

NETGEAR, INC  
Form 10-Q  
November 06, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended September 27, 2009.

.. **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: 000-50350

**NETGEAR, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**350 East Plumeria Drive,**  
**San Jose, California**  
(Address of principal executive offices)

**77-0419172**  
(IRS Employer  
Identification No.)

**95134**  
(Zip Code)

**(408) 907-8000**  
(Registrant's telephone number including area code)

Indicate by check mark whether the 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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer  Accelerated filer   
Non-Accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes  No

The number of outstanding shares of the registrant's Common Stock, \$0.001 par value, was 34,623,247 as of October 30, 2009.

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**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1. Financial Statements****NETGEAR, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)**

	September 27, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 159,647	\$ 192,839
Short-term investments	74,893	10,170
Accounts receivable, net	123,529	138,275
Inventories	73,858	112,240
Deferred income taxes	11,750	13,129
Prepaid expenses and other current assets	16,345	22,695
<b>Total current assets</b>	<b>460,022</b>	<b>489,348</b>
Property and equipment, net	17,331	20,292
Intangibles, net	9,551	13,311
Goodwill	64,939	61,400
Other non-current assets	5,126	1,858
<b>Total assets</b>	<b>\$ 556,969</b>	<b>\$ 586,209</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 38,447	\$ 60,073
Accrued employee compensation	7,549	7,177
Other accrued liabilities	76,663	87,747
Deferred revenue	11,355	21,508
<b>Total current liabilities</b>	<b>134,014</b>	<b>176,505</b>
Non-current income taxes payable	14,615	12,357
Other non-current liabilities	6,211	6,389
<b>Total liabilities</b>	<b>154,840</b>	<b>195,251</b>
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock	35	34
Additional paid-in capital	276,123	266,070
Cumulative other comprehensive income (loss)	(65)	67
Retained earnings	126,036	124,787
<b>Total stockholders' equity</b>	<b>402,129</b>	<b>390,958</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 556,969</b>	<b>\$ 586,209</b>

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

**Table of Contents****NETGEAR, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

	Three Months Ended		Nine Months Ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Net revenue	\$ 171,071	\$ 179,367	\$ 467,763	\$ 581,985
Cost of revenue	115,326	117,074	327,827	389,420
Gross profit	55,745	62,293	139,936	192,565
Operating expenses:				
Research and development	7,353	8,267	22,202	25,589
Sales and marketing	25,710	30,220	76,076	94,440
General and administrative	8,502	8,048	24,594	23,238
Restructuring	104	964	798	964
Litigation reserves, net	(480)	85	2,060	136
Total operating expenses	41,189	47,584	125,730	144,367
Income from operations	14,556	14,709	14,206	48,198
Interest income	66	976	548	3,528
Other income (expense), net	(266)	(4,653)	338	(1,824)
Income before income taxes	14,356	11,032	15,092	49,902
Provision for income taxes	5,826	7,929	13,612	24,509
Net income	\$ 8,530	\$ 3,103	\$ 1,480	\$ 25,393
Net income per share:				
Basic	\$ 0.25	\$ 0.09	\$ 0.04	\$ 0.72
Diluted	\$ 0.24	\$ 0.09	\$ 0.04	\$ 0.71
Weighted average shares outstanding used to compute net income per share:				
Basic	34,523	35,412	34,425	35,361
Diluted	34,948	35,721	34,749	35,834

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

**Table of Contents****NETGEAR, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	<b>Nine Months Ended</b>	
	<b>September 27, 2009</b>	<b>September 28, 2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,480	\$ 25,393
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,308	7,981
Purchase premium amortization on investments	47	21
Non-cash stock-based compensation	8,293	8,670
Income tax benefit (detriment) associated with stock option exercises	(342)	294
Excess tax benefit from stock-based compensation	(429)	(141)
Deferred income taxes	164	(2,630)
Changes in assets and liabilities:		
Accounts receivable	14,746	7,213
Inventories	38,382	(42,688)
Prepaid expenses and other assets	4,289	(2,131)
Accounts payable	(21,626)	(8,912)
Accrued employee compensation	372	(6,083)
Other accrued liabilities	(14,704)	11,800
Deferred revenue	(10,153)	5,727
Income taxes payable	2,258	3,845
<b>Net cash provided by operating activities</b>	<b>32,085</b>	<b>8,359</b>
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(74,865)	(10,133)
Proceeds from sale of short-term investments	10,000	37,700
Purchase of property and equipment	(2,586)	(13,635)
Payments made in connection with business acquisition, net of cash acquired	(39)	
<b>Net cash provided by (used in) investing activities</b>	<b>(67,490)</b>	<b>13,932</b>
<b>Cash flows from financing activities:</b>		
Purchase and retirement of treasury stock	(231)	(183)
Proceeds from exercise of stock options	886	942
Proceeds from issuance of common stock under employee stock purchase plan	1,129	1,353
Excess tax benefit from stock-based compensation	429	141
<b>Net cash provided by financing activities</b>	<b>2,213</b>	<b>2,253</b>
Net increase (decrease) in cash and cash equivalents	(33,192)	24,544
Cash and cash equivalents, at beginning of period	192,839	167,495
Cash and cash equivalents, at end of period	\$ 159,647	\$ 192,039

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





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**NETGEAR, Inc.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. The Company and Summary of Significant Accounting Policies**

NETGEAR, Inc. was incorporated in Delaware in January 1996. NETGEAR, Inc., together with its subsidiaries (collectively, "NETGEAR" or the "Company"), designs, develops and markets networking, network storage, and security products that address the specific needs of small businesses and homes, enabling users to share securely Internet access, peripherals, files, digital content and applications among multiple networked devices. The Company's products include wireless and Ethernet networking, broadband access, network attached storage, and security products that are sold worldwide through distributors, traditional retailers, online retailers, direct market resellers ("DMRs"), value added resellers ("VARs") and broadband service providers.

The accompanying unaudited condensed consolidated financial statements include the accounts of NETGEAR, Inc., and its wholly owned subsidiaries. They have been prepared in accordance with established guidelines for interim financial reporting and with the instructions of Form 10-Q and Article 10 of Regulation S-X. All significant intercompany balances and transactions have been eliminated in consolidation. The balance sheet dated December 31, 2008 has been derived fro