NETGEAR, INC
Form 10-Q/A
July 29, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

(Amendment No. 1)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the quarterly period ended March 29, 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)

Delaware	**77-0419172**
(State or other jurisdiction of incorporation or organization)	***(IRS Employer Identification No.)***
350 East Plumeria Drive,	
San Jose, California	**95134**
(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 x 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 x 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 x

The number of outstanding shares of the registrant s Common Stock, $0.001 par value, was 34,441,630 as of July 24, 2009.

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EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-Q of NETGEAR, Inc. for the three months ended March 29, 2009 (the Amended 10-Q), originally filed with the Securities and Exchange Commission on May 7, 2009, is being filed to correct certain errors in the Company s Unaudited Condensed Consolidated Financial Statements and the related disclosures.

On July 22, 2009, we announced that our management had identified an error in accounting related to the recording of the income tax provision in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 18, Accounting for Income Taxes in Interim Periods an interpretation of APB Opinion No. 28 (FIN 18) for the three months ended March 29, 2009, requiring restatement of the unaudited condensed consolidated financial statements for that period. As discussed in Note 2, Restatement of Unaudited Condensed Consolidated Financial Statements, of the Notes to Unaudited Condensed Consolidated Financial Statements, the correction of these errors from previously reported information for the three months ended March 29, 2009 has resulted in a change in the provision for (benefit from) income taxes from a benefit of $460,000 to a provision of $3,352,000. This results in a net loss of $3,770,000 and a net loss per share of $0.11 for the three months ended March 29, 2009, as compared to previously reported net income of $42,000 and net income per share of $0.00. The restatement relates solely to the correction of the recorded tax expense for the three months ended March 29, 2009 and does not impact any other periods presented in the Amended 10-Q.

In addition, we have revised the conclusion in Part I, Item 4 as to management s conclusion on the effectiveness of disclosure controls and procedures to conclude that the Company s disclosure controls and procedures were not effective as of March 29, 2009.

The following items have been amended in the Form 10-Q as a result of, and to reflect, the restatement:

- Part I, Item 1, Financial Statements
- Part I, Item 2, Management s Discussion and Analysis of Financial Condition and Result of Operations
- Part I, Item 4, Controls and Procedures
- Part II, Item 1A, Risk Factors (Restated)
- Part II, Item 6, Exhibits

For the convenience of the reader, this Amended 10-Q amends and restates in its entirety the Quarterly Report on Form 10-Q for the three months ended March 29, 2009. However, this Amended 10-Q amends only items referred to above, in each case as a result of and to reflect the adjustments discussed above and more fully in Note 2 of the accompanying Unaudited Condensed Consolidated Financial Statements and related disclosures, which includes a summary of the effects of these changes on our unaudited condensed consolidated balance sheet as of March 29, 2009 and our unaudited condensed consolidated statements of operations and cash flows for the three months ended March 29, 2009. No other information in the 10-Q is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the 10-Q, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in the 10-Q represented management s views as of May 7, 2009, the date of filing of the 10-Q for the three months ended March 29, 2009. Such forward-looking statements should not be assumed to be accurate as of any other date. NETGEAR undertakes no duty to update such information in the Amended 10-Q whether as a result of new information, future events or otherwise.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, NETGEAR s principal executive officer and principal financial officer are providing Rule 13a-14(a) certifications dated July 29, 2009 in connection with this Amended 10-Q (but otherwise identical to their prior certifications) and are also furnishing, but not filing, written statements pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated July 29, 2009 (but otherwise identical to their prior statements).

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PART I: FINANCIAL INFORMATION

Item 1. *Financial Statements (Restated)*

NETGEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 29, 2009 (Restated) (1)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 190,218	$ 192,839
Short-term investments	10,080	10,170
Accounts receivable, net	127,984	138,275
Inventories	92,023	112,240
Deferred income taxes	12,844	13,129
Prepaid expenses and other current assets	17,671	22,695
Total current assets	450,820	489,348
Property and equipment, net	18,612	20,292
Intangibles, net	12,058	13,311
Goodwill	61,439	61,400
Other non-current assets	2,128	1,858
Total assets	$ 545,057	$ 586,209
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 34,913	$ 60,073
Accrued employee compensation	6,247	7,177
Other accrued liabilities	74,793	87,747
Deferred revenue	19,375	21,508
Total current liabilities	135,328	176,505
Non-current income taxes payable	12,961	12,357
Other non-current liabilities	6,710	6,389
Total liabilities	154,999	195,251
Commitments and contingencies (Note 12)		
Stockholders equity:		
Common stock	34	34
Additional paid-in capital	269,162	266,070
Cumulative other comprehensive income	32	67
Retained earnings	120,830	124,787
Total stockholders equity	390,058	390,958

Total liabilities and stockholders equity	$ 545,057	$ 586,209

(1) See Note 2, Restatement of Unaudited Condensed Consolidated Financial Statements, of the Notes to Unaudited Condensed Consolidated Financial Statements.

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

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NETGEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended	
	March 29, 2009 (Restated) (1)	March 30, 2008
Net revenue	$ 152,018	$ 198,154
Cost of revenue	109,087	134,291
Gross profit	42,931	63,863
Operating expenses:		
Research and development	7,353	8,738
Sales and marketing	25,902	33,028
General and administrative	8,237	7,313
Restructuring	676	
Litigation reserves, net	2,532	51
Total operating expenses	44,700	49,130
Income (loss) from operations	(1,769)	14,733
Interest income	304	1,512
Other income, net	1,047	2,843
Income (loss) before income taxes	(418)	19,088
Provision for income taxes	3,352	7,862
Net income (loss)	$ (3,770)	$ 11,226
Net income (loss) per share:		
Basic	$ (0.11)	$ 0.32
Diluted	$ (0.11)	$ 0.31
Weighted average shares outstanding used to compute net income (loss) per share:		
Basic	34,351	35,316
Diluted	34,351	35,941

(1) See Note 2, Restatement of Unaudited Condensed Consolidated Financial Statements, of the Notes to Unaudited Condensed Consolidated Financial Statements.

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

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NETGEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended	
	March 29, 2009 (Restated) (1)	March 30, 2008
Cash flows from operating activities:		
Net income (loss)	$ (3,770)	$ 11,226
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,163	2,754
Purchase premium amortization (discount accretion) on investments	32	(14)
Non-cash stock-based compensation	2,916	2,798
Income tax benefit (detriment) associated with stock option exercises	(555)	147
Excess tax benefit from stock-based compensation	(1)	(133)
Deferred income taxes	88	(970)
Changes in assets and liabilities:		
Accounts receivable	10,291	1,922
Inventories	20,217	(14,581)
Prepaid expenses and other assets	4,936	(1,878)
Accounts payable	(25,160)	(3,785)
Accrued employee compensation	(930)	(4,902)
Other accrued liabilities	(12,509)	1,135
Deferred revenue	(2,133)	(166)
Income taxes payable	604	4,627
Net cash used in operating activities	(2,811)	(1,820)
Cash flows from investing activities:		
Proceeds from sale of short-term investments		16,750
Purchase of property and equipment	(229)	(4,212)
Payments made in connection with business acquisition, net of cash acquired	(39)	
Net cash provided by (used in) investing activities	(268)	12,538
Cash flows from financing activities:		
Purchase and retirement of treasury stock	(187)	(157)
Proceeds from exercise of stock options	21	784
Proceeds from issuance of common stock under employee stock purchase plan	623	733
Excess tax benefit from stock-based compensation	1	133
Net cash provided by financing activities	458	1,493
Net increase (decrease) in cash and cash equivalents	(2,621)	12,211
Cash and cash equivalents, at beginning of period	192,839	167,495
Cash and cash equivalents, at end of period	$ 190,218	$ 179,706

(1) See Note 2, Restatement of Unaudited Condensed Consolidated Financial Statements, of the Notes to Unaudited Condensed Consolidated Financial Statements.

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 products that address the specific needs of small businesses and homes, enabling users to share Internet access, peripherals, files, digital content and applications among multiple networked devices. The Company s products include Ethernet networking products, broadband access products, network attached storage products, and wireless networking connectivity 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 from audited financial statements at such date. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments considered necessary (consisting only of normal recurring adjustments other than the restatement described in Note 2 of the Notes to Unaudited Condensed Consolidated Financial Statements) to fairly state the Company s financial position, results of operations and cash flows for the periods indicated. These unaudited condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

The Company s fiscal year begins on January 1 of the year stated and ends on December 31 of the same year. The Company reports its interim results on a fiscal quarter basis rather than on a calendar quarter basis. Under the fiscal quarter basis, each of the first three fiscal quarters ends on the Sunday closest to the calendar quarter end, with the fourth quarter ending on December 31.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities at the date of the financial statements, and (iii) the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates and operating results for the three months ended March 29, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The Company s significant accounting policies are disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The Company s significant accounting policies have not materially changed during the three months ended March 29, 2009.

2. Restatement of Unaudited Condensed Consolidated Financial Statements

The Company has restated its previously issued unaudited condensed consolidated financial statements for the three months ended March 29, 2009. Accordingly, the unaudited condensed consolidated balance sheet at March 29, 2009, and unaudited condensed consolidated statements of operations and cash flows for the three months then ended have been restated from amounts previously reported, and are included in this Form 10-Q/A for the three months ended March 29, 2009.

On July 22, 2009, after consultation with the Audit Committee of the Company s Board of Directors, the Company concluded that it had identified an error in its accounting related to the recording of the income tax provision in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 18, Accounting for Income Taxes in Interim Periods an interpretation of APB Opinion No. 28 (FIN 18) for the three months ended March 29, 2009.

In calculating its overall estimated annual effective tax rate for the previously filed Form 10-Q for the three months ended March 29, 2009, the Company incorrectly included a particular foreign entity which should have been excluded, pursuant to the accounting guidance set forth in FIN 18. Specifically, this foreign entity should not have been included in the calculation because the anticipated losses in that entity will not give rise to tax benefits. At the time the Company initially filed its Form 10-Q for the three months ended March 29, 2009, the loss of this entity was not appropriately excluded from the determination of the effective tax rate.

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Accordingly, instead of reporting a tax benefit of $460,000, the Company should have recorded income tax expense of $3,352,000. This results in a net loss of $3,770,000 (restated) and a net loss per share of $0.11 (restated) for the three months ended March 29, 2009, as compared to previously reported net income of $42,000 and net income per share of $0.00.

The following table summarizes the impact of the restatement adjustments on the previously filed unaudited condensed consolidated balance sheet as of March 29, 2009 (in thousands):

	March 29, 2009		
	As Previously Reported	**Total Adjustments**	**As Restated**
ASSETS			
Current assets:			
Cash and cash equivalents	$ 190,218	$	$ 190,218
Short-term investments	10,080		10,080
Accounts receivable, net	127,984		127,984
Inventories	92,023		92,023
Deferred income taxes	13,222	(378)(A)	12,844
Prepaid expenses and other current assets	20,615	(2,944)(A)	17,671
Total current assets	454,142	(3,322)	450,820
Property and equipment, net	18,612		18,612
Intangibles, net	12,058		12,058
Goodwill	61,439		61,439
Other non-current assets	2,039	89(A)	2,128
Total assets	$ 548,290	$ (3,233)	$ 545,057
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 34,913	$	$ 34,913
Accrued employee compensation	6,247		6,247
Other accrued liabilities	74,793		74,793
Deferred revenue	19,375		19,375
Total current liabilities	135,328		135,328
Non-current income taxes payable	12,382	579(A)	12,961
Other non-current liabilities	6,710		6,710
Total liabilities	154,420	579	154,999
Commitments and contingencies (Note 12)			
Stockholders equity:			
Common stock	34		34
Additional paid-in capital	269,162		269,162
Cumulative other comprehensive income	32		32
Retained earnings	124,642	(3,812)(A)	120,830
Total stockholders equity	393,870	(3,812)	390,058
Total liabilities and stockholders equity	$ 548,290	$ (3,233)	$ 545,057

(A) Adjustments to deferred income taxes, prepaid expenses and other current assets, other non-current assets, non-current income taxes payable, and retained earnings are the result of the error correction described above.

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The following table summarizes the impact of the restatement adjustments on the previously filed unaudited condensed consolidated statement of operations for the three months ended March 29, 2009 (in thousands, except per share amounts):

	Three Months Ended March 29, 2009		
	As Previously Reported	Total Adjustments	As Restated
Net revenue	$ 152,018	$	$ 152,018
Cost of revenue	109,087		109,087
Gross profit	42,931		42,931
Operating expenses:			
Research and development	7,353		7,353
Sales and marketing	25,902		25,902
General and administrative	8,237		8,237
Restructuring	676		676
Litigation reserves, net	2,532		2,532
Total operating expenses	44,700		44,700
Income (loss) from operations	(1,769)		(1,769)
Interest income	304		304
Other income, net	1,047		1,047
Income (loss) before income taxes	(418)		(418)
Provision for (benefit from) income taxes	(460)	3,812(A)	3,352
Net income (loss)	$ 42	$ (3,812)(A)	$ (3,770)
Net income (loss) per share:			
Basic	$	$ (0.11)(A)	$ (0.11)
Diluted	$	$ (0.11)(A)	$ (0.11)
Weighted average shares outstanding used to compute net income (loss) per share:			
Basic	34,351		34,351
Diluted	34,602	(251)(A)	34,351

(A) Adjustments to provision for (benefit from) income taxes, net income (loss), net income (loss) per share, and diluted weighted average shares outstanding used to compute net income (loss) per share are the result of the error correction described above.

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The following table summarizes the impact of the restatement adjustments on the previously filed unaudited condensed consolidated statement of cash flows as of March 29, 2009 (in thousands):

	Three Months Ended March 29, 2009		
	As Previously Reported	**Total Adjustments**	**As Restated**
Cash flows from operating activities:			
Net income (loss)	$ 42	$ (3,812)(A)	$ (3,770)
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	3,163		3,163
Purchase premium amortization on investments	32		32
Non-cash stock-based compensation	2,916		2,916
Income tax detriment associated with stock option exercises	(555)		(555)
Excess tax benefit from stock-based compensation	(1)		(1)
Deferred income taxes	(201)	289(A)	88
Changes in assets and liabilities:			
Accounts receivable	10,291		10,291
Inventories	20,217		20,217
Prepaid expenses and other assets	1,992	2,944(A)	4,936
Accounts payable	(25,160)		(25,160)
Accrued employee compensation	(930)		(930)
Other accrued liabilities	(12,509)		(12,509)
Deferred revenue	(2,133)		(2,133)
Income taxes payable	25	579(A)	604
Net cash used in operating activities	(2,811)		(2,811)
Cash flows from investing activities:			
Purchase of property and equipment	(229)		(229)
Payments made in connection with business acquisition, net of cash acquired	(39)		(39)
Net cash used in investing activities	(268)		(268)
Cash flows from financing activities:			
Purchase and retirement of treasury stock	(187)		(187)
Proceeds from exercise of stock options	21		21
Proceeds from issuance of common stock under employee stock purchase plan	623		623
Excess tax benefit from stock-based compensation	1		1
Net cash provided by financing activities	458		458
Net decrease in cash and cash equivalents	(2,621)		(2,621)
Cash and cash equivalents, at beginning of period	192,839		192,839
Cash and cash equivalents, at end of period	$ 190,218	$	$ 190,218

(A) Adjustments to net income (loss), deferred income taxes, prepaid expenses and other assets, and income taxes payable are the result of the error correction described above.

3. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. Effective January 1, 2009, the Company adopted SFAS 157 for all non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis without impact to the Company s financial position, results of operations or cash flows.

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In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 (SFAS 133) Accounting for Derivative Instruments and Hedging Activities and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. The Company adopted SFAS 161 in the first quarter of fiscal 2009. Since SFAS 161 only required additional disclosure, the adoption did not impact the Company s consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FASB Staff Position (FSP) 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3), which amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets . This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. The Company adopted FSP 142-3 in the first quarter of fiscal 2009. The adoption did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In September 2008, the FASB issued FSP 133-1 and FASB Interpretation No. 45 (FSP 133-1 and FIN 45-4), Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 . FSP 133-1 and FIN 45-4 amends SFAS 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. FSP 133-1 and FIN 45-4 also amend FASB Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others , to require additional disclosure about the current status of the payment/performance risk of a guarantee. The provisions of the FSP that amend SFAS 133 and FIN 45 are effective in the first quarter of fiscal 2009. FSP 133-1 and FIN 45-4 also clarifies the effective date in SFAS 161. The Company adopted the disclosures required by SFAS 161 in the first quarter of fiscal 2009. Since FSP 133-1 and FIN 45-4 only required additional disclosures, the adoption did not impact the Company s consolidated financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1), which addresses whether unvested instruments granted in share-based payment transactions that contain non-forfeitable rights to dividends or dividend equivalents are participating securities subject to the two-class method of computing earnings per share under SFAS No. 128, Earnings Per Share. The Company adopted FSP EITF 03-6-1 in the first quarter of fiscal 2009. This adoption did not result in a change in the Company s earnings per share or diluted earnings per share.

In April 2009, the FASB issued FSP 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1), which requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. The FSP also amends APB No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 requires that an entity disclose in the body or in the accompanying notes of its financial information the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by SFAS No. 107. In addition, an entity shall also disclosure the method(s) and significant assumptions used to estimate the fair value of financial instruments. FSP 107-1 is effective in the second fiscal quarter of 2009. FSP 107-1 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, comparative disclosures are required but only for periods ending after initial adoption. Since FSP 107-1 only requires additional disclosures, the adoption will not impact the Company s consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective in the second fiscal quarter of 2009. FSP 157-4 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, comparative disclosures are required but only for periods ending after initial adoption. The Company is currently evaluating the provisions of FSP 157-4 and does not expect the adoption to have a material impact on the Company s consolidated financial position, results of operations or cash flows.

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In April 2009, the FASB issued FSP 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2). FSP 115-2 establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities, as well as contains additional disclosure requirements related to debt and equity securities. FSP 115-2 is effective in the second fiscal quarter of 2009. The Company is currently evaluating the provisions of FSP 115-2 and does not expect the adoption to have a material impact on the Company s consolidated financial position, results of operations or cash flows.

4. Stock-based Compensation

The Company grants options and restricted stock units from the Amended and Restated 2006 Long-Term Incentive Plan, under which awards may be granted to all employees. In addition, the Company s stock option program includes the 2003 Stock Plan, from which the Company does not currently grant awards, but may choose to do so. Award vesting periods for these plans are generally four years. As of March 29, 2009, a total of 1,717,262 shares were reserved for future grants under these plans.

Additionally, the Company sponsors an Employee Stock Purchase Plan (the ESPP), pursuant to which eligible employees may contribute up to 10% of base compensation, subject to certain income limits, to purchase shares of the Company s common stock. Employees may purchase stock semi-annually at a price equal to 85% of the fair market value on the purchase date.

The following table sets forth the total stock-based compensation expense resulting from stock options, restricted stock awards, and the Employee Stock Purchase Plan included in the Company s Unaudited Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended	
	March 29, 2009	**March 30, 2008**
Cost of revenue	$ 242	$ 222
Research and development	520	801
Sales and marketing	1,055	847
General and administrative	1,099	928
	$ 2,916	$ 2,798

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option valuation model and the weighted average assumptions in the following table. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk free interest rate is based on the implied yield currently available on U.S. Treasury securities with an equivalent remaining term. Expected volatility is based on the historical volatility of the Company s stock for the three months ended March 29, 2009, and a combination of the historical volatility of the Company s stock as well as the historical volatility of certain of the Company s industry peers stock for the three months ended March 30, 2008:

	Stock Options Three Months Ended	
	March 29, 2009	**March 30, 2008**
Expected life (in years)	4.4	4.3
Risk-free interest rate	1.50%	3.08%
Expected volatility	51%	49%
Dividend yield		

As of March 29, 2009, $16.7 million of total unrecognized compensation cost related to stock options, adjusted for estimated forfeitures, is expected to be recognized over a weighted-average period of 1.30 years. Additionally, $4.3 million of total unrecognized compensation cost related to non-vested restricted stock awards, adjusted for estimated forfeitures, is expected to be recognized over a weighted-average period of 1.30 years.

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5. Product Warranties

The Company provides for estimated future warranty obligations at the time revenue is recognized. The Company s standard warranty obligation to its direct customers generally provides for a right of return of any product for a full refund in the event that such product is not merchantable or is found to be damaged or defective. At the time revenue is recognized, an estimate of future warranty returns is recorded to reduce revenue in the amount of the expected credit or refund to be provided to its direct customers. At the time the Company records the reduction to revenue related to warranty returns, the Company includes within cost of revenue a write-down to reduce the carrying value of such products to net realizable value.

The Company s standard warranty obligation to its end-users provides for replacement of a defective product for one or more years. Factors that affect the warranty obligation include product failure rates, material usage, and service delivery costs incurred in correcting product failures. The estimated cost associated with fulfilling the Company s warranty obligation to end-users is recorded in cost of revenue. Because the Company s products are manufactured by third party manufacturers, in certain cases the Company has recourse to the third party manufacturer for replacement or credit for the defective products. The Company gives consideration to amounts recoverable from its third party manufacturers in determining its warranty liability.

Changes in the Company s warranty liability, which is included as a component of Other accrued liabilities in the unaudited condensed consolidated balance sheets, are as follows (in thousands):

	Three Months Ended	
	March 29, 2009	March 30, 2008
Balance as of beginning of the period	$ 28,607	$ 27,557
Provision for warranty liability made during the period	7,052	16,859
Settlements made during the period	(11,532)	(13,287)
Balance at end of period	$ 24,127	$ 31,129

6. Shipping and Handling Fees and Costs

The Company includes shipping and handling fees billed to customers in net revenue. Shipping and handling costs associated with inbound freight are included in cost of revenue and ending inventory. Shipping and handling costs associated with outbound freight are included in sales and marketing expenses and totaled $2.7 million for the three months ended March 29, 2009 and $3.3 million for the three months ended March 30, 2008.

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7. Restructuring

In July 2008, the Company ceased using buildings leased in Santa Clara and Fremont, California, and consolidated all personnel and operations from those locations to its new corporate headquarters in San Jose, California. The Company initially expected to sublease the majority of this space through the end of the operating leases, the longest of which extends to December 2010. However, in the three months ended March 29, 2009, the Company determined that it was probable that a sub-lessee would cease making payments, and the Company does not expect to find a replacement sub-lessee during the remaining term of the lease. As such, the Company increased its accrual for restructuring charges by $643,000 in the three months ended March 29, 2009 to reflect the decrease in sublease income through the remaining term of the lease. In total, the Company recognized $676,000 in expenses related to future lease payments on the vacated facilities in the three months ended March 29, 2009. The Company presents expenses related to restructuring as a separate line item in its unaudited condensed consolidated statements of operations.

The following is a summary of the accrued restructuring charges:

	Accrued Restructuring Charges at December 31, 2008	Adjustment to Accrual Recognition	Ongoing Exit Expense	Present Value Accretion	Cash Payments	Accrued Restructuring Charges at March 29, 2009
			(In thousands)			
Abandonment of excess leased facilities	$ 354	$ 643	$ 15	$ 18	$ (99)	$ 931
Current portion	$ 264					$ 575
Long-term portion	$ 90					$ 356

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8. Balance Sheet Components

Derivative financial instruments:

The Company uses derivatives to mitigate its business exposure to foreign exchange risk. Foreign currency forward contracts are used to offset the foreign exchange risk on certain existing assets and liabilities. The Company records all derivatives on the balance sheet at fair value. All forward contracts mature within six months.

The following table shows the outstanding forward contracts at March 29, 2009 (in thousands):

	March 29, 2009				
	Currency	Local Currency Contract Amount	Currency	Contracted Amount	Fair Market Value at March 29, 2009
Forward contracts to sell					
Australian dollar	AUD	6,087	USD	$ 4,041	($174)
euro	EUR	16,658	USD	$ 21,706	($702)
British pound	GBP	7,033	USD	$ 10,207	$ 129
Japanese yen	JPY	115,359	USD	$ 1,232	$ 66

The following table shows the outstanding forward contracts at December 31, 2008 (in thousands):

	December 31, 2008				
	Currency	Local Currency Contract Amount	Currency	Contracted Amount	Fair Market Value at December 31, 2008
Forward contracts to sell					
Australian dollar	AUD	12,353	USD	$ 8,253	($178)
euro	EUR	25,101	USD	$ 32,449	($2,611)
British pound	GBP	11,609	USD	$ 18,096	$ 1,444
Japanese yen	JPY	447,929	USD	$ 4,492	($436)

These forward contracts are the Company s only derivative instruments and are not designated as hedging instruments as defined in SFAS 133. The Company accounts for forward contracts in accordance with SFAS No. 52, Foreign Currency Translation.

Derivative Assets	Balance Sheet Location	Fair Value at March 29, 2009	Balance Sheet Location	Fair Value at December 31, 2008
		(In thousands)		
Derivative assets not designated as hedging instruments under Statement 133	Prepaid expenses and other current assets	$ 314	Prepaid expenses and other current assets	$ 1,494

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Derivative Liabilities	**Balance Sheet Location**	**Fair Value at March 29, 2009**	**Balance Sheet Location**	**Fair Value at December 31, 2008**
		(In thousands)		
Derivative liabilities not designated as hedging instruments under Statement 133	Other accrued liabilities	$ (995)	Other accrued liabilities	$ (3,275)

Derivatives Not Designated as Hedging Instruments under Statement 133	**Location of Gain Recognized in Income on Derivative**	**Amount of Gain Recognized in Income on Derivative March 29, 2009**	**December 31, 2008**
		(In thousands)	
Foreign currency forward contracts	Other income, net	$ 2,428	$ 616

The Company recognized unrealized net gains of $1.1 million in other income, net in its unaudited condensed consolidated statements of operations related to the re-measurement of unsettled forward contracts during the three months ended March 29, 2009, and net losses of $1.8 million during the three months ended December 31, 2008. The Company did not have any forward contracts during the three months ended March 30, 2008. For details of our fair value measurements, please see Note 13 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Accounts receivable, net:

	March 29, 2009	**December 31, 2008**
	(In thousands)	
Gross accounts receivable	$ 141,709	$ 153,333
Less: Allowance for doubtful accounts	(1,805)	(1,918)
Allowance for sales returns	(9,492)	(9,710)
Allowance for price protection	(2,428)	(3,430)
Total allowances	(13,725)	(15,058)
Accounts receivable, net	$ 127,984	$ 138,275

Inventories:

	March 29, 2009	**December 31, 2008**
	(In thousands)	
Raw materials	$ 738	$ 639
Finished goods	91,285	111,601
Total	$ 92,023	$ 112,240

The Company records provisions for excess and obsolete inventory based on forecasts of future demand. While management believes the estimates and assumptions underlying its current forecasts are reasonable, there is risk that additional charges may be necessary if current forecasts are greater than actual demand.

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Property and equipment, net:

	March 29, 2009	December 31, 2008
	(In thousands)	
Computer equipment	$ 6,169	$ 6,101
Furniture, fixtures and leasehold improvements	8,367	8,734
Software	18,034	18,083
Machinery	9,232	8,923
Construction in progress	44	158
	41,846	41,999
Less: accumulated depreciation and amortization	(23,234)	(21,707)
Property and equipment, net	$ 18,612	$ 20,292

Goodwill:

	Goodwill at December 31, 2008	CP Secure Additional Acquisition Costs	Goodwill at March 29, 2009
		(In thousands)	
Goodwill	$ 61,400	$ 39	$ 61,439

Goodwill increased $39,000 in the three months ended March 29, 2009, attributable to additional acquisition costs related to the Company s December 2008 acquisition of CP Secure International Holding Limited (CP Secure).

Other accrued liabilities:

	March 29, 2009	December 31, 2008
	(In thousands)	
Sales and marketing programs	$ 25,220	$ 33,584
Warranty obligation	24,127	28,607
Freight	4,437	3,546
Other	21,009	22,010
Other accrued liabilities	$ 74,793	$ 87,747

9. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. Potentially dilutive common shares include outstanding stock options and unvested restricted stock awards, which are reflected in diluted net income (loss) per share by application of the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of stock-based compensation cost for future services that the Company has not yet recognized, and the amount of tax benefit that would be recorded in additional paid-in capital upon exercise are assumed to be used to repurchase shares.

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Net income (loss) per share for the three months ended March 29, 2009 and March 30, 2008 are as follows (in thousands, except per share data):

	Three Months Ended March 29, 2009 (Restated) (1)	Three Months Ended March 30, 2008
Net income	$ (3,770)	$ 11,226
Weighted average shares outstanding:		
Basic	34,351	35,316
Dilutive potential common shares		625
Total diluted	34,351	35,941
Basic net income per share	$ (0.11)	$ 0.32
Diluted net income per share	$ (0.11)	$ 0.31

(1) See Note 2, Restatement of Unaudited Condensed Consolidated Financial Statements, of the Notes to Unaudited Condensed Consolidated Financial Statements.

Weighted average stock options and unvested restricted stock awards to purchase 4,422,074 and 2,577,783 shares for the three months ended March 29, 2009 and March 30, 2008, respectively, were excluded from the computation of diluted net income per share because their effect would have been anti-dilutive.

As a result of our net loss for the three months ended March 29, 2009, all potentially dilutive shares were anti-dilutive, and therefore, excluded from the computation of diluted net loss per share. While these common equivalent shares are currently anti-dilutive, they could be dilutive in the future.

10. Income Taxes

The Company has corrected the tax provision for the three months ended March 29, 2009 as described in Note 2 of the Notes to Unaudited Condensed Consolidated Financial Statements. The tax provision for the three months ended March 29, 2009 was $3.4 million (restated) compared to the tax provision for the three months ended March 30, 2008 of $7.9 million. The decrease in the tax provision for the three months ended March 29, 2009 is primarily due to a decrease in pretax income for the current period, offset by the adverse impact of a loss in a foreign entity that will not give rise to a tax benefit. The loss in the foreign entity results in a bifurcation of the tax provision between the results of the loss entity and the remaining profitable operations. Under this methodology, tax is accrued ratably on the profitable operations based on the income earned during the period while no tax benefit is accrued on the loss. The loss is, however, taken into account in determining the overall effective tax rate for the year. Accordingly, this methodology results in a significantly higher effective tax rate for the three months ended March 29, 2009.

11. Segment Information, Operations by Geographic Area and Significant Customers

Operating segments are components of an enterprise about which separate financial information is available and is regularly evaluated by management, namely the chief operating decision maker of an organization, in order to determine operating and resource allocation decisions. By this definition, the Company operates in one business segment, which comprises the development, marketing and sale of networking products for the small business and home markets. The Company s corporate headquarters and a significant portion of its operations are located in North America. The Company also conducts sales, marketing, customer service activities and certain distribution center activities through several small sales offices in Europe, the Middle-East and Africa (EMEA) and Asia as well as outsourced distribution centers.

For reporting purposes revenue is attributed to each geographic region based on the location of the customer. Net revenue by geographic region comprises gross revenue less such items as end-user customer rebates and other sales incentives deemed to be a reduction of net revenue per

EITF Issue No. 01-9, sales returns and price protection.

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Net revenue by geographic location is as follows (in thousands):

	Three Months Ended	
	March 29, 2009	March 30, 2008
United States	$ 65,219	$ 79,203
United Kingdom	23,444	38,379
EMEA (excluding U.K.)	50,722	59,766
Asia Pacific and rest of the world	12,633	20,806
	$ 152,018	$ 198,154

Long-lived assets, comprising fixed assets, are reported based on the location of the asset. Long-lived assets by geographic location are as follows (in thousands):

	March 29, 2009	December 31, 2008
United States	$ 16,309	$ 17,632
EMEA	383	434
Asia Pacific and rest of the world	1,920	2,226
	$ 18,612	$ 20,292

Significant customers are as follows (as a percentage of net revenue):

	Three Months Ended	
	March 29, 2009	March 30, 2008
Ingram Micro, Inc.	10%	15%
All others	90%	85%
	100%	100%

12. Commitments and Contingencies

Litigation and Other Legal Matters

NETGEAR v. CSIRO

In May 2005, the Company filed a complaint for declaratory relief against the Commonwealth Scientific and Industrial Research Organization (CSIRO), in the San Jose division of the United States District Court, Northern District of California. The complaint alleges that the claims of CSIRO s U.S. Patent No. 5,487,069 are invalid and not infringed by any of the Company s products. CSIRO had asserted that the Company s wireless networking products implementing the IEEE 802.11a, 802.11g, and 802.11n wireless LAN standards infringe its patent. In July 2006, the United States Court of Appeals for the Federal Circuit affirmed the District Court s decision to deny CSIRO s motion to dismiss the action under the Foreign Sovereign Immunities Act. In September 2006, the Federal Circuit denied CSIRO s request for a rehearing en banc. CSIRO filed a response to the complaint in September 2006. In December 2006, the District Court granted CSIRO s motion to transfer the case to the Eastern District of Texas, where CSIRO had brought and won a similar lawsuit against Buffalo Technology (USA), Inc., which Buffalo recently appealed and which has been partially remanded to the District Court. The District Court consolidated this action with three related actions involving other companies (such as Buffalo) accused of infringing CSIRO s patent. The Company attended a court-mandated mediation in

November 2007 but failed to resolve the litigation. The District Court held a June 26, 2008 claim construction hearing. On August 14, 2008, the District Court issued a claim construction order and denied a motion for summary judgment of invalidity. In December 2008, the parties filed numerous motions for summary judgment concerning, among other things, infringement, validity, and other affirmative defenses. The District Court commenced a jury trial on April 13, 2009 regarding all liability issues for the four consolidated cases. On April 20, 2009, the Company and CSIRO executed a Memorandum of Understanding (MOU) setting forth the terms of a settlement and

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license agreement between the Company and CSIRO. Without admitting any wrongdoing or violation of law and to avoid the distraction and expense of continued litigation and the uncertainty of a jury verdict on the merits, the Company agreed to make a one-time lump sum payment in consideration for a fully paid perpetual license and a covenant not to sue with respect to the 069 patent and all corresponding patents throughout the world. Based on the historical and estimated projected future unit sales of the Company s products that were alleged to infringe the asserted patent, the Company allocated a portion of the settlement cost towards product shipments prior to the settlement, which the Company recorded as a litigation settlement expense of $2.1 million in the three months ended March 29, 2009. Additionally, the Company will allocate $2.9 million of the settlement cost to prepaid royalties which will be recognized as a component of cost of revenue as the related products are sold.

Wi-Lan Inc. v. NETGEAR

In October 2007, a lawsuit was filed against the Company by Wi-Lan Inc. (Wi-Lan), a patent-holding company existing under the laws of Canada, in the U.S. District Court, Eastern District of Texas. Wi-Lan alleges that the Company infringes U.S. Patent Nos. 5,282,222, RE37,802 and 5,956,323. Wi-Lan has accused the Company s wireless networking products compliant with the IEEE 802.11 standards and ADSL products compliant with the ITU G.992 standards of infringement. Wi-Lan has also sued 21 other technology companies alleging similar claims of patent infringement. The Company filed its answer in the first quarter of 2008. This action is now in the discovery phase. The District Court has scheduled a September 1, 2010 claim construction hearing, and a January 4, 2011 jury trial.

Fujitsu et. al v. NETGEAR

In December 2007, a lawsuit was filed against the Company by Fujitsu Limited, LG Electronics, Inc. and U.S. Philips Corporation in the U.S. District Court, Western District of Wisconsin. The plaintiffs allege that the Company infringes U.S. Patent Nos. 6,018,642, 6,469,993 and 4,975,952. The plaintiffs accuse the Company s wireless networking products compliant with the IEEE 802.11 standards of infringement. The Company filed its answer in the first quarter of 2008. This action is in the final stages of discovery. The District Court held a claim construction hearing on August 15, 2008. On September 10, 2008, the District Court issued a claim construction order. In February 2009, the parties filed numerous motions for summary judgment concerning, among other things, non-infringement, invalidity, and other affirmative defenses. The District Court has scheduled the jury trial to take place on August 24, 2009.

OptimumPath, L.L.C. v. NETGEAR

In January 2008, a lawsuit was filed against the Company by OptimumPath, L.L.C (OptimumPath), a patent-holding company existing under the laws of the State of South Carolina, in the U.S. District Court for the District of South Carolina. OptimumPath alleges that the Company infringes U.S. Patent No. 7,035,281. OptimumPath has claimed that the Company s wireless networking products infringe on OptimumPath s patents. OptimumPath has also sued six other technology companies alleging similar claims of patent infringement. The Company filed its answer in the second quarter of 2008. Several defendants, including the Company, jointly filed a request for inter partes reexamination of the OptimumPath patent with the United States Patent and Trademark Office (the USPTO) on October 13, 2008. On January 12, 2009, a reexamination was ordered with respect to claims 1-3 and 8-10 of the patent, but denied with respect to claims 4-7 and 11-32 of the patent. On February 4, 2009, the defendants jointly filed a petition to challenge the denial of reexamination of claims 4-7 and 11-32. In March 2009, the District Court granted defendants motion to transfer the case to the Northern District of California.

Network-1 Security Solutions, Inc. v. NETGEAR

In February 2008, a lawsuit was filed against the Company by Network-1 Security Solutions, Inc. (Network-1), a patent-holding company existing under the laws of the State of Delaware, in the U.S. District Court for the Eastern District of Texas. Network-1 alleges that the Company infringes U.S. Patent No. 6,218,930. Network-1 has alleged that the Company s power over Ethernet (PoE) products infringe their patent. Network-1 has also sued six other companies alleging similar claims of patent infringement. The Company filed its answer in the second quarter of 2008. The District Court has scheduled a December 3, 2009 claim construction hearing and a July 6, 2010 jury trial.

Fenner Investments Ltd. v. NETGEAR

In February 2008, a lawsuit was filed against the Company by Fenner Investments, Ltd. (Fenner), a patent-holding company existing under the laws of the State of Texas, in the U.S. District Court for the Eastern District of Texas. Fenner alleges that the

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Company infringes U.S. Patent No. 7,145,906 entitled Packet Switching Node and U.S. Patent No. 5,842,224 entitled Method and Apparatus for Source Filtering Data Packets Between Networks of Differing Media . Fenner has also sued six other companies alleging similar claims of patent infringement. The Company filed its answer in the second quarter of 2008. The District Court had scheduled a February 19, 2009 claim construction hearing and an October 13, 2009 jury trial. The Company attended a court-mandated mediation in February 2009 but failed to resolve the litigation. In late April 2009, without admitting any patent infringement, wrongdoing or violation of law and to avoid the distraction and expense of continued litigation, the Company agreed to make a one-time lump sum payment of $350,000 in consideration for a fully paid perpetual license to the patents in suit as well as a covenant not to sue by Fenner. Based on the historical and estimated projected future unit sales of the Company s products that were alleged to infringe the asserted patents, the Company allocated a portion of the settlement cost towards product shipments prior to the settlement, which the Company recorded as a litigation settlement expense in the three months ended March 29, 2009. Additionally, the Company will allocate the balance of the settlement cost to prepaid royalties which will be recognized as a component of cost of revenue as the related products are sold.

Ruckus Wireless v. NETGEAR

In May 2008, a lawsuit was filed against the Company by Ruckus Wireless (Ruckus), a developer of Wi-Fi technology, in the U.S. District Court for the Northern District of California. Ruckus alleges that the Company infringes U.S. Patent Nos. 7,358,912 and 7,193,562 in the course of deploying Wi-Fi antenna array technology in its products. The Company filed its answer in the third quarter of 2008. Ruckus also sued Rayspan Corporation alleging similar claims of patent infringement. The Company and Rayspan Corporation jointly filed a request for inter partes reexamination of the Ruckus patents with the USPTO on September 4, 2008. On December 2, 2008, reexamination was granted to all claims of U.S. Patent No. 7,358,912. On November 28, 2008, a reexamination was ordered with respect to claims 11-17 of U.S. Patent No. 7,193,562, but denied with respect to claims 1-10 and 18-36. On December 17, 2008, the defendants jointly filed a petition to challenge the denial of reexamination of claims 1-10 and 18-36 of U.S. Patent No. 7,193,562.

EZ4Media, Inc. v. NETGEAR

In June 2008, a lawsuit was filed against the Company by EZ4Media, Inc. (EZ4Media) in the U.S. District Court for the Northern District of Illinois. EZ4Media alleges that the Company s digital media receivers infringe U.S. Patent Nos. 7,142,934, 7,142,935, 7,167,765 and 7,130,616. EZ4Media has also sued eight other companies alleging similar claims of patent infringement. The Company filed its answer and counterclaims in the third quarter of 2008. In March 2009, the Company and EZ4Media reached an agreement to dismiss the case without prejudice and without any financial obligation on the Company s part. The case was dismissed on March 6, 2009.

Northpeak Wireless, LLC v. NETGEAR

In October 2008, a lawsuit was filed against the Company and thirty other companies by Northpeak Wireless, LLC (Northpeak) in the U.S. District Court for the Northern District of Alabama. Northpeak alleges that the Company s 802.11b compatible products infringes U.S. Patent Nos. 4,977,577 and 5,987,058. The Company filed its answer in the fourth quarter of 2008. On January 21, 2009, the Court granted a motion to transfer the case to the U.S. District Court for the Northern District of California. The Court has not yet set a trial date.

Finoc, LLC v. NETGEAR

In February 2009, a lawsuit was filed against the Company and fourteen other companies by Finoc Design Consulting OY (Finoc) in the U.S. District Court for the Eastern District of Texas. Finoc alleges that the Company s wireless DSL gateway products infringe U.S. Patent No. 6,850,560. The Company is currently investigating the allegations.

Data Network Storage, LLC v. NETGEAR

In April 2009, a lawsuit was filed against the Company and fourteen other companies by Data Network Storage, LLC (DNS) in the U.S. District Court for the Southern District of California. DNS alleges that the Company and the other third parties infringe U.S. Patent No. 6,098,128. The Company is currently investigating the allegations.

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IP Indemnification Claims

In addition, in its sales agreements, the Company typically agrees to indemnify its direct customers, distributors and resellers (the Indemnified Parties) for any expenses or liability resulting from claimed infringements of patents, trademarks or copyrights of third parties that are asserted against the Indemnified Parties. The terms of these indemnification agreements are generally perpetual after execution of the agreement. The maximum amount of potential future indemnification is generally unlimited. From time to time, the Company receives requests for indemnity and may choose to assume the defense of such litigation asserted against the Indemnified Parties.

In December 2005, the Company received a request for indemnification from Charter Communications, Inc. (Charter), a direct customer, related to a lawsuit filed in the U.S. District Court, Eastern District of Texas, by Hybrid Patents, Inc. (Hybrid), a patent holding company. Hybrid alleged that Charter infringed U.S. Patent Nos. 5,586,121, 5,818,845, 6,104,727 and Re. 35,774. Hybrid alleged that products implementing the Data Over Cable Service Interface Specification (DOCSIS) standard, which are supplied to Charter by, among others, the Company, infringed these patents. In the third quarter of 2006, the Company together with a number of other equipment suppliers to Charter assumed the defense of the litigation. In the second quarter of 2007, a jury found that the Hybrid patents were not infringed by Charter. Hybrid filed similar lawsuits in the same jurisdiction against Comcast Corporation, Comcast of Dallas, LP, Time Warner Cable, Inc. and Cox Communications, Inc., all of whom are also customers of the Company. In May 2008, the Company, together with several co-defendants, agreed to settle the litigation as part of a group settlement with Hybrid. Without admitting any patent infringement, wrongdoing or violation of law and to avoid the distraction and expense of continued litigation, the Company agreed to make a one-time payment of $450,000 for its portion of the settlement, in exchange for a fully paid perpetual license to all Hybrid patents, including those asserted in the lawsuit. Based on the historical and estimated projected future unit sales of the Company s products that were alleged to infringe the asserted patents, the Company allocated $109,000 of the settlement cost towards product shipments prior to the settlement, which the Company recorded as a litigation settlement expense in the three months ended March 30, 2008. Additionally, the Company allocated $341,000 of the settlement cost to prepaid royalties which is being recognized as a component of cost of revenue as the related products are sold.

In June 2006, the Company received a request for indemnification from Charter and Charter Communications Operating, LLC, related to a lawsuit filed in the U.S. District Court, Eastern District of Texas, by Rembrandt Technologies, L.P. (Rembrandt), a patent-holding company. Rembrandt alleges that Charter infringes U.S. Patent Nos. 5,243,627, 5,852,631, 5,719,858 and 4,937,819. Rembrandt alleges that products implementing the DOCSIS standard, which are supplied to Charter by, among others, the Company, infringe these patents. Rembrandt has also filed a similar lawsuit in the same jurisdiction against Comcast Corporation, Comcast Cable Communications, LLC and Comcast of Plano, LP. In November 2007, the Company along with Motorola, Inc., Cisco Systems, Inc., Scientific-Atlanta, Inc., ARRIS Group, Inc., Thomson, Inc. and Ambit Microsystems, Inc. filed a complaint for declaratory judgment in the U.S. District Court for the District of Delaware against Rembrandt, seeking a declaration that Rembrandt s alleged patents are either invalid or not infringed. The action is currently in the discovery phase. The District Court held a claim construction hearing on August 5, 2008, and has scheduled a September 9, 2009 jury trial. On November 29, 2008, the District Court issued its claim construction order. The District Court held a mediation on March 3-4, 2009 but the parties were unable to reach a resolution.

All of the above described claims against the Company, or filed by the Company, whether meritorious or not, could be time-consuming, result in costly litigation, require significant amounts of management time, and result in the diversion of significant operational resources. Were an unfavorable outcome to occur, there exists the possibility it would have a material adverse impact on the Company s financial position and results of operations for the period in which the unfavorable outcome occurs or becomes probable. In addition, the Company is subject to legal proceedings, claims and litigation arising in the ordinary course of business, including litigation related to intellectual property and employment matters.

Based on currently available information, the Company does not believe that the ultimate outcomes of any unresolved matters, individually and in the aggregate, are likely to have a material adverse effect on the Company s financial position, liquidity or results of operations within the next twelve months. However, litigation is subject to inherent uncertainties, and the Company s view of these matters may change in the future. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the Company s financial position and results of operations or liquidity for the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

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Environmental Regulation

The European Union (EU) has enacted the Waste Electrical and Electronic Equipment Directive, which makes producers of electrical goods, including home and small business networking products, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. The deadline for the individual member states of the EU to enact the directive in their respective countries was August 13, 2004 (such legislation, together with the directive, the WEEE Legislation). Producers participating in the market are financially responsible for implementing these responsibilities under the WEEE Legislation beginning in August 2005. Similar WEEE Legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, China and Japan. The Company adopted FSP SFAS No. 143-1, Accounting for Electronic Equipment Waste Obligations , in the third quarter of fiscal 2005 and has determined that its effect did not have a material impact on its consolidated results of operations and financial position for the three months ended March 29, 2009 and the three months ended March 30, 2008. The Company is continuing to evaluate the impact of the WEEE Legislation and similar legislation in other jurisdictions as individual countries issue their implementation guidance.

Additionally, the EU has enacted the Restriction of Hazardous Substances Directive (RoHS Legislation). The RoHS Legislation, along with similar legislation in China, prohibits the use of certain substances, including mercury and lead, in certain products put on the market after July 1, 2006. The Company believes it has met the requirements of the RoHS Legislation.

Employment Agreements

The Company has signed various employment agreements with key executives pursuant to which if their employment is terminated without cause, the employees are entitled to receive their base salary (and commission or bonus, as applicable) for 52 weeks (for the Chief Executive Officer) and up to 26 weeks (for other key executives). Such employees will continue to have stock options vest for up to a one year period following the termination. If the termination, without cause, occurs within one year of a change in control, the officer is entitled to two years acceleration of any unvested portion of his or her stock options.

Leases

The Company leases office space, cars and equipment under non-cancelable operating leases with various expiration dates through December 2026. The terms of some of the Company s office leases provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

Guarantees and Indemnifications

The Company has entered into various inventory-related purchase agreements with suppliers. Generally, under these agreements, 50% of orders are cancelable by giving notice 46 to 60 days prior to the expected shipment date and 25% of orders are cancelable by giving notice 31 to 45 days prior to the expected shipment date. Orders are non-cancelable within 30 days prior to the expected shipment date. At March 29, 2009, the Company had $36.6 million in non-cancelable purchase commitments with suppliers. The Company establishes a loss liability for all products it does not expect to sell for which it has committed purchases from suppliers. Such losses have not been material to date.

The Company, as permitted under Delaware law and in accordance with its Bylaws, indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company s request in such capacity. The term of the indemnification period is for the officer s or director s lifetime. The maximum amount of potential future indemnification is unlimited; however, the Company has a Director and Officer Insurance Policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the fair value of these indemnification agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of March 29, 2009.

In its sales agreements, the Company typically agrees to indemnify its direct customers, distributors and resellers for any expenses or liability resulting from claimed infringements of patents, trademarks or copyrights of third parties. The terms of these indemnification agreements are generally perpetual any time after execution of the agreement. The maximum amount of potential future indemnification is unlimited. The Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of March 29, 2009.

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13. Fair Value of Financial Instruments

The Company measures certain financial assets and liabilities at fair value on a recurring basis. The following table summarizes the valuation of the Company s financial instruments as of March 29, 2009 and December 31, 2008:

	As of March 29, 2009			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 155,739	$ 155,739	$	$
Available-for-sale securities (1)	10,080	10,080		
Foreign currency forward contracts (2)	314		314	
Total	$ 166,133	$ 165,819	$ 314	$

(1) Included in short-term investments on the Company s unaudited condensed consolidated balance sheet.

(2) Included in prepaid expenses and other current assets on the Company s unaudited condensed consolidated balance sheet.

	As of March 29, 2009			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Foreign currency forward contracts (3)	$ (995)	$	$ (995)	$
Total	$ (995)	$	$ (995)	$

(3) Included in other accrued liabilities on the Company s unaudited condensed consolidated balance sheet.

	As of December 31, 2008			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 122,232	$ 122,232	$	$
Available-for-sale securities (1)	10,170	10,170		
Foreign currency forward contracts (2)	1,494		1,494	
Total	$ 133,896	$ 132,402	$ 1,494	$

(1) Included in short-term investments on the Company s unaudited condensed consolidated balance sheet.

(2) Included in prepaid expenses and other current assets on the Company s unaudited condensed consolidated balance sheet.

	As of December 31, 2008			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Foreign currency forward contracts (3)	$ (3,275)	$	$ (3,275)	$
Total	$ (3,275)	$	$ (3,275)	$

(3) Included in other accrued liabilities on the Company s unaudited condensed consolidated balance sheet.

The Company s investments in cash equivalents and available-for-sale securities are recorded at fair value based on quoted market prices in active markets. All of the Company s foreign currency forward contracts are with counterparties that have long-term credit ratings of double-A. The Company s foreign currency forward contracts are valued using pricing models that take into account the contract terms as well as currency rates and counterparty credit rates. The Company verifies the reasonableness of these pricing models using observable market data for related inputs into such models. Additionally, the Company includes an adjustment for non-performance risk in the recognized measure of fair value of derivative instruments. At March 29, 2009 and December 31, 2008, the adjustment for non-performance risk did not have a material impact on the fair value of the Company s foreign currency forward contracts.

The carrying value of non-financial assets and liabilities measured at fair value in the financial statements on a recurring basis, including accounts receivable and accounts payable, approximate fair value due to their short maturities.

14. Subsequent Events

On April 20, 2009, the Company and CSIRO executed a Memorandum of Understanding (MOU) setting forth the terms of a settlement and license agreement between the Company and CSIRO. For discussion, please see Note 12 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Restated)***

Restatement

We are amending our Quarterly Report on Form 10-Q for the three months ended March 29, 2009, to restate our consolidated financial statements and other financial information for the three months ended March 29, 2009 to correct an error in accounting related to the recording of the income tax provision. This Amendment to Form 10-Q (Amended 10-Q) amends the Quarterly Report on Form 10-Q for the three months ended March 29, 2009, as filed on May 7, 2009.

The effect of the error correction on the Consolidated Results of Operations (Restated) for the three months ended March 29, 2009 has resulted in a change in the provision for (benefit from) income taxes from a benefit of $460,000 to a provision of $3,352,000. The restatement relates solely to the correction of the recorded tax expense for the three months ended March 29, 2009 and does not impact any other periods presented in the Amended 10-Q. All amounts in Management s Discussion and Analysis of Financial Condition and Results of Operations (Restated) have been corrected, as appropriate, for the effects of the restatement.

A more complete discussion of the restatement can be found in Note 2, Restatement of Unaudited Condensed Consolidated Financial Statements, of the Notes to Unaudited Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Amendment and Item 4.02(a) of the Company s Current Report on Form 8-K filed with the Commission on July 22, 2009.

Forward-looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, the words believes, anticipates, plans, expects, intends and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a discrepancy include, but are not limited to, those discussed in Part II - Item 1A - Risk Factors (Restated) and Liquidity and Capital Resources below. All forward-looking statements in this document are based on information available to us as of the date hereof and we assume no obligation to update any such forward-looking statements. The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes contained in this quarterly report. Unless expressly stated or the context otherwise requires, the terms we, our, us and NETGEAR refer to NETGEAR, Inc. and our subsidiaries.

Overview

We design, develop and market innovative networking products that address the specific needs of small business and home users. We define a small business as a business with fewer than 250 employees. We are focused on satisfying the ease-of-use, reliability, performance and affordability requirements of these users. Our product offerings enable users to share Internet access, peripherals, files, digital multimedia content and applications among multiple networked devices and other Internet-enabled devices.

Our product line consists of wired and wireless devices that enable Ethernet networking, broadband access, and network connectivity. These products are available in multiple configurations to address the needs of our end-users in each geographic region in which our products are sold.

We sell our networking products through multiple sales channels worldwide, including traditional retailers, online retailers, wholesale distributors, DMRs, VARs, and broadband service providers. Our retail channel includes traditional retail locations domestically and internationally, such as Best Buy, Fry s Electronics, Radio Shack, Staples, Argos (U.K.), Dixons (U.K.), PC World (U.K.), MediaMarkt (Germany, Austria), and FNAC (France). Online retailers include Amazon.com, Dell, Newegg.com and Buy.com. Our DMRs include CDW Corporation, Insight Corporation and PC Connection in domestic markets and Misco throughout Europe. In addition, we also sell our products through broadband service providers, such as multiple system operators (MSOs), DSL, and other broadband technology operators domestically and internationally. Some of these retailers and broadband service providers purchase directly from us while others are fulfilled through wholesale distributors around the world. A substantial portion of our net revenue to date has been derived from a limited number of wholesale distributors, the largest of which are Ingram Micro Inc. and Tech Data Corporation. We expect that these wholesale distributors will continue to contribute a significant percentage of our net revenue for the foreseeable future.

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Our net revenue decreased 23.3% from the three months ended March 30, 2008 to the three months ended March 29, 2009. The decrease in revenue was principally attributable to lower shipments of our broadband gateway products to traditional resellers and existing service provider customers. Additionally, we experienced weakening demand for our switch products. Our revenue decline continued to be negatively impacted by the economic downturn and the relative strengthening of the U.S. dollar. A decrease in sales of wireless-G products was partially mitigated by increased sales of wireless-N products sold to retailers and existing service provider customers.

The small business and home networking markets are intensely competitive and subject to rapid technological change. We expect our competition to continue to intensify. We believe that the principal competitive factors in the small business and home markets for networking products include product breadth, size and scope of the sales channel, brand name, timeliness of new product introductions, product performance, features, functionality and reliability, ease-of-installation, maintenance and use, and customer service and support. To remain competitive, we believe we must invest resources in developing new products and enhancing our current products while continuing to expand our channels and maintaining customer satisfaction worldwide.

Our gross margin decreased to 28.2% for the three months ended March 29, 2009, from 32.2% for the three months ended March 30, 2008. The decrease in gross margin was primarily attributable to the impact of the strengthening of the U.S. dollar on our foreign currency denominated revenues. Gross margins were also impacted by sales declines of our relatively more profitable switch products. These margin decreases were partially offset by declines in inbound freight costs. Operating expenses for the three months ended March 29, 2009 were $44.7 million, or 29.4% of net revenue, compared to $49.1 million, or 24.8% of net revenue, for the three months ended March 30, 2008.

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Net income decreased $15.0 million to a $3.8 million loss (restated) for the three months ended March 29, 2009, from net income of $11.2 million for the three months ended March 30, 2008. This decrease was primarily attributable to a decrease in gross profit of $21.0 million, a decrease in other income of $1.8 million, and a decrease in interest income of $1.2 million. These decreases were offset by a decrease in the provision for income taxes of $4.5 million (restated) and a decrease in operating expenses of $4.4 million.

Results of Operations

The following table sets forth the consolidated statements of operations and the percentage change for the three months ended March 29, 2009, with the comparable reporting periods in the preceding year.

	Three Months Ended		
	March 29, 2009 (Restated) (1)	Percentage Change	March 30, 2008
	(In thousands, except percentage data)		
Net revenue	$ 152,018	(23.3%)	$ 198,154
Cost of revenue	109,087	(18.8)	134,291
Gross profit	42,931	(32.8)	63,863
Operating expenses:			
Research and development	7,353	(15.9)	8,738
Sales and marketing	25,902	(21.6)	33,028
General and administrative	8,237	12.6	7,313
Restructuring	676	**	
Litigation reserves, net	2,532	**	51
Total operating expenses	44,700	(9.0)	49,130
Income (loss) from operations	(1,769)	**	14,733
Interest income	304	(79.9)	1,512
Other income, net	1,047	(63.2)	2,843
Income (loss) before income taxes	(418)	**	19,088
Provision for income taxes	3,352	(57.4)	7,862
Net income (loss)	$ (3,770)	**	$ 11,226

(1) See Note 2, Restatement of Unaudited Condensed Consolidated Financial Statements, of the Notes to Unaudited Condensed Consolidated Financial Statements.

** Percentage change not meaningful.

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The following table sets forth the unaudited condensed consolidated statements of operations, expressed as a percentage of net revenue, for the periods indicated:

	Three Months Ended March 29, 2009 (Restated) (1)	Three Months Ended March 30, 2008
Net revenue	100%	100%
Cost of revenue	71.8	67.8
Gross margin	28.2	32.2
Operating expenses:		
Research and development	4.8	4.4
Sales and marketing	17.0	16.7
General and administrative	5.4	3.7
Restructuring	0.5	0.0
Litigation reserves, net	1.7	0.0
Total operating expenses	29.4	24.8
Income (loss) from operations	(1.2)	7.4
Interest income	0.2	0.8
Other income, net	0.7	1.4
Income (loss) before income taxes	(0.3)	9.6
Provision for income taxes	2.2	3.9
Net income (loss)	(2.5%)	5.7%

(1) See Note 2, Restatement of Unaudited Condensed Consolidated Financial Statements, of the Notes to Unaudited Condensed Consolidated Financial Statements.

Three Months Ended March 29, 2009 Compared to Three Months Ended March 30, 2008

Net Revenue

	Three Months Ended March 29, 2009	Percentage Change	March 30, 2008
	(In thousands, except percentage data)		
Net revenue	$ 152,018	(23.3%)	$ 198,154

Our net revenue consists of gross product shipments, less allowances for estimated returns for stock rotation and warranty, price protection, end-user customer rebates and other sales incentives deemed to be a reduction of net revenue per Emerging Issues Task Force (EITF) Issue No. 01-9 and net changes in deferred revenue.

Net revenue decreased $46.2 million, or 23.3%, to $152.0 million for the three months ended March 29, 2009, from $198.2 million for the three months ended March 30, 2008. The decrease in revenue was principally attributable to lower shipments of our broadband gateway products to traditional resellers and existing service provider customers. Additionally, we experienced weakening demand for our switch products. Our revenue decline continued to be negatively impacted by the economic downturn and the relative strengthening of the U.S. dollar. A decrease in sales of wireless-G products was partially mitigated by increased sales of wireless-N products sold to retailers and existing service provider customers.

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In the three months ended March 29, 2009, net revenue generated within North America, Europe, the Middle-East and Africa (EMEA) and Asia Pacific was 42.9%, 48.8% and 8.3%, respectively, of our total net revenue. The comparable net revenue for the three months ended March 30, 2008 was 40.0%, 49.5% and 10.5%, respectively, of our total net revenue. The percentage change in net revenue compared to the prior year comparable quarter for North America, EMEA, and Asia Pacific was a 17.7% decrease, a 24.4% decrease, and a 39.3% decrease, respectively. The decrease in EMEA and Asia Pacific was primarily attributable to decreased sales to service providers and the strengthening of the U.S. dollar.

Cost of Revenue and Gross Margin

	Three Months Ended		
	March 29, 2009	**Percentage Change**	**March 30, 2008**
	(In thousands, except percentage data)		
Cost of revenue	$ 109,087	(18.8%)	$ 134,291
Gross margin percentage	28.2%		32.2%

Cost of revenue consists primarily of the following: the cost of finished products from our third party contract manufacturers; overhead costs including purchasing, product planning, inventory control, warehousing and distribution logistics; inbound freight; warranty costs associated with returned goods; write-downs for excess and obsolete inventory, and amortization expense of certain acquired intangibles. We outsource our manufacturing, warehousing and distribution logistics. We believe this outsourcing strategy allows us to better manage our product costs and gross margin. Our gross margin can be affected by a number of factors, including fluctuation in foreign exchange rates, sales returns, changes in net revenues due to changes in average selling prices, end-user customer rebates and other sales incentives, and changes in our cost of goods sold due to fluctuations in prices paid for components, net of vendor rebates, warranty and overhead costs, inbound freight, conversion costs, and charges for excess or obsolete inventory.

Cost of revenue decreased $25.2 million, or 18.8%, to $109.1 million for the three months ended March 29, 2009, from $134.3 million for the three months ended March 30, 2008. In addition, our gross margin decreased to 28.2% for the three months ended March 29, 2009, from 32.2% for the three months ended March 30, 2008. The decrease in gross margin was primarily attributable to the impact of the strengthening of the U.S. dollar on our foreign currency denominated revenues. Gross margins were also impacted by sales declines of our relatively more profitable switch products. These margin decreases were partially offset by declines in inbound freight costs.

Operating Expenses

Research and Development

	Three Months Ended		
	March 29, 2009	**Percentage Change**	**March 30, 2008**
	(In thousands, except percentage data)		
Research and development expense	$ 7,353	(15.9%)	$ 8,738
Percentage of net revenue	4.8%		4.4%

Research and development expenses consist primarily of personnel expenses, payments to suppliers for design services, safety and regulatory testing, product certification expenditures to qualify our products for sale into specific markets, prototypes and other consulting fees. Research and development expenses are recognized as they are incurred. We have invested in building our research and development organization to enhance our ability to introduce innovative and easy to use products.

Research and development expenses decreased $1.3 million, or 15.9%, to $7.4 million for the three months ended March 29, 2009, from $8.7 million for the three months ended March 30, 2008. The decrease was primarily attributable to decreased costs of $1.2 million related to a reduction in payroll and other employee expenses, including decreased variable compensation and a reduction in travel expenses. Additionally, stock-based compensation expense decreased $281,000, and non-recurring engineering and outside services costs decreased $264,000 as a result of cost savings efforts. Partially offsetting these decreases was an increase in costs allocated to research and development from other functional expense categories of $428,000, primarily resulting from increased facilities costs related to our new corporate headquarters in San Jose, California, and higher information technology costs related to our new enterprise resource planning software.

Sales and Marketing

	Three Months Ended		
	March 29, 2009	Percentage Change	March 30, 2008
	(In thousands, except percentage data)		
Sales and marketing expense	$ 25,902	(21.6%)	$ 33,028
Percentage of net revenue	17.0%		16.7%

Sales and marketing expenses consist primarily of advertising, trade shows, corporate communications and other marketing expenses, product marketing expenses, outbound freight costs, personnel expenses for sales and marketing staff and technical support expenses. In 2009 we expect sales and marketing costs to decrease as compared to the year ended December 31, 2008 as we continue our cost savings efforts.

Sales and marketing expenses decreased $7.1 million, or 21.6%, to $25.9 million for the three months ended March 29, 2009, from $33.0 million for the three months ended March 30, 2008. Of this decrease, $4.6 million was related to a reduction in payroll and other employee expenses primarily attributable to decreased overall sales and marketing headcount, decreased variable compensation and a reduction in travel expenses. Sales and marketing headcount decreased 11%, to 259 employees at March 29, 2009 compared to 292 employees at March 30, 2008. Additionally, marketing expenses and other outside service costs decreased $2.1 million attributable to reduced marketing campaigns and cost savings efforts. Furthermore, outbound freight costs decreased $673,000 attributable to our reduction in sales. Partially offsetting these decreases was an increase in costs allocated to sales and marketing from other functional expense categories of $1.0 million, primarily resulting from increased facilities costs related to our new corporate headquarters in San Jose, California. Additionally, stock-based compensation expense increased $208,000.

General and Administrative

	Three Months Ended		
	March 29, 2009	Percentage Change	March 30, 2008
	(In thousands, except percentage data)		
General and administrative expense	$ 8,237	12.6%	$ 7,313
Percentage of net revenue	5.4%		3.7%

General and administrative expenses consist of salaries and related expenses for executive, finance and accounting, human resources, professional fees, allowance for doubtful accounts and other corporate expenses. In 2009 we expect general and administrative costs to increase slightly as compared to the year ended December 31, 2008.

General and administrative expenses increased $924,000, or 12.6%, to $8.2 million for the three months ended March 29, 2009, from $7.3 million for the three months ended March 30, 2008. The increase was primarily attributable to increased fees of $1.4 million for outside legal and other professional services. Partially offsetting these increases was a $355,000 decrease in payroll and other employee expenses, including decreased variable compensation. Additionally, stock-based compensation expense increased $171,000.

Restructuring

In July 2008, we ceased using buildings leased in Santa Clara and Fremont, California, and consolidated all personnel and operations from those locations to our new corporate headquarters in San Jose, California. We initially expected to sublease the

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majority of this space through the end of the operating leases, the longest of which extends to December 2010. However, in the three months ended March 29, 2009, we determined that it was probable that a sub-lessee would cease making payments, and we do not expect to find a replacement sub-lessee during the remaining term of the lease. During the three months ended March 29, 2009, we expensed $676,000, primarily related to these ceased sub-lessee payments. We did not incur any restructuring expense during the three months ended March 30, 2008. For a further discussion of our restructuring expenses, please see Note 7 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Litigation Reserves

During the three months ended March 29, 2009, we recorded a litigation reserve expense of $2.5 million for estimated costs related to the settlement of various lawsuits filed against us. During the three months ended March 30, 2008, we recorded net litigation reserves expense of $51,000. For a detailed discussion of our litigation matters, please see Note 12 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Interest Income and Other Income, Net

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands)	
Interest income	$ 304	$ 1,512
Other income, net	1,047	2,843
Total interest income and other income, net	$ 1,351	$ 4,355

Interest income represents amounts earned on our cash, cash equivalents and short-term investments. Other income, net, primarily represents gains and losses on transactions denominated in foreign currencies and other miscellaneous expenses.

Interest income decreased $1.2 million, or 79.9%, to $304,000 for the three months ended March 29, 2009, from $1.5 million for the three months ended March 30, 2008. The decrease in interest income was primarily attributable to a decrease in the average interest rate earned in the three months ended March 29, 2009 as compared to the three months ended March 30, 2008.

Other income, net, decreased $1.8 million to $1.0 million for the three months ended March 29, 2009, from $2.8 million for the three months ended March 30, 2008. The U.S. dollar strengthened against the Australian dollar, British pound, and euro in the three months ended March 29, 2009, but our new foreign currency hedging program more than offset losses related to these movements, resulting in income of $1.0 million. For details of our foreign currency contracts, please see Note 8 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Provision for (Benefit from) Income Taxes

The provision for income taxes decreased $4.5 million to an expense of $3.4 million (restated) for the three months ended March 29, 2009, from an expense of $7.9 million for the three months ended March 30, 2008. The decrease in the tax provision for the three months ended March 29, 2009 is primarily due to a decrease in pretax income for the current period, offset by the adverse impact of a loss in a foreign entity that will not give rise to a tax benefit. The loss in the foreign entity results in a bifurcation of the tax provision between the results of the loss entity and the remaining profitable operations. Under this methodology, tax is accrued ratably on the profitable operations based on the income earned during the period and no tax benefit is accrued on the loss. The loss is, however, taken into account in determining the overall effective tax rate for the year. Accordingly, this methodology results in a significantly higher effective tax rate for the three months ended March 29, 2009.

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Net Income

Net income decreased $15.0 million to a $3.8 million net loss for the three months ended March 29, 2009, from net income of $11.2 million for the three months ended March 30, 2008. This decrease was primarily attributable to a decrease in gross profit of $21.0 million, a decrease in other income of $1.8 million, and a decrease in interest income of $1.2 million. These decreases were offset by a decrease in the provision for income taxes of $4.5 million and a decrease in operating expenses of $4.4 million.

Liquidity and Capital Resources

As of March 29, 2009, we had cash, cash equivalents and short-term investments totaling $200.3 million. Short-term investments accounted for $10.1 million of this balance.

Our cash and cash equivalents balance decreased from $192.8 million as of December 31, 2008 to $190.2 million as of March 29, 2009. Operating activities during the three months ended March 29, 2009 used cash of $2.8 million, compared to $1.8 million used in the three months ended March 30, 2008. Investing activities during the three months ended March 29, 2009 used cash of $268,000, primarily from purchases of property and equipment. During the three months ended March 29, 2009, financing activities provided cash of $458,000, resulting primarily from the issuance of common stock related to stock option exercises and our employee stock purchase program.

Our days sales outstanding decreased from 81 days as of December 31, 2008 to 74 days as of March 29, 2009.

Our accounts payable decreased from $60.1 million at December 31, 2008 to $34.9 million at March 29, 2009. The decrease of $25.2 million is primarily attributable to decreased overall spending and timing of payments.

Inventory decreased by $20.2 million from $112.2 million at December 31, 2008 to $92.0 million at March 29, 2009. In the three months ended March 29, 2009 we experienced annualized ending inventory turns of approximately 4.7, up from approximately 4.0 in the three months ended December 31, 2008. This increase is primarily attributable to our decrease in inventory levels as we reduced levels in anticipation of lower demand for our products.

We lease office space, cars and equipment under non-cancelable operating leases with various expiration dates through December 2026. The terms of certain of our facility leases provide for rental payments on a graduated scale. We recognize rent expense on a straight-line basis over the lease period, and have accrued for rent expense incurred but not paid.

We enter into various inventory-related purchase agreements with suppliers. Generally, under these agreements, 50% of the orders are cancelable by giving notice 46 to 60 days prior to the expected shipment date and 25% of orders are cancelable by giving notice 31 to 45 days prior to the expected shipment date. Orders are non-cancelable within 30 days prior to the expected shipment date. At March 29, 2009, we had approximately $36.6 million in non-cancelable purchase commitments with suppliers. We establish a loss liability for all products we do not expect to sell for which we have committed purchases from suppliers. Such losses have not been material to date.

We enter into foreign currency forward-exchange contracts, which typically mature in five months, to hedge a portion of our exposure to foreign currency fluctuations of foreign currency-denominated receivables, payables, and cash balances. We record on the consolidated balance sheet at each reporting period the fair value of our forward-exchange contracts and record any fair value adjustments in our Unaudited Condensed Consolidated Statements of Operations. Gains and losses associated with currency rate changes on contracts are recorded within other income, net, offsetting gains and losses on our monetary assets and liabilities.

In October 2008, the Board of Directors approved plans to purchase shares of our common stock in the open market. As of March 29, 2009, we were authorized to purchase up to an additional 4.8 million shares under the share repurchase plan. The stock repurchase authorization does not have an expiration date and the pace of repurchase activity will depend on various factors including, but not limited to, such factors as levels of cash generation from operations, cash requirements for acquisitions, and current stock price.

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Contractual Obligations and Off-Balance Sheet Arrangements

The following table describes our commitments to settle contractual obligations and off-balance sheet arrangements in cash as of March 29, 2009 (in thousands):

Contractual Obligations	Less than 1 Year	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Operating leases	$ 5,593	$ 7,907	$ 6,505	$ 18,091	$ 38,096
Purchase obligations	36,573				36,573
	$ 42,166	$ 7,907	$ 6,505	$ 18,091	$ 74,669

As of March 29, 2009, we did not have any off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Based on our current plans and market conditions, we believe that our existing cash, cash equivalents and short-term investments will be sufficient to satisfy our anticipated cash requirements for at least the next twelve months. However, we may require or desire additional funds to support our operating expenses and capital requirements or for other purposes, such as acquisitions, and may seek to raise such additional funds through public or private equity financing or from other sources. We cannot assure you that additional financing will be available at all or that, if available, such financing will be obtainable on terms favorable to us and would not be dilutive. Our future liquidity and cash requirements will depend on numerous factors, including the introduction of new products and potential acquisitions of related businesses or technology.

As of March 29, 2009, the liability for uncertain tax positions, net of federal effect on tax issues, is $13.0 million. The timing of payment cannot be estimated. We do not expect a significant tax payment related to these obligations to occur within the next 12 months.

Critical Accounting Policies and Estimates

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008. Our critical accounting policies have not materially changed during the three months ended March 29, 2009.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Risk

We do not use derivative financial instruments in our investment portfolio. We have an investment portfolio of fixed income securities that are classified as available-for-sale securities. These securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. We attempt to limit this exposure by investing primarily in highly rated short-term securities. Additionally, our investment policy generally limits the amount of credit exposure to any one issuer. Our investment policy requires investments to be rated triple-A with the objective of minimizing the potential risk of principal loss. Due to the short duration and conservative nature of our investment portfolio, a movement of 10% by market interest rates would not have a material impact on our operating results and the total value of the portfolio over the next fiscal year. We monitor our interest rate and credit risks, including our credit exposure to specific rating categories and to individual issuers. There were no impairment charges on our investments during the three months ended March 29, 2009.

Foreign Currency Transaction Risk

We invoice some of our international customers in foreign currencies including, but not limited to, the Australian dollar, British pound, euro, and Japanese yen. As the customers that are currently invoiced in local currency become a larger percentage of our business, or to the extent we begin to bill additional customers in foreign currencies, the impact of fluctuations in foreign exchange rates could have a more significant impact on our results of operations. For those customers in our international markets that we continue to sell to in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive and therefore reduce the demand for our products. Such a decline in the demand for our products could reduce sales and negatively impact our operating results. Certain operating expenses of our foreign operations require payment in the local currencies.

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We are exposed to risks associated with foreign exchange rate fluctuations due to our international sales and operating activities. These exposures may change over time as business practices evolve and could negatively impact our operating results and financial condition. We began using derivatives in the fourth quarter of 2008 to partially offset our business exposure to foreign exchange risk on our foreign currency denominated assets and liabilities. The objective of these contracts is to reduce the impact of currency exchange rate movements on our operating results by offsetting gains and losses on the forward contracts with increases or decreases in foreign currency transactions. The contracts are marked-to-market on a monthly basis with gains and losses included in other income, net in the Consolidated Statements of Operations. We do not use foreign currency contracts for speculative or trading purposes. Hedging of our balance sheet exposures may not always be effective to protect us against currency exchange rate fluctuations. In addition, we do not fully hedge our balance sheet exposures, leaving us at risk to foreign exchange gains and losses on the un-hedged exposures. Furthermore, our hedging program is not currently structured to reduce the impact, due to volatile exchange rates, on net revenues, gross profit and operating profit, though we anticipate implementing such a program in the second fiscal quarter of 2009. Accordingly, if there was an adverse movement in exchange rates, we might suffer significant losses. See Note 8 of the Notes to Consolidated Financial Statements for additional disclosure on our foreign currency contracts, which are hereby incorporated by reference into this Part I, Item 3.

A hypothetical 10% movement in foreign exchange rates would result in an after-tax positive or negative impact of $156,000 to net income, net of our hedged position, at March 29, 2009. Actual future gains and losses associated with our foreign currency exposures and positions may differ materially from the sensitivity analyses performed as of March 29, 2009 due to the inherent limitations associated with predicting the foreign currency exchange rates, and our actual exposures and positions. For the three months ended March 29, 2009, 27.0% of total net revenue was denominated in a currency other than the U.S. dollar.

Item 4. ***Controls and Procedures (Restated)***

Evaluation of Disclosure Controls and Procedures

Our management maintains disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management is responsible for establishing and maintaining our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer participated with our management in evaluating the effectiveness of our disclosure controls and procedures as of March 29, 2009.

In our Quarterly Report on Form 10-Q for the three months ended March 29, 2009 filed on May 7, 2009, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 29, 2009. In connection with the restatement of our Quarterly Report on Form 10-Q for the three months ended March 29, 2009, as described in Note 2 to the unaudited condensed consolidated financial statements, our management, including our Chief Executive Officer and Chief Financial Officer, performed a reevaluation and concluded that our disclosure controls and procedures were not effective as of March 29, 2009 as a result of a material weakness in our internal control over financial reporting as discussed below.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

As of March 29, 2009, we did not maintain effective controls to ensure the accuracy of the provision for income taxes. Specifically, we did not maintain a sufficient complement of tax personnel with the required proficiency to identify, evaluate, review and report complex tax accounting matters. This deficiency resulted in an error to the unaudited condensed consolidated financial statements for the three months ended March 29, 2009, as more fully described in Note 2 to the unaudited condensed consolidated financial statements. Additionally, this control deficiency could result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

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In light of the material weakness described above, we have performed additional analyses and other post-closing procedures to ensure that our financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the financial statements included in this report fairly present, in all material respects, our financial condition, results of operations, and cash flows for the periods presented. Based in part on these additional efforts, our Chief Executive Officer and Chief Financial Officer have included their certifications as exhibits to this Form 10-Q/A.

Changes in Internal Control over Financial Reporting

As described above with respect to the material weakness identified, there have been changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q/A that have materially affected, or are likely to materially effect, our internal control over financial reporting.

Management s Remediation Initiatives

As a result of the material weakness, we continue to review and make changes to improve our internal control over financial reporting, including but not limited to, the hiring of additional personnel having sufficient knowledge and experience in tax to strengthen the controls around the tax provision or the engagement of outside tax specialists to assist us with the preparation and review of the income tax provision, as well as enhancing the review process associated with the preparation of the income tax provision.

Management has not yet implemented all of the measures described above and/or tested them. We continue to evaluate our internal controls over financial reporting and may in the future modify these measures or implement additional measures.

PART II: OTHER INFORMATION

Item 1. ***Legal Proceedings***

The information set forth under Note 12 of the Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, see the section entitled Risk Factors (Restated) in Part II, Item 1A of this report.

Item 1A. ***Risk Factors (Restated)***

Investing in our common stock involves a high degree of risk. The risks described below are not exhaustive of the risks that might affect our business. Other risks, including those we currently deem immaterial, may also impact our business. Any of the following risks could materially adversely affect our business operations, results of operations and financial condition and could result in a significant decline in our stock price.

Economic conditions are likely to materially adversely affect our revenue and results of operations.

Our business has been and may continue to be affected by a number of factors that are beyond our control such as general geopolitical economic and business conditions, conditions in the financial services markets, and changes in the overall demand for networking products. A severe and/or prolonged economic downturn could adversely affect our customers financial condition and the levels of business activity of our customers. Uncertainty about current global economic conditions could cause businesses to postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for networking products.

The current economic crisis affecting the banking system and financial markets and the current uncertainty in global economic conditions have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit, equity, currency and fixed income markets. There could be a number of follow-on effects from these economic developments and negative economic trends on our business, including the inability of customers to obtain credit to finance purchases of our products; customer insolvencies; decreased customer confidence to make purchasing decisions; decreased customer demand; and decreased customer ability to pay their trade obligations.

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If conditions in the global economy, U.S. economy or other key vertical or geographic markets remain uncertain or weaken further, such conditions could have a material adverse impact on our business, operating results and financial condition. In addition, if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, which could materially adversely affect our business and results of operations.

We are exposed to adverse currency exchange rate fluctuations in jurisdictions where we transact in local currency, which could harm our financial results and cash flows.

Because a significant portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our results of operations, financial position and cash flows. Although a portion of our international sales are currently invoiced in United States dollars, we have implemented and continue to implement for certain countries both invoicing and payment in foreign currencies. Our primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar denominated sales in Europe, Japan and Australia and certain parts of Asia and non-U.S. dollar denominated operating expenses incurred throughout the world. In addition, weaknesses in foreign currencies for U.S. dollar denominated sales could adversely affect demand for our products. Conversely, a strengthening in foreign currencies against the U.S. dollar could increase foreign currency denominated costs. As a result we may attempt to renegotiate pricing of existing contracts or request payment to be made in U.S. dollars. We cannot be sure that our customers would agree to renegotiate along these lines. This could result in customers eventually terminating contracts with us or in our decision to terminate certain contracts, which would adversely affect our sales.

We implemented a hedging program in November 2008 to hedge exposures to fluctuations in foreign currency exchange rates as a response to the risks of changes in the value of foreign currency denominated assets and liabilities. We may enter into foreign currency forward contracts or other instruments, the majority of which mature within approximately five months. Our foreign currency forward contracts reduce, but do not eliminate, the impact of currency exchange rate movements. For example, we do not execute forward contracts in all currencies in which we conduct business. In addition, our hedging program is not currently structured to reduce the impact, due to volatile exchange rates, on net revenues, gross profit and operating profit, though we anticipate implementing such a program in the second fiscal quarter of 2009. Accordingly, the use of such hedging activities may not offset more than a portion of the adverse financial effect resulting from unfavorable movements in foreign exchange rates.

We expect our operating results to fluctuate on a quarterly and annual basis, which could cause our stock price to fluctuate or decline.

Our operating results are difficult to predict and may fluctuate substantially from quarter-to-quarter or year-to-year for a variety of reasons, many of which are beyond our control. If our actual revenue were to fall below our estimates or the expectations of public market analysts or investors, our quarterly and annual results would be negatively impacted and the price of our stock could decline. Other factors that could affect our quarterly and annual operating results include those listed in the risk factors section of this report and others such as:

- changes in the pricing policies of or the introduction of new products by us or our competitors;
- litigation involving patent infringement;
- changes in the terms of our contracts with customers or suppliers that cause us to incur additional expenses or assume additional liabilities;
- slow or negative growth in the networking product, personal computer, Internet infrastructure, home electronics and related technology markets, as well as decreased demand for Internet access;
- changes in or consolidation of our sales channels and wholesale distributor relationships or failure to manage our sales channel inventory and warehousing requirements;

delay or failure to fulfill orders for our products on a timely basis;

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- disruptions or delays related to our new financial and enterprise resource planning systems;
- our inability to accurately forecast product demand;
- unfavorable level of inventory and turns;
- unanticipated shift in overall product mix from higher to lower margin products that would adversely impact our margins;
- unanticipated shift or decline in profit by geographical region that would adversely impact our tax rate;
- delays in the introduction of new products by us or market acceptance of these products;
- an increase in price protection claims, redemptions of marketing rebates, product warranty and stock rotation returns or allowance for doubtful accounts;
- challenges associated with integrating acquisitions that we make;
- operational disruptions, such as transportation delays or failure of our order processing system, particularly if they occur at the end of a fiscal quarter;
- delay or failure of our service provider customers to purchase at the volumes that we forecast;
- foreign currency exchange rate fluctuations in the jurisdictions where we transact sales and expenditures in local currency;
- our customers inability to pay for purchased goods in a timely fashion;
- bad debt exposure with our existing customers and as we expand into new international markets; and
- any changes in accounting rules.

As a result, period-to-period comparisons of our operating results may not be meaningful, and you should not rely on them as an indication of our future performance. In addition, our future operating results may fall below the expectations of public market analysts or investors. In that event, our stock price could decline significantly.

Our stock price may be volatile and your investment in our common stock could suffer a decline in value.

With the continuing uncertainty about economic conditions in the United States and abroad, there has been significant volatility in the market price and trading volume of securities of technology and other companies, which may be unrelated to the financial performance of these companies. These broad market fluctuations may negatively affect the market price of our common stock.

Some specific factors that may have a significant effect on our common stock market price include:

- actual or anticipated fluctuations in our operating results or our competitors operating results;
- actual or anticipated changes in the growth rate of the general networking sector, our growth rates or our competitors growth rates;
- conditions in the financial markets in general or changes in general economic conditions;
- interest rate or currency exchange rate fluctuations;
- our ability or inability to raise additional capital; and
- changes in stock market analyst recommendations regarding our common stock, other comparable companies or our industry generally.

Some of our competitors have substantially greater resources than we do, and to be competitive we may be required to lower our prices or increase our sales and marketing expenses, which could result in reduced margins and loss of market share.

We compete in a rapidly evolving and highly competitive market, and we expect competition to continue to be intense, including price competition. Our principal competitors in the small business market include 3Com, Allied Telesyn, Buffalo, Dell, D-Link, Hewlett-Packard, the Linksys division of Cisco Systems and SonicWALL. Our principal competitors in the home market include Apple, Belkin, D-Link and the Linksys division of Cisco Systems. Our principal competitors in the broadband service provider market include Actiontec, ARRIS, Comtrend, Huawei, Motorola, Sagem, Scientific Atlanta a Cisco company, ZyXEL, Thomson and 2Wire. Other current and potential competitors include numerous local vendors such as Devolo, Siemens and AVM in Europe, Corega and Melco in Japan and TP-Link in China. Our potential competitors also include consumer electronics vendors who could integrate networking capabilities into their line of products, and our channel customers who may decide to offer self-branded networking products. We also face competition from service providers who may bundle a free networking device with their broadband service offering, which would reduce our sales if we are not the supplier of choice to those service providers.

Many of our existing and potential competitors have longer operating histories, greater name recognition and substantially greater financial, technical, sales, marketing and other resources. These competitors may, among other things, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, obtain more favorable pricing from suppliers and manufacturers, and exert more influence on sales channels than we can. We anticipate that current and potential competitors will also intensify their efforts to penetrate our target markets. For example, price competition has intensified in our industry. Average sales prices have declined in the past and may continue to decline in the future. These competitors may have more advanced technology, more extensive distribution channels, stronger brand names, greater access to shelf space in retail locations, bigger promotional budgets and larger customer bases than we do. These companies could devote more capital resources to develop, manufacture and market competing products than we could. If any of these companies are successful in competing against us, our sales could decline, our margins could be negatively impacted and we could lose market share, any of which could seriously harm our business and results of operations.

If we do not effectively manage our sales channel inventory and product mix, we may incur costs associated with excess inventory, or lose sales from having too few products.

If we are unable to properly monitor, control and manage our sales channel inventory and maintain an appropriate level and mix of products with our wholesale distributors and within our sales channels, we may incur increased and unexpected costs associated with this inventory. We generally allow wholesale distributors and traditional retailers to return a limited amount of our products in exchange for other products. Under our price protection policy, if we reduce the list price of a product, we are often required to issue a credit in an amount equal to the reduction for each of the products held in inventory by our wholesale distributors and retailers. If our wholesale distributors and retailers are unable to sell their inventory in a timely manner, we might lower the price of the products, or these parties may exchange the products for newer products. Also, during the transition from an existing product to a new replacement product, we must accurately predict the demand for the existing and the new product.

We determine production levels based on our forecasts of demand for our products. Actual demand for our products depends on many factors, which makes it difficult to forecast. We have experienced differences between our actual and our forecasted demand in the past and expect differences to arise in the future. If we improperly forecast demand for our products we could end up with too many products and be unable to sell the excess inventory in a timely manner, if at all, or, alternatively we could end up with too few products and not be able to satisfy demand. This problem is exacerbated because we attempt to closely match inventory levels with product demand leaving limited margin for error. If these events occur, we could incur increased expenses associated with writing off excessive or obsolete inventory, lose sales, incur penalties for late delivery or have to ship products by air freight to meet immediate demand incurring incremental freight costs above the sea freight costs, a preferred method, and suffering a corresponding decline in gross margins.

Our business is subject to the risks of international operations.

We derive a significant portion of our revenue from international operations. As a result, our financial condition and operating results could be significantly affected by risks associated with international activities, including economic and labor conditions, political instability, tax laws (including U.S. taxes on foreign subsidiaries), and changes in the value of the U.S. dollar versus local currencies. Margins on sales of our products in foreign countries, and on sales of products that include components obtained from foreign suppliers, could be materially adversely affected by foreign currency exchange rate fluctuations and by international trade regulations.

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The average selling prices of our products typically decrease rapidly over the sales cycle of the product, which may negatively affect our gross margins.

Our products typically experience price erosion, a fairly rapid reduction in the average unit selling prices over their respective sales cycles. In order to sell products that have a falling average unit selling price and maintain margins at the same time, we need to continually reduce product and manufacturing costs. To manage manufacturing costs, we must collaborate with our third party manufacturers to engineer the most cost-effective design for our products. In addition, we must carefully manage the price paid for components used in our products. We must also successfully manage our freight and inventory costs to reduce overall product costs. We also need to continually introduce new products with higher sales prices and gross margins in order to maintain our overall gross margins. If we are unable to manage the cost of older products or successfully introduce new products with higher gross margins, our net revenue and overall gross margin would likely decline.

We are currently involved in various litigation matters and may in the future become involved in additional litigation, including litigation regarding intellectual property rights, which could be costly and subject us to significant liability.

The networking industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding infringement of patents, trade secrets and other intellectual property rights. In particular, leading companies in the data communications markets, some of which are competitors, have extensive patent portfolios with respect to networking technology. From time to time, third parties, including these leading companies, have asserted and may continue to assert exclusive patent, copyright, trademark and other intellectual property rights against us demanding license or royalty payments or seeking payment for damages, injunctive relief and other available legal remedies through litigation. These include third parties who claim to own patents or other intellectual property that cover industry standards that our products comply with. If we are unable to resolve these matters or obtain licenses on acceptable or commercially reasonable terms, we could be sued or we may be forced to initiate litigation to protect our rights. The cost of any necessary licenses could significantly harm our business, operating results and financial condition. Also, at any time, any of these companies, or any other third party could initiate litigation against us, or we may be forced to initiate litigation against them, which could divert management attention, be costly to defend or prosecute, prevent us from using or selling the challenged technology, require us to design around the challenged technology and cause the price of our stock to decline. In addition, third parties, some of whom are potential competitors, have initiated and may continue to initiate litigation against our manufacturers, suppliers, members of our sales channels or our service provider customers, alleging infringement of their proprietary rights with respect to existing or future products. In the event successful claims of infringement are brought by third parties, and we are unable to obtain licenses or independently develop alternative technology on a timely basis, we may be subject to indemnification obligations, be unable to offer competitive products, or be subject to increased expenses. Finally, consumer class-action lawsuits related to the marketing and performance of our home networking products have been asserted and may in the future be asserted against us. For additional information regarding certain of the lawsuits in which we are involved, see the information set forth under Note 12 of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report, which information is incorporated into this Item 1A by reference. If we do not resolve these claims on a favorable basis, our business, operating results and financial condition could be significantly harmed.

If our products contain defects or errors, we could incur significant unexpected expenses, experience product returns and lost sales, experience product recalls, suffer damage to our brand and reputation, and be subject to product liability or other claims.

Our products are complex and may contain defects, errors or failures, particularly when first introduced or when new versions are released. The industry standards upon which many of our products are based are also complex, experience change over time and may be interpreted in different manners. Some errors and defects may be discovered only after a product has been installed and used by the end-user. For example, in January 2008, we announced a voluntary recall of the XE103 Powerline Ethernet Adapter made for Europe and other countries using 220-240 volt power sources and sold individually or in a bundled kit. If our products contain defects or errors, or are found to be noncompliant with industry standards, we could experience decreased sales and increased product returns, loss of customers and market share, and increased service, warranty and insurance costs. In addition, our reputation and brand could be damaged, and we could face legal claims regarding our products. A product liability or other claim could result in negative publicity and harm our reputation, resulting in unexpected expenses and adversely impact our operating results. For instance, if a third party were able to successfully overcome the security measures in our products, such a person or entity could misappropriate customer data, third party data stored by our customers and other information, including intellectual property. In addition, the operations of our end-user customers may be interrupted. If that happens, affected end-users or others may file actions against us alleging product liability, tort, or breach of warranty claims.

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If we fail to continue to introduce new products that achieve broad market acceptance on a timely basis, we will not be able to compete effectively and we will be unable to increase or maintain net revenue and gross margins.

We operate in a highly competitive, quickly changing environment, and our future success depends on our ability to develop and introduce new products that achieve broad market acceptance in the small business and home markets. Our future success will depend in large part upon our ability to identify demand trends in the small business and home markets and quickly develop, manufacture and sell products that satisfy these demands in a cost effective manner. Successfully predicting demand trends is difficult, and it is very difficult to predict the effect introducing a new product will have on existing product sales. We will also need to respond effectively to new product announcements by our competitors by quickly introducing competitive products.

We have experienced delays and quality issues in releasing new products in the past, which resulted in lower quarterly net revenue than expected. In addition, we have experienced, and may in the future experience, product introductions that fall short of our projected rates of market adoption. Any future delays in product development and introduction or product introductions that do not meet broad market acceptance could result in:

- loss of or delay in revenue and loss of market share;
- negative publicity and damage to our reputation and brand;
- a decline in the average selling price of our products;
- adverse reactions in our sales channels, such as reduced shelf space, reduced online product visibility, or loss of sales channel; and
- increased levels of product returns.

We depend substantially on our sales channels, and our failure to maintain and expand our sales channels would result in lower sales and reduced net revenue.

To maintain and grow our market share, net revenue and brand, we must maintain and expand our sales channels. We sell our products through our sales channels, which consists of traditional retailers, online retailers, DMRs, VARs, and broadband service providers. Some of these entities purchase our products through our wholesale distributors. We generally have no minimum purchase commitments or long-term contracts with any of these third parties.

Traditional retailers have limited shelf space and promotional budgets, and competition is intense for these resources. If the networking sector does not experience sufficient growth, retailers may choose to allocate more shelf space to other consumer product sectors. A competitor with more extensive product lines and stronger brand identity, such as Cisco Systems, may have greater bargaining power with these retailers. Any reduction in available shelf space or increased competition for such shelf space would require us to increase our marketing expenditures simply to maintain current levels of retail shelf space, which would harm our operating margin. The recent trend in the consolidation of online retailers and DMR channels has resulted in intensified competition for preferred product placement, such as product placement on an online retailer s Internet home page. Expanding our presence in the VAR channel may be difficult and expensive. We compete with established companies that have longer operating histories and longstanding relationships with VARs that we would find highly desirable as sales channel partners. We also sell products to broadband service providers. Competition for selling to broadband service providers is intense. Penetrating service provider accounts typically involves a long sales cycle and the challenge of displacing incumbent suppliers with established relationships and field-deployed products. If we were unable to maintain and expand our sales channels, our growth would be limited and our business would be harmed.

We must also continuously monitor and evaluate emerging sales channels. If we fail to establish a presence in an important developing sales channel, our business could be harmed.

We are exposed to the credit risk of some of our customers and to credit exposures in weakened markets, which could result in material losses.

A substantial portion of our sales are on an open credit basis, with typical payment terms of 30 to 60 days in the United States and, because of local customs or conditions, longer in some markets outside the United States. We monitor individual customer financial viability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts.

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In the past, there have been bankruptcies amongst our customer base. Although any resulting loss has not been material to date, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition. To the degree that the recent turmoil in the credit markets makes it more difficult for some customers to obtain financing, our customers ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

If we fail to successfully overcome the challenges associated with profitably growing our broadband service provider sales channel, our net revenue and gross profit will be negatively impacted.

We sell a substantial portion of our products through broadband service providers worldwide. We face a number of challenges associated with penetrating, marketing and selling to the broadband service provider channel that differ from what we have traditionally faced with the other channels. These challenges include a longer sales cycle, more stringent product testing and validation requirements, a higher level of customization demands, requirements that suppliers take on a larger share of the risk with respect to contractual business terms, competition from established suppliers, pricing pressure resulting in lower gross margins, and our general inexperience in selling to service providers. Orders from service providers generally tend to be large but sporadic, which causes our revenues from them to fluctuate and challenges our ability to accurately forecast demand from them. In certain cases, we may commit to fixed price long term purchase orders, with such orders priced in foreign currencies which could lose value over time in the event of adverse changes in foreign exchange rates. Even if we are selected as a supplier, typically a service provider will also designate a second source supplier, which over time will reduce the aggregate orders that we receive from that service provider. If we were to lose a service provider customer for any reason, we may experience a material and immediate reduction in forecasted revenue that may cause us to be below our net revenue and operating margin guidance for a particular period of time and therefore adversely affect our stock price. In addition, service providers may choose to prioritize the implementation of other technologies or the roll out of other services than home networking. Weakness in orders from this industry could have a material adverse effect on our business, operating results, and financial condition. We have seen a slowdown in capital expenditures by certain of our service provider customers, and believe there may be potential for a broader slowdown in the global service provider market in the next few quarters. Any slowdown in the general economy, over capacity, consolidation among service providers, regulatory developments and constraint on capital expenditures could result in reduced demand from service providers and therefore adversely affect our sales to them. If we do not successfully overcome these challenges, we will not be able to profitably grow our service provider sales channel and our growth will be slowed.

We obtain several key components from limited or sole sources, and if these sources fail to satisfy our supply requirements, we may lose sales and experience increased component costs.

Any shortage or delay in the supply of key product components would harm our ability to meet scheduled product deliveries. Many of the semiconductors used in our products are specifically designed for use in our products and are obtained from sole source suppliers on a purchase order basis. In addition, some components that are used in all our products are obtained from limited sources. These components include connector jacks, plastic casings and physical layer transceivers. We also obtain switching fabric semiconductors, which are used in our Ethernet switches and Internet gateway products, and wireless local area network chipsets, which are used in all of our wireless products, from a limited number of suppliers. Semiconductor suppliers have experienced and continue to experience component shortages themselves, such as with substrates used in manufacturing chipsets, which in turn adversely impact our ability to procure semiconductors from them. Our third party manufacturers generally purchase these components on our behalf on a purchase order basis, and we do not have any contractual commitments or guaranteed supply arrangements with our suppliers. If demand for a specific component increases, we may not be able to obtain an adequate number of that component in a timely manner. In addition, if worldwide demand for the components increases significantly, the availability of these components could be limited. Further, our suppliers may experience financial or other difficulties as a result of uncertain and weak worldwide economic conditions. It could be difficult, costly and time consuming to obtain alternative sources for these components, or to change product designs to make use of alternative components. In addition, difficulties in transitioning from an existing supplier to a new supplier could create delays in component availability that would have a significant impact on our ability to fulfill orders for our products. If we are unable to obtain a sufficient supply of components, or if we experience any interruption in the supply of components, our product shipments could be reduced or delayed. This would affect our ability to meet scheduled product deliveries, damage our brand and reputation in the market, and cause us to lose market share.

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As part of growing our business, we have made and expect to continue to make acquisitions. If we fail to successfully select, execute or integrate our acquisitions, or if stock market analysts or our stockholders do not support the acquisitions that we choose to execute, then our business and operating results could be harmed and our stock price could decline.

From time to time, we will undertake acquisitions to add new product lines and technologies, gain new sales channels or enter into new sales territories. Acquisitions involve numerous risks and challenges, including but not limited to the following:

- integrating the companies, assets, systems, products, sales channels and personnel that we acquire;
- growing or maintaining revenues to justify the purchase price and the increased expenses associated with acquisitions;
- entering into territories or markets that we have limited or no prior experience with;
- establishing or maintaining business relationships with customers, vendors and suppliers who may be new to us;
- overcoming the employee, customer, vendor and supplier turnover that may occur as a result of the acquisition; and
- diverting management s attention from running the day to day operations of our business.

As part of undertaking an acquisition, we may also significantly revise our capital structure or operational budget, such as issuing common stock that would dilute the ownership percentage of our stockholders, assuming liabilities or debt, utilizing a substantial portion of our cash resources to pay for the acquisition or significantly increasing operating expenses. Our acquisitions have resulted and may in the future result in charges being taken in an individual quarter as well as future periods, which results in variability in our quarterly earnings. In addition, our effective tax rate in any particular quarter may also be impacted by acquisitions.

We cannot assure you that we will be successful in selecting, executing and integrating acquisitions. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. In addition, if stock market analysts or our stockholders do not support or believe in the value of the acquisitions that we choose to undertake, our stock price may decline.

We have recently upgraded our financial, demand planning and operational management systems. If we experience problems with the initial deployment and operation of these new systems, our business and operations will be adversely affected.

We have recently upgraded our financial and enterprise resource planning systems. We have invested, and will continue to invest, significant capital and human resources in their design and enhancement, which may be disruptive to our underlying business. We depend on these systems in order to timely and accurately process and report key components of our results of operations, financial position and cash flows. If the systems fail to operate appropriately or we experience any disruptions or delays in enhancing their functionality to meet current business requirements, our ability to fulfill customer orders, bill and track our customers, fulfill contractual obligations, accurately report our financials and otherwise run our business could be adversely affected. Even if we do not encounter these adverse effects, the integration of the new systems may be much more costly than we anticipated. If we are unable to successfully integrate the new information technology systems as planned, our financial position, results of operations and cash flows could be negatively impacted.

If disruptions in our transportation network occur or our shipping costs substantially increase, we may be unable to sell or timely deliver our products and our operating expenses could increase.

We are highly dependent upon the transportation systems we use to ship our products, including surface and air freight. Our attempts to closely match our inventory levels to our product demand intensify the need for our transportation systems to function effectively and without delay. On a quarterly basis, our shipping volume also tends to steadily increase as the quarter progresses, which means that any disruption in our transportation network in the latter half of a quarter will have a more material effect on our business than at the beginning of a quarter.

The transportation network is subject to disruption or congestion from a variety of causes, including labor disputes or port strikes, acts of war or terrorism, natural disasters and congestion resulting from higher shipping volumes. Labor disputes among freight carriers and at ports of entry are common, especially in Europe, and we expect labor unrest and its effects on shipping our products to be a continuing challenge for us. The labor unions for the ports in the west coast of the U.S. are now engaging in contract negotiation with the port operators. If the negotiation falters and results in strikes, it will severely impact our business. Since September 11, 2001, the rate of inspection of international freight by governmental entities has substantially increased, and has become increasingly unpredictable. If our delivery times increase unexpectedly for these or any other reasons, our ability to deliver products on time would be materially adversely affected and result in delayed or lost revenue as well as customer imposed penalties. In addition, if increases in fuel prices occur, our transportation costs would likely increase. Moreover, the cost of shipping our products by air freight is greater than other methods. From time to time in the past, we have shipped products using air freight to meet unexpected spikes in demand, shifts in demand between product categories or to bring new product introductions to market quickly. If we rely more heavily upon air freight to deliver our products, our overall shipping costs will increase. A prolonged transportation disruption or a significant increase in the cost of freight could severely disrupt our business and harm our operating results.

We rely on a limited number of wholesale distributors for most of our sales, and if they refuse to pay our requested prices or reduce their level of purchases, our net revenue could decline.

We sell a substantial portion of our products through wholesale distributors, including Ingram Micro, Inc. During the fiscal quarter ended March 29, 2009, sales to Ingram Micro and its affiliates accounted for 10% of our net revenue. We expect that a significant portion of our net revenue will continue to come from sales to a small number of wholesale distributors for the foreseeable future. In addition, because our accounts receivable are concentrated with a small group of purchasers, the failure of any of them to pay on a timely basis, or at all, would reduce our cash flow. We generally have no minimum purchase commitments or long-term contracts with any of these distributors. These purchasers could decide at any time to discontinue, decrease or delay their purchases of our products. In addition, the prices that they pay for our products are subject to negotiation and could change at any time. If any of our major wholesale distributors reduce their level of purchases or refuse to pay the prices that we set for our products, our net revenue and operating results could be harmed. If our wholesale distributors increase the size of their product orders without sufficient lead-time for us to process the order, our ability to fulfill product demands would be compromised.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.

Under generally accepted accounting principles, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered when determining if the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a significant decline in our expected future cash flows or a sustained, significant decline in our stock price and market capitalization.

As a result of our acquisitions, we have significant goodwill and amortizable intangible assets recorded on our balance sheet. In addition, significant negative industry or economic trends, such as those that have occurred in the last six months, including reduced estimates of future cash flows or disruptions to our business could indicate that goodwill or amortizable intangible assets might be impaired. If, in any period our stock price decreases to the point where our market capitalization is less than our book value, this too could indicate a potential impairment and we may be required to record an impairment charge in that period. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on projections of future operating performance. We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. As a result, we may incur substantial impairment charges to earnings in our financial statements should an impairment of our goodwill or amortizable intangible assets be determined resulting in an adverse impact on our results of operations.

Our income tax provision and liability for uncertain tax positions may be insufficient if any taxing authorities are successful in asserting tax positions that are contrary to our positions.

Significant judgment is required to determine our provision for income taxes and liability for uncertain tax positions. In the ordinary course of our business, there may be matters for which the ultimate tax outcome is uncertain. Although we believe our approach to determining the appropriate tax treatment is reasonable, no assurance can be given that the final tax authority determination will not be materially different than that which is reflected in our income tax provision and liability for uncertain tax positions. Such differences could have a material adverse effect on our income tax provision or benefit and liability for uncertain tax positions in the period in which such determination is made and, consequently, on our results of operations for such period.

From time to time, we are audited by various federal, state and foreign authorities regarding tax matters. Our audits are in various stages of completion; however, no outcome for a particular audit can be determined with certainty prior to the conclusion of the audit and, in some cases, appeal or litigation process. As each audit is concluded, adjustments, if any, are appropriately recorded in our financial statements in the period determined. To provide for potential tax exposure, we maintain a liability for uncertain tax positions

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in accordance with the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). However, if these accrued liabilities and/or reserves are insufficient upon completion of any audit process, there could be an adverse impact on our financial position and results of operations.

Changes in our tax rates could affect our future results.

Our future effective tax rates are affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or by changes in tax laws or their interpretation. For example, tax authorities in jurisdictions in which we do business may implement tax law changes that may increase our tax rates or have other adverse effects on our tax provisions. As a result our effective tax rates are difficult to predict and may fluctuate substantially from quarter-to-quarter or year-to-year for a variety of reasons, many of which are beyond our control. If our effective tax rates were to increase significantly, our quarterly and annual results would be negatively impacted and the price of our stock could decline. Therefore, period-to-period comparisons of our operating results may not be meaningful, and you should not rely on them as an indication of our future performance. In addition, our future operating results may fall below the expectations of public market analysts or investors. In that event, our stock price could decline significantly.

We depend on a limited number of third party manufacturers for substantially all of our manufacturing needs. If these third party manufacturers experience any delay, disruption or quality control problems in their operations, we could lose market share and our brand may suffer.

All of our products are manufactured, assembled, tested and generally packaged by a limited number of original design manufacturers (ODMs), contract manufacturers (CMs) and original equipment manufacturers (OEMs). We rely on our manufacturers to procure components and, in some cases, subcontract engineering work. Some of our products are manufactured by a single manufacturer. We do not have any long-term contracts with any of our third party manufacturers. Some of these third party manufacturers produce products for our competitors. Due to weakening economic conditions, the viability of some of these third party manufacturers may be at risk. The loss of the services of any of our primary third party manufacturers could cause a significant disruption in operations and delays in product shipments. Qualifying a new manufacturer and commencing volume production is expensive and time consuming.

Our reliance on third party manufacturers also exposes us to the following risks over which we have limited control:

- unexpected increases in manufacturing and repair costs;
- inability to control the quality of finished products;
- inability to control delivery schedules; and
- potential lack of adequate capacity to manufacture all or a part of the products we require.

All of our products must satisfy safety and regulatory standards and some of our products must also receive government certifications. Our ODMs, CMs and OEMs are primarily responsible for obtaining most regulatory approvals for our products. If our ODMs, CMs and OEMs fail to obtain timely domestic or foreign regulatory approvals or certificates, we would be unable to sell our products and our sales and profitability could be reduced, our relationships with our sales channel could be harmed, and our reputation and brand would suffer.

If we are unable to provide our third party manufacturers a timely and accurate forecast of our component and material requirements, we may experience delays in the manufacturing of our products and the costs of our products may increase.

We provide our third party manufacturers with a rolling forecast of demand, which they use to determine our material and component requirements. Lead times for ordering materials and components vary significantly and depend on various factors, such as the specific supplier, contract terms and demand and supply for a component at a given time. Some of our components have long lead times, such as wireless local area network chipsets, switching fabric chips, physical layer transceivers, connector jacks and metal and plastic enclosures. If our forecasts are not timely provided or are less than our actual requirements, our third party manufacturers may be unable to manufacture products in a timely manner. If our forecasts are too high, our third party manufacturers will be unable to use the components they have purchased on our behalf. The cost of the components used in our products tends to drop rapidly as volumes increase and the technologies mature. Therefore, if our third party manufacturers are unable to promptly use components purchased on our behalf, our cost of producing products may be higher than our competitors due to an oversupply of higher-priced components. Moreover, if they are unable to use components ordered at our direction, we will need to reimburse them for any losses they incur.

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We rely upon third parties for technology that is critical to our products, and if we are unable to continue to use this technology and future technology, our ability to develop, sell, maintain and support technologically innovative products would be limited.

We rely on third parties to obtain non-exclusive patented hardware and software license rights in technologies that are incorporated into and necessary for the operation and functionality of most of our products. In these cases, because the intellectual property we license is available from third parties, barriers to entry may be lower than if we owned exclusive rights to the technology we license and use. On the other hand, if a competitor or potential competitor enters into an exclusive arrangement with any of our key third party technology providers, or if any of these providers unilaterally decide not to do business with us for any reason, our ability to develop and sell products containing that technology would be severely limited. If we are shipping products which contain third party technology that we subsequently lose the right to license, then we will not be able to continue to offer or support those products. Our licenses often require royalty payments or other consideration to third parties. Our success will depend in part on our continued ability to have access to these technologies, and we do not know whether these third party technologies will continue to be licensed to us on commercially acceptable terms or at all. If we are unable to license the necessary technology, we may be forced to acquire or develop alternative technology of lower quality or performance standards. This would limit and delay our ability to offer new or competitive products and increase our costs of production. As a result, our margins, market share, and operating results could be significantly harmed.

We also utilize third party software development companies to develop, customize, maintain and support software that is incorporated into our products. If these companies fail to timely deliver or continuously maintain and support the software that we require of them, we may experience delays in releasing new products or difficulties with supporting existing products and customers.

If the redemption rate for our end-user promotional programs is higher than we estimate, then our net revenue and gross margin will be negatively affected.

From time to time we offer promotional incentives, including cash rebates, to encourage end-users to purchase certain of our products. Purchasers must follow specific and stringent guidelines to redeem these incentives or rebates. Often qualified purchasers choose not to apply for the incentives or fail to follow the required redemption guidelines, resulting in an incentive redemption rate of less than 100%. Based on historical data, we estimate an incentive redemption rate for our promotional programs. If the actual redemption rate is higher than our estimated rate, then our net revenue and gross margin will be negatively affected.

If we are unable to secure and protect our intellectual property rights, our ability to compete could be harmed.

We rely upon third parties for a substantial portion of the intellectual property we use in our products. At the same time, we rely on a combination of copyright, trademark, patent and trade secret laws, nondisclosure agreements with employees, consultants and suppliers and other contractual provisions to establish, maintain and protect our intellectual property rights. Despite efforts to protect our intellectual property, unauthorized third parties may attempt to design around, copy aspects of our product design or obtain and use technology or other intellectual property associated with our products. For example, one of our primary intellectual property assets is the NETGEAR name, trademark and logo. We may be unable to stop third parties from adopting similar names, trademarks and logos, especially in those international markets where our intellectual property rights may be less protected. Furthermore, our competitors may independently develop similar technology or design around our intellectual property. Our inability to secure and protect our intellectual property rights could significantly harm our brand and business, operating results and financial condition.

Our sales and operations in international markets expose us to operational, financial and regulatory risks.

International sales comprise a significant amount of our overall net revenue. International sales were 60% of overall net revenue in fiscal 2008. We anticipate that international sales may grow as a percentage of net revenue. We have committed resources to expanding our international operations and sales channels and these efforts may not be successful. International operations are subject to a number of other risks, including:

- political and economic instability, international terrorism and anti-American sentiment, particularly in emerging markets;
- preference for locally branded products, and laws and business practices favoring local competition;

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- exchange rate fluctuations;
- increased difficulty in managing inventory;
- delayed revenue recognition;
- less effective protection of intellectual property;
- stringent consumer protection and product compliance regulations, including but not limited to the recently enacted Restriction of Hazardous Substances directive and the Waste Electrical and Electronic Equipment directive in Europe, that may vary from country to country and that are costly to comply with;
- difficulties and costs of staffing and managing foreign operations; and
- changes in local tax laws.

We intend to expand our operations and infrastructure, which may strain our operations and increase our operating expenses.

We intend to expand our operations and pursue market opportunities domestically and internationally to grow our sales. We expect that this attempted expansion will require enhancements to our existing management information systems, and operational and financial controls. In addition, if we continue to grow, our expenditures will likely be significantly higher than our historical costs. We may not be able to install adequate controls in an efficient and timely manner as our business grows, and our current systems may not be adequate to support our future operations. The difficulties associated with installing and implementing new systems, procedures and controls may place a significant burden on our management, operational and financial resources. In addition, if we grow internationally, we will have to expand and enhance our communications infrastructure. If we fail to continue to improve our management information systems, procedures and financial controls or encounter unexpected difficulties during expansion, our business could be harmed.

Governmental regulations of imports or exports affecting Internet security could affect our net revenue.

Any additional governmental regulation of imports or exports or failure to obtain required export approval of our encryption technologies could adversely affect our international and domestic sales. The United States and various foreign governments have imposed controls, export license requirements, and restrictions on the import or export of some technologies, especially encryption technology. In addition, from time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring the escrow and governmental recovery of private encryption keys. In response to terrorist activity, governments could enact additional regulation or restriction on the use, import, or export of encryption technology. This additional regulation of encryption technology could delay or prevent the acceptance and use of encryption products and public networks for secure communications, resulting in decreased demand for our products and services. In addition, some foreign competitors are subject to less stringent controls on exporting their encryption technologies. As a result, they may be able to compete more effectively than we can in the United States and the international Internet security market.

We recently moved into a new corporate headquarters in the third quarter of 2008. If we cannot retain sub-lessees for the remaining lease term of our old facilities, then we will be forced to take an additional charge related to such excess space.

We recently moved into our new corporate headquarters in the third quarter of 2008. The existing lease on our former Santa Clara corporate headquarters does not expire until the end of 2010 and the existing lease on our Fremont facility does not expire until the end of October 2009. We have subleased a portion of these facilities and taken a restructuring charge for the balance of the lease costs. In the fiscal quarter ended March 29, 2009, one of our sub-lessees was unable to meet its rental obligation to us, and we were required to take a restructuring charge to increase our liability for remaining lease costs. If any additional sub-lessee moves out or is unable to meet its obligations to us, we would have to record an additional charge associated with such excess space.

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We are required to evaluate our internal control under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could impact investor confidence in the reliability of our internal controls over financial reporting.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting. Such report must contain among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

We will continue to perform the system and process documentation and evaluation needed to comply with Section 404, which is both costly and challenging. During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective. We concluded that our disclosure controls and procedures were not effective as of March 29, 2009 as a result of a material weakness in our internal control over financial reporting, specifically the controls which ensure the accuracy of the provision for income taxes. If we are unable to remediate the noted deficiency or otherwise assert our internal control over financial reporting is effective as of the end of a fiscal year or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which may have an adverse effect on our stock price. In addition, successful remediation of the noted deficiency is dependent on the Company s ability to hire and retain qualified personnel. Therefore, we cannot be certain that we will be able to successfully remediate our existing material weakness or that in the future additional material weaknesses or significant deficiencies will not exist or otherwise be discovered.

We are continuing to implement our international reorganization, which is straining our resources and increasing our operating expenses.

We have been reorganizing our foreign subsidiaries and entities to better manage and optimize our international operations. Our implementation of this project requires substantial efforts by our staff and is resulting in increased staffing requirements and related expenses. Failure to successfully execute the reorganization or other factors outside of our control could negatively impact the timing and extent of any benefit we receive from the reorganization.

We depend on large, recurring purchases from certain significant customers, and a loss, cancellation or delay in purchases by these customers could negatively affect our revenue.

The loss of recurring orders from any of our more significant customers could cause our revenue and profitability to suffer. Our ability to attract new customers will depend on a variety of factors, including the cost-effectiveness, reliability, scalability, breadth and depth of our products. In addition, a change in the mix of our customers, or a change in the mix of direct and indirect sales, could adversely affect our revenue and gross margins.

Although our financial performance may depend on large, recurring orders from certain customers and resellers, we do not generally have binding commitments from them. For example:

- our reseller agreements generally do not require substantial minimum purchases;
- our customers can stop purchasing and our resellers can stop marketing our products at any time; and
- our reseller agreements generally are not exclusive and are for one-year terms, with no obligation of the resellers to renew the agreements.

Because our expenses are based on our revenue forecasts, a substantial reduction or delay in sales of our products to, or unexpected returns from, customers and resellers, or the loss of any significant customer or reseller, could harm or otherwise disrupt our business. Although our largest customers may vary from period to period, we anticipate that our operating results for any given period will continue to depend on large orders from a small number of customers.

We are exposed to credit risk and fluctuations in the market values of our investment portfolio.

Although we have not recognized any material losses on our cash equivalents and short-term investments, future declines in their market values could have a material adverse effect on our financial condition and operating results. Given the global nature of our

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business, we have investments both domestically and internationally. A substantial portion of our money market funds are insured by the U.S. Treasury s temporary guarantee program, which expires in September 2009. If these financial institutions default on their obligations or their credit ratings are negatively impacted by liquidity issues, credit deterioration or losses, financial results, or other factors, the value of our cash equivalents and short-term investments could decline and result in a material impairment, which could have a material adverse effect on our financial condition and operating results.

Economic conditions, political events, war, terrorism, public health issues, natural disasters and other circumstances could materially adversely affect us.

Our corporate headquarters are located in Northern California and one of our warehouses is located in Southern California, regions known for seismic activity. In addition, substantially all of our manufacturing occurs in two geographically concentrated areas in mainland China, where disruptions from natural disasters, health epidemics and political, social and economic instability may affect the region. If our manufacturers or warehousing facilities are disrupted or destroyed, we would be unable to distribute our products on a timely basis, which could harm our business. Moreover, if our computer information systems or communication systems, or those of our vendors or customers, are subject to disruptive hacker attacks or other disruptions, our business could suffer. We have not established a formal disaster recovery plan. Our back-up operations may be inadequate and our business interruption insurance may not be enough to compensate us for any losses that may occur. A significant business interruption could result in losses or damages and harm our business. For example, much of our order fulfillment process is automated and the order information is stored on our servers. If our computer systems and servers go down even for a short period at the end of a fiscal quarter, our ability to recognize revenue would be delayed until we were again able to process and ship our orders, which could cause our stock price to decline significantly.

We depend significantly on worldwide economic conditions and their impact on levels of consumer spending, which have recently deteriorated significantly in many countries and regions, including without limitation the United States, and may remain depressed for the foreseeable future. Factors that could influence the levels of consumer spending include increases in fuel and other energy costs, conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending behavior.

In addition, war, terrorism, geopolitical uncertainties, public health issues, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a strong negative effect on us, our suppliers, logistics providers, manufacturing vendors and customers. Our business operations are subject to interruption by natural disasters, fire, power shortages, terrorist attacks, and other hostile acts, labor disputes, public health issues, and other events beyond our control. Such events could decrease demand for our products, make it difficult or impossible for us to make and deliver products to our customers or to receive components from our suppliers, and create delays and inefficiencies in our supply chain. Should major public health issues, including pandemics, arise, we could be negatively affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products, and disruptions in the operations of our manufacturing vendors and component suppliers.

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If we lose the services of our Chairman and Chief Executive Officer, Patrick C.S. Lo, or our other key personnel, we may not be able to execute our business strategy effectively.

Our future success depends in large part upon the continued services of our key technical, sales, marketing and senior management personnel. In particular, the services of Patrick C.S. Lo, our Chairman and Chief Executive Officer, who has led our company since its inception, are very important to our business. We do not maintain any key person life insurance policies. The loss of any of our senior management or other key research, development, sales or marketing personnel, particularly if lost to competitors, could harm our ability to implement our business strategy and respond to the rapidly changing needs of the small business and home markets.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

Repurchase of Equity Securities by the Company

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2009 - January 31, 2009	15,923	$ 11.76		
February 1, 2009 - February 28, 2009				
March 1, 2009 - March 29, 2009				
	15,923	$ 11.76		

We repurchased approximately 16,000 shares or $187,000 of common stock related to the lapse of restricted stock units during the three months ended March 29, 2009.

Item 3. ***Defaults Upon Senior Securities***

None.

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

None.

Item 5. ***Other Information***

None.

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Item 6. ***Exhibits***

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NETGEAR, INC.

Registrant

/s/ CHRISTINE M. GORJANC
Christine M. Gorjanc
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: July 29, 2009

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Exhibit Index

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer