

NETGEAR, INC
Form 10-Q
November 08, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended October 2, 2011.

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

350 East Plumeria Drive,

San Jose, California
(Address of principal executive offices)

77-0419172
(IRS Employer

Identification No.)

95134
(Zip Code)

(408) 907-8000

(Registrant's telephone number including area code)

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

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

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

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

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

The number of outstanding shares of the registrant's Common Stock, \$0.001 par value, was 37,560,904 as of November 4, 2011.

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

	October 2, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 174,278	\$ 126,173
Short-term investments	146,781	144,564
Accounts receivable, net	218,653	226,731
Inventories	135,963	127,394
Deferred income taxes	21,020	19,332
Prepaid expenses and other current assets	29,919	23,850
Total current assets	726,614	668,044
Property and equipment, net	16,079	17,503
Intangibles, net	22,034	6,241
Goodwill	85,944	74,198
Other non-current assets	13,617	14,335
Total assets	\$ 864,288	\$ 780,321
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 75,672	\$ 89,155
Accrued employee compensation	23,190	24,130
Other accrued liabilities	107,826	110,413
Deferred revenue	23,934	27,538
Income taxes payable		3,487
Total current liabilities	230,622	254,723
Non-current income taxes payable	18,685	19,719
Other non-current liabilities	5,150	5,443
Total liabilities	254,457	279,885
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock	38	36
Additional paid-in capital	358,162	316,108
Cumulative other comprehensive income (loss)	(14)	281
Retained earnings	251,645	184,011
Total stockholders' equity	609,831	500,436

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Total liabilities and stockholders' equity	\$ 864,288	\$ 780,321
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Net revenue	\$ 301,800	\$ 236,017	\$ 871,863	\$ 643,521
Cost of revenue	205,490	160,310	597,390	425,428
Gross profit	96,310	75,707	274,473	218,093
Operating expenses:				
Research and development	12,738	10,564	35,102	29,814
Sales and marketing	39,600	34,069	115,284	95,216
General and administrative	10,851	9,358	31,044	26,697
Restructuring and other charges		(8)	2,094	(76)
Litigation reserves, net	44		(234)	211
Total operating expenses	63,233	53,983	183,290	151,862
Income from operations	33,077	21,724	91,183	66,231
Interest income	115	132	350	302
Other income (expense), net	(267)	(326)	(938)	(388)
Income before income taxes	32,925	21,530	90,595	66,145
Provision for income taxes	6,178	8,435	22,062	28,858
Net income	\$ 26,747	\$ 13,095	\$ 68,533	\$ 37,287
Net income per share:				
Basic	\$ 0.71	\$ 0.37	\$ 1.85	\$ 1.06
Diluted	\$ 0.70	\$ 0.36	\$ 1.81	\$ 1.04
Weighted average shares outstanding used to compute net income per share:				
Basic	37,483	35,441	36,967	35,218
Diluted	38,080	36,009	37,812	35,891

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

Table of Contents**NETGEAR, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Nine Months Ended	
	October 2, 2011	October 3, 2010
Cash flows from operating activities:		
Net income	\$ 68,533	\$ 37,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,068	9,826
Purchase premium amortization on investments	467	90
Non-cash stock-based compensation	10,334	9,211
Income tax benefit associated with stock option exercises	3,269	1,996
Excess tax benefit from stock-based compensation	(3,426)	(2,112)
Deferred income taxes	(1,516)	(6,356)
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	8,078	(12,746)
Inventories	(2,279)	(19,804)
Prepaid expenses and other assets	(5,813)	30
Accounts payable	(13,484)	(29,179)
Accrued employee compensation	(940)	8,506
Other accrued liabilities	(3,013)	13,253
Deferred revenue	(3,604)	(1,149)
Income taxes payable	(4,521)	450
Net cash provided by operating activities	63,153	9,303
Cash flows from investing activities:		
Purchases of short-term investments	(188,329)	(170,133)
Proceeds from sale of short-term investments	185,680	100,000
Purchase of property and equipment	(5,816)	(6,049)
Loan issued		(3,030)
Payments for patents		(1,270)
Payments made in connection with business acquisitions	(37,509)	(12,000)
Net cash used in investing activities	(45,974)	(92,482)