

NETGEAR, INC
Form 10-Q
May 01, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended March 29, 2015.

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)

Delaware 77-0419172
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

350 East Plumeria Drive, 95134
San Jose, California
(Address of principal executive offices) (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 34,664,061 as of April 24, 2015.

Table of Contents

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

| | | |
|---------|---|-----------|
| Item 1. | <u>Financial Statements</u> | <u>3</u> |
| | <u>Unaudited Condensed Consolidated Balance Sheets</u> | <u>3</u> |
| | <u>Unaudited Condensed Consolidated Statements of Operations</u> | <u>4</u> |
| | <u>Unaudited Condensed Consolidated Statements of Comprehensive Income</u> | <u>5</u> |
| | <u>Unaudited Condensed Consolidated Statements of Cash Flows</u> | <u>6</u> |
| | <u>Notes to Unaudited Condensed Consolidated Financial Statements</u> | <u>7</u> |
| Item 2. | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operation</u> | <u>28</u> |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>38</u> |
| Item 4. | <u>Controls and Procedures</u> | <u>38</u> |

PART II: OTHER INFORMATION

| | | |
|----------|--|-----------|
| Item 1. | <u>Legal Proceedings</u> | <u>39</u> |
| Item 1A. | <u>Risk Factors</u> | <u>39</u> |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>60</u> |
| Item 3. | <u>Defaults Upon Senior Securities</u> | <u>60</u> |
| Item 4. | <u>Mine Safety Disclosures</u> | <u>60</u> |
| Item 5. | <u>Other Information</u> | <u>60</u> |
| Item 6. | <u>Exhibits</u> | <u>61</u> |
| | <u>Signatures</u> | <u>62</u> |

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

NETGEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

| | March 29, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$146,401 | \$141,234 |
| Short-term investments | 101,004 | 115,895 |
| Accounts receivable, net | 254,745 | 275,689 |
| Inventories | 200,948 | 222,883 |
| Deferred income taxes | 28,703 | 29,039 |
| Prepaid expenses and other current assets | 38,080 | 38,225 |
| Total current assets | 769,881 | 822,965 |
| Property and equipment, net | 27,849 | 29,694 |
| Intangibles, net | 61,755 | 66,230 |
| Goodwill | 81,721 | 81,721 |
| Other non-current assets | 48,653 | 48,077 |
| Total assets | \$989,859 | \$1,048,687 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$66,654 | \$106,357 |
| Accrued employee compensation | 19,908 | 21,588 |
| Other accrued liabilities | 122,168 | 143,742 |
| Deferred revenue | 23,746 | 30,023 |
| Income taxes payable | 4,892 | 2,406 |
| Total current liabilities | 237,368 | 304,116 |
| Non-current income taxes payable | 14,892 | 15,252 |
| Other non-current liabilities | 7,784 | 7,754 |
| Total liabilities | 260,044 | 327,122 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Common stock | 35 | 35 |
| Additional paid-in capital | 462,973 | 454,144 |
| Accumulated other comprehensive income | 20 | 38 |
| Retained earnings | 266,787 | 267,348 |
| Total stockholders' equity | 729,815 | 721,565 |
| Total liabilities and stockholders' equity | \$989,859 | \$1,048,687 |

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 | |
|---|--------------------|-------------------|
| | March 29, 2015 | March 30, 2014 |
| Net revenue | \$309,157 | \$349,391 |
| Cost of revenue | 220,877 | 251,466 |
| Gross profit | 88,280 | 97,925 |
| Operating expenses: | | |
| Research and development | 20,452 | 22,181 |
| Sales and marketing | 37,602 | 39,911 |
| General and administrative | 11,023 | 11,375 |
| Restructuring and other charges | 4,394 | 842 |
| Litigation reserves, net | (2,690) |) 117 |
| Total operating expenses | 70,781 | 74,426 |
| Income from operations | 17,499 | 23,499 |
| Interest income | 52 | 57 |
| Other income (expense), net | 475 | (108) |
| Income before income taxes | 18,026 | 23,448 |
| Provision for income taxes | 10,015 | 9,037 |
| Net income | \$8,011 | \$14,411 |
| Net income per share: | | |
| Basic | \$0.23 | \$0.39 |
| Diluted | \$0.23 | \$0.39 |
| Weighted average shares used to compute net income per share: | | |
| Basic | 34,678 | 36,630 |
| Diluted | 35,285 | 37,305 |

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

Table of Contents

NETGEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 29, 2015 | March 30, 2014 |
| Net income | \$8,011 | \$14,411 |
| Other comprehensive loss, before tax: | | |
| Unrealized loss on derivative instruments | (24 |) (205 |
| Unrealized gain on available-for-sale securities | 10 | 7 |
| Other comprehensive loss, before tax | (14 |) (198 |
| Tax expense related to items of other comprehensive income | (4 |) (3 |
| Other comprehensive loss, net of tax | (18 |) (201 |
| Comprehensive income | \$7,993 | \$14,210 |

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

Table of Contents

NET