

NETGEAR, INC
Form 10-Q
August 05, 2010
[Table of Contents](#)

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 June 27, 2010.

.. **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 35,419,078 as of July 30, 2010.

Table of Contents

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	3
	<u>Unaudited Condensed Consolidated Balance Sheets</u>	3
	<u>Unaudited Condensed Consolidated Statements of Operations</u>	4
	<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	5
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
Item 4.	<u>Controls and Procedures</u>	35

PART II: OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	36
Item 1A.	<u>Risk Factors</u>	36
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
Item 3.	<u>Defaults Upon Senior Securities</u>	52
Item 4.	<u>Reserved</u>	52
Item 5.	<u>Other Information</u>	52
Item 6.	<u>Exhibits</u>	53
	<u>Signatures</u>	54
	EXHIBIT 31.1	
	EXHIBIT 31.2	
	EXHIBIT 32.1	
	EXHIBIT 32.2	

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

	June 27, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 110,940	\$ 172,202
Short-term investments	120,090	74,898
Accounts receivable, net	138,730	162,853
Inventories	125,687	90,590
Deferred income taxes	14,248	13,347
Prepaid expenses and other current assets	25,996	20,835
Total current assets	535,691	534,725
Property and equipment, net	16,482	16,891
Intangibles, net	7,672	8,298
Goodwill	74,032	64,908
Other non-current assets	8,990	8,299
Total assets	\$ 642,867	\$ 633,121
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 42,337	\$ 69,081
Accrued employee compensation	14,816	11,040
Other accrued liabilities	90,669	87,894
Deferred revenue	17,405	22,106
Income taxes payable		5,488
Total current liabilities	165,227	195,609
Non-current income taxes payable	19,837	17,479
Other non-current liabilities	5,697	5,880
Total liabilities	190,761	218,968
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock	35	35
Additional paid-in capital	294,450	280,256
Cumulative other comprehensive income	246	24
Retained earnings	157,375	133,838
Total stockholders' equity	452,106	414,153

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Total liabilities and stockholders' equity	\$ 642,867	\$ 633,121
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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		Six Months Ended	
	June 27, 2010	June 28, 2009	June 27, 2010	June 28, 2009
Net revenue	\$ 195,949	\$ 144,674	\$ 407,504	\$ 296,692
Cost of revenue	126,387	103,414	265,118	212,501
Gross profit	69,562	41,260	142,386	84,191
Operating expenses:				
Research and development	9,945	7,496	19,250	14,849
Sales and marketing	30,358	24,464	61,147	50,366
General and administrative	8,397	7,855	17,339	16,092
Restructuring	(81)	18	(68)	694
Litigation reserves, net	143	8	211	2,540
Total operating expenses	48,762	39,841	97,879	84,541
Income (loss) from operations	20,800	1,419	44,507	(350)
Interest income	100	178	170	482
Other income (expense), net	132	(443)	(62)	604
Income before income taxes	21,032	1,154	44,615	736
Provision for income taxes	10,567	4,434	20,423	7,786
Net income (loss)	\$ 10,465	\$ (3,280)	\$ 24,192	\$ (7,050)
Net income (loss) per share:				
Basic	\$ 0.30	\$ (0.10)	\$ 0.69	\$ (0.21)
Diluted	\$ 0.29	\$ (0.10)	\$ 0.67	\$ (0.21)
Weighted average shares outstanding used to compute net income (loss) per share:				
Basic	35,237	34,399	35,095	34,375
Diluted	35,943	34,399	35,843	34,375

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)**

	Six Months Ended	
	June 27, 2010	June 28, 2009
Cash flows from operating activities:		
Net income (loss)	\$ 24,192	\$ (7,050)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,414	6,201
Purchase premium amortization (discount accretion) on investments	(73)	60
Non-cash stock-based compensation	6,264	5,612
Income tax benefit (detriment) associated with stock option exercises	1,947	(646)
Excess tax benefit from stock-based compensation	(1,866)	(28)
Deferred income taxes	(846)	398
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	24,123	28,044
Inventories	(35,097)	37,201
Prepaid expenses and other assets	(1,437)	5,055
Accounts payable	(26,744)	(34,087)
Accrued employee compensation	3,776	931
Other accrued liabilities	2,211	(14,805)
Deferred revenue	(4,701)	(6,241)
Income taxes payable	(3,130)	1,389
Net cash provided by (used in) operating activities	(4,967)	22,034
Cash flows from investing activities:		
Purchases of short-term investments	(90,090)	
Proceeds from sale of short-term investments	45,000	10,000
Purchase of property and equipment	(3,379)	(888)
Loan issued	(3,030)	
Payments made in connection with business acquisition, net of cash acquired	(12,000)	(39)
Net cash provided by (used in) investing activities	(63,499)	9,073
Cash flows from financing activities:		
Purchase and retirement of treasury stock	(656)	(231)
Proceeds from exercise of stock options	5,452	130
Proceeds from issuance of common stock under employee stock purchase plan	542	623
Excess tax benefit from stock-based compensation	1,866	28
Net cash provided by financing activities	7,204	550
Net increase (decrease) in cash and cash equivalents	(61,262)	31,657
Cash and cash equivalents, at beginning of period	172,202	192,839
Cash and cash equivalents, at end of period	\$ 110,940	\$ 224,496

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

Table of Contents

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 securely share Internet access, peripherals, files, digital multimedia content and applications among multiple personal computers, TVs and other Internet-enabled devices. The C