

NETWORKS ASSOCIATES INC/

Form 10-Q/A

June 28, 2002

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/ A

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2001
or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission file number 0-20558

Networks Associates, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

77-0316593
(IRS Employer Identification Number)

3965 Freedom Circle

**Santa Clara, California 95054
(408) 988-3832**

(Address and telephone number of principal executive offices)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

137,374,939 shares of the registrant's common stock, \$0.01 par value, were outstanding as of June 30, 2001.

EXPLANATORY NOTE:

THIS 10-Q/A IS BEING FILED FOR THE PURPOSE OF AMENDING AND RESTATING ITEMS 1, 2 AND 3 OF PART I OF FORM 10-Q TO REFLECT THE RESTATEMENT OF OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE PERIODS ENDED JUNE 30, 2001 AND 2000. WE HAVE MADE NO FURTHER CHANGES TO THE PREVIOUSLY FILED 10-Q. ALL INFORMATION IN THE FORM 10-Q/A IS AS OF JUNE 30, 2001 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THE RESTATEMENT.

This document contains 54 pages.

The Exhibit Index is on page 51.

TABLE OF CONTENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities

Item 3. Defaults in Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information:

Item 6. Exhibits and Reports on Form 8-K:

SIGNATURES

Table of Contents

NETWORKS ASSOCIATES, INC.

FORM 10-Q/ A,

June 30, 2001

CONTENTS

Item Number		Page
PART I: FINANCIAL INFORMATION		
Item 1.	Financial Statements, as restated	
	Condensed Consolidated Balance Sheets: June 30, 2001 and December 31, 2000	1
	Condensed Consolidated Statements of Operations and Comprehensive Income (Loss): Three months and six months ended June 30, 2001 and 2000	2
	Condensed Consolidated Statements of Cash Flows: Six months ended June 30, 2001 and 2000	3
	Notes to Condensed Consolidated Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	30
PART II: OTHER INFORMATION		
Item 1.	Legal Proceedings	49
Item 2.	Changes in Securities	49
Item 3.	Defaults in Securities	49
Item 4.	Submission of Matters to a Vote of Security Holders	49
Item 5.	Other Information	49
Item 6.	Exhibits and Reports on Form 8-K	49
	SIGNATURES	50
	EXHIBIT INDEX	51

Table of Contents**NETWORKS ASSOCIATES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2001	December 31, 2000
	(As restated see Note 2)	(As restated see Note 2)
	(In thousands, except share and per share data) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 358,387	\$ 275,539
Short-term marketable securities	73,281	85,721
Accounts receivable, net	86,523	122,315
Prepaid expenses, income taxes and other current assets	39,278	50,346
Deferred taxes	104,644	86,771
	<hr/>	<hr/>
Total current assets	662,113	620,692
Long-term marketable securities	218,904	332,893
Fixed assets, net	71,705	75,499
Deferred taxes	117,412	120,261
Intangibles and other assets	210,659	242,275
	<hr/>	<hr/>
Total assets	\$ 1,280,793	\$ 1,391,620
	<hr/>	<hr/>
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 21,360	\$ 46,816
Accrued liabilities	253,875	254,282
Deferred revenue	183,292	151,566
	<hr/>	<hr/>
Total current liabilities	458,527	452,664
Deferred taxes	6,500	7,971
Deferred revenue, less current portion	30,133	26,592
Convertible debt	405,391	396,336
Other long-term debt and liabilities	427	532
	<hr/>	<hr/>
Total liabilities	900,978	884,095
Contingencies (Note 9)		
Minority interest	10,656	11,067
Common stock, \$0.01 par value; Authorized: 300,000,000; Issued: 139,328,528 shares at June 30, 2001 and December 31, 2000; Outstanding: 137,374,939 shares at June 30, 2001 and 138,089,775 shares at December 31, 2000.	1,393	1,381
Treasury stock, at cost: 1,953,589 shares at June 30, 2001 and 1,238,753 shares at December 31, 2000.	(52,411)	(23,186)
Additional paid-in capital	689,694	685,423
Accumulated other comprehensive loss	(30,890)	(31,266)
Accumulated deficit	(238,627)	(135,894)
	<hr/>	<hr/>
Total stockholders equity	369,159	496,458
	<hr/>	<hr/>

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Total liabilities, minority interest, and stockholders' equity	\$1,280,793	\$1,391,620
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The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**NETWORKS ASSOCIATES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(As reclassified see Note 2)	(As restated and reclassified see Note 2)	(As reclassified see Note 2)	(As restated and reclassified see Note 2)
	(In thousands, except per share data) (Unaudited)			
Net revenue:				
Product	\$ 132,368	\$ 164,321	\$ 224,869	\$ 303,992
Services and support	60,194	55,720	123,289	103,237
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net revenue	192,562	220,041	348,158	407,229
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cost of net revenue:				
Product	25,421	29,265	48,881	52,003
Services and support	14,233	9,637	27,460	18,912
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total cost of net revenue	39,654	38,902	76,341	70,915
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating costs and expenses:				
Research and development(1)	34,886	42,885	74,859	84,060
Marketing and sales(2)	102,427	95,700	203,244	189,015
General and administrative(3)	26,883	24,475	49,022	37,888
Amortization of intangibles	16,672	14,932	32,517	29,362
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total operating cost and expenses	180,868	177,992	359,642	340,325
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income (loss) from operations	(27,960)	3,147	(87,825)	(4,011)
Interest and other income and expense, net	3,168	6,317	9,530	13,569
Gain on investments, net				40,373
Write-down of strategic and other investments	(13,138)		(18,138)	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income (loss) before provision for income tax and minority interest	(37,930)	9,464	(96,433)	49,931
Provision for (benefit from) income taxes	(732)	7,500	(11,172)	28,499
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income (loss) before minority interest	(37,198)	1,964	(85,261)	21,432
Minority interest in losses of consolidated subsidiaries	19	1,213	721	2,336
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income (loss)	\$ (37,179)	\$ 3,177	\$ (84,540)	\$ 23,768
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other comprehensive income (loss), net	\$ 8,705	\$ (7,550)	\$ 376	\$ (3,885)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Comprehensive income (loss)	\$ (28,474)	\$ (4,373)	\$ (84,164)	\$ 19,883
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income (loss) per share basic	\$ (0.27)	\$ 0.02	\$ (0.62)	\$ 0.17
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Shares used in per share calculation basic	136,879	138,072	137,010	138,475
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Net income (loss) per share	diluted	\$ (0.27)	\$ 0.02	\$ (0.62)	\$ 0.17
		_____	_____	_____	_____
Shares used in per share calculation	diluted	136,879	142,238	137,010	143,272
		_____	_____	_____	_____

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- (1) Includes stock-based compensation charge of \$107, \$394, \$198 and \$848 for the three months and six months ended June 30, 2001 and 2000, respectively.
 - (2) Includes stock-based compensation charge of \$169, \$625, \$313 and \$1,345 for the three months and six months ended June 30, 2001 and 2000, respectively.
 - (3) Includes stock-based compensation charge of \$931, \$340, \$2,352 and \$732 for the three months and six months ended June 30, 2001 and 2000, respectively.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

NETWORKS ASSOCIATES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2001	2000
		(As restated see Note 2)
		(In thousands)
		(Unaudited)
Cash flows from operating activities:		
Net income (loss)	\$ (84,540)	\$ 23,768
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and bad debt expense	41,852	40,251
Interest on convertible notes	9,422	8,983
Realized gain on investments	(3,876)	141
Write-down of strategic investments	18,138	
Minority interest	(721)	(2,336)
Deferred taxes	(17,657)	(23,147)
Stock compensation charges	2,863	2,925
Gain on sale of Goto.com investment		(28,551)
Gain on sale of Network Associates Japan investment		(11,947)
Changes in assets and liabilities:		
Accounts receivable	42,368	(3,029)
Prepaid expenses, income taxes and other	7,938	(22,002)
Accounts payable and accrued liabilities	(23,120)	61,577
Deferred revenue	38,367	20,174
	<u>31,034</u>	<u>66,807</u>
Cash flows from investing activities:		
Purchase of marketable securities	(300,052)	(247,969)
Proceeds from sale of marketable securities	421,698	254,111
Purchase of investments		(17,650)
Proceeds from sale of Goto.com investment		36,750
Proceeds from sale of shares of Network Associates Japan		11,947
Purchase of shares of Network Associates Japan	(10,655)	
Acquisitions by subsidiary		(1,959)
Additions to fixed assets	(13,435)	(30,128)
	<u>97,556</u>	<u>5,102</u>
Cash flows from financing activities:		
Repayment of notes payable		(67)
Proceeds from issuance of common stock from option plan and stock purchase plans	8,842	14,768
Repurchase of common stock	(53,800)	(62,859)
Other	(779)	1,606
Proceeds from sale of put options		13,890
	<u>(45,737)</u>	<u>(32,662)</u>
Effect of exchange rate fluctuations	(5)	(31,868)

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Net increase in cash and cash equivalents	82,848	7,379
Cash and cash equivalents at beginning of period	275,539	316,784
Cash and cash equivalents at end of period	\$ 358,387	\$ 324,163

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

NETWORKS ASSOCIATES, INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

1. Basis of Presentation