPANT ACCOUNTS - Each participant's account is credited with the participant's contribution, Plan earnings or losses and an allocation of the Company's contribution. Allocation of the Company's matching contribution is based on participant contributions, as defined in the Plan.

PAYMENT OF BENEFITS - Upon termination of employment, the participant or beneficiary will receive the benefits in a lump sum amount equal to the value of the participant's interest in his or her account. The Plan allows for automatic lump sum distribution of participant account balances that do not exceed \$5,000.

LOANS TO PARTICIPANTS - The Plan allows participants to borrow not less than \$1,000 and up to the lesser of \$50,000 or 50% of their vested account balance. The loans are secured by the participant's vested balance. Such loans bear interest at the prime rate plus 2% and must be repaid to the Plan within a five-year period, unless the loan is used for the purchase of a principal residence in which case the maximum repayment period cannot exceed fifteen years. The specific terms and conditions of such loans are established by the Committee. Outstanding loans at December 31, 2001 carry interest rates which range from 7.8% to 9.5%.

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NOTE 4 - INVESTMENTS

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

| | 2001 ---- | 2000 ---- |
|--------------------------------------|-----------------------|-----------------------|
| Fidelity Management Trust Company: | | |
| Magellan Fund | \$11,999,167 | \$12,588,135 |
| Intermediate Bond Fund | 3,304,028 | 1,667,395 |
| Blue Chip Fund | 13,532,660 | 15,450,906 |
| Low Price Stock Fund | 3,610,905 | 1,769,318 |
| Equity Income II Fund | 5,410,396 | 5,523,243 |
| Diversified International Fund | 2,088,023 | 2,185,669 |
| Retired Government Money Market Fund | 11,343,226 | 8,711,051 |
| Spartan U.S. Equity Index Fund | 6,634,751 | 6,869,631 |
| Invesco Total Return Fund | | 781,837 |
| Warburg Emerging Growth Fund | | 2,502,563 |
| Puritan Fund | 882,314 | |
| Equity Income Fund | 42,523 | |
| Growth Company Fund | 164,355 | |
| Select Health Care Fund | 218,551 | |
| Select Technology Fund | 343,544 | |
| Select Utilities Growth Fund | 25,173 | |
| Select Financial Services Fund | 60,977 | |
| Select Natural Resources Fund | 55,061 | |
| Select Cyclical Industries Fund | 42,932 | |
| Select Consumer Industries Fund | 12,637 | |
| Mid-Cap Stock Fund | 244,606 | |
| Small-Cap Stock Fund | 82,756 | |
| Freedom Income Fund | 33,556 | |
| Freedom 2000 Fund | 26,922 | |
| Freedom 2010 Fund | 70,930 | |
| Freedom 2020 Fund | 302,352 | |
| Freedom 2030 Fund | 502,215 | |
| Freedom 2040 Fund | 318,708 | |
| Alger Mid-Cap Growth Fund | 2,086,920 | |
| NAI Stock Fund | 9,871,037 | 1,930,073 |
| Participant loans | 1,162,093 | 742,951 |
| | ----- | ----- |
| Assets held for investment purposes | \$74,473,318 ===== | \$60,722,772 ===== |

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

| | 2001 ---- | 2000 ---- |
|--------------|--------------|---------------|
| Common stock | \$8,964,286 | (\$4,481,753) |
| Mutual funds | (6,474,203) | (6,947,492) |

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| | |
|-------------|----------------|
| ----- | ----- |
| \$2,490,083 | (\$11,429,245) |
| ===== | ===== |

As allowed by the Plan, participants may elect to invest a portion of their accounts in the NAI Stock Fund which includes common stock of the Company. Aggregate investment in Company common stock included in the NAI Stock Fund at December 31, 2001 and 2000 was as follows:

| Date | Number of shares | Fair value |
|------|------------------|--------------|
| ---- | ----- | ----- |
| 2001 | 355,598 | \$ 9,192,208 |
| 2000 | 317,935 | \$ 1,331,353 |

The NAI Stock Fund invests primarily in the Company's common stock. The remainder of the Fund is invested in Fidelity Money Market Fund Class I Shares to allow for timely handling of exchanges, withdrawals and distributions. Investments in the Money Market Fund were \$678,829 and \$598,720 at December 31, 2001 and 2000, respectively.

NOTE 5 - PLAN TERMINATION

The Company intends to continue the Plan indefinitely for the benefit of its participants; however, it reserves the right to terminate or modify the Plan at any time by resolution of its Board of Directors or Administrative Committee and subject to the provisions of ERISA. In the event the Plan is terminated in the future, participants would become fully vested in their accounts.

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CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-43572) of Network Associates, Inc. of our report dated May 8, 2002, relating to the financial statements and schedule of the Network Associates, Inc. Tax Deferred Savings Plan included in this Annual Report on Form 11-K.

By /s/ Mohler, Nixon & Williams

 MOHLER, NIXON & WILLIAMS
 Accountancy Corporation

Campbell, California
 June 28, 2002

SUPPLEMENTAL SCHEDULE

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NETWORK ASSOCIATES, INC.
TAX DEFERRED SAVINGS PLAN

EIN: 77-0316593
PLAN #001

SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES
DECEMBER 31, 2001

| IDENTITY OF ISSUE, BORROWER, lessor or similar party | DESCRIPTION OF INVESTMENT INCLUDING MATURITY rate of interest, collateral, par or maturity |
|---|---|
| Fidelity Management Trust Company: | |
| * Fidelity Magellan Fund | Mutual Fund |
| * Fidelity Intermediate Bond Fund | Mutual Fund |
| * Fidelity Blue Chip Fund | Mutual Fund |
| * Fidelity Low Priced Stock Fund | Mutual Fund |
| * Fidelity Equity Income II Fund | Mutual Fund |
| * Fidelity Diversified International Fund | Mutual Fund |
| * Fidelity Retirement Government Money Market | Mutual Fund |
| * Fidelity Spartan U.S. Equity Index Fund | Mutual Fund |
| * Fidelity Puritan Fund | Mutual Fund |
| * Fidelity Equity Income Fund | Mutual Fund |
| * Fidelity Growth Company Fund | Mutual Fund |
| * Fidelity Select Health Care Fund | Mutual Fund |
| * Fidelity Select Technology Fund | Mutual Fund |
| * Fidelity Select Utilities Growth Fund | Mutual Fund |
| * Fidelity Select Financial Services Fund | Mutual Fund |
| * Fidelity Select Natural Resources Fund | Mutual Fund |
| * Fidelity Select Cyclical Industries Fund | Mutual Fund |
| * Fidelity Select Consumer Industries Fund | Mutual Fund |
| * Fidelity Mid-Cap Stock Fund | Mutual Fund |
| * Fidelity Small-Cap Stock Fund | Mutual Fund |
| * Fidelity Freedom Income Fund | Mutual Fund |
| * Fidelity Freedom 2000 Fund | Mutual Fund |
| * Fidelity Freedom 2010 Fund | Mutual Fund |
| * Fidelity Freedom 2020 Fund | Mutual Fund |
| * Fidelity Freedom 2030 Fund | Mutual Fund |
| * Fidelity Freedom 2040 Fund | Mutual Fund |
| * Alger Mid-Cap Growth Fund | Mutual Fund |
| * NAI Stock Fund | Common Stock |
| * Fidelity Money Market Fund | Mutual Fund |
| * Participant loans | Interest rates ranging from 7.8% to 9.5% |

* Parties in interest