NETGEAR, INC
Form 10-Q
October 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 27, 2015.
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to
Commission file number: 000-50350
NETGEAR, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	77-0419172 (IRS Employer Identification No.)
350 East Plumeria Drive, San Jose, California (Address of principal executive offices)	95134 (Zip Code)

(408) 907-8000
(Registrant's telephone number including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 x 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	x	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 o No x
The number of outstanding shares of the registrant's Common Stock, $0.001 par value, was 31,509,309 as of October 23, 2015.

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

	September 27, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$202,429	$141,234
Short-term investments	61,419	115,895
Accounts receivable, net	274,173	275,689
Inventories	170,013	222,883
Deferred income taxes	29,430	29,039
Prepaid expenses and other current assets	31,019	38,225
Total current assets	768,483	822,965
Property and equipment, net	23,951	29,694
Intangibles, net	53,191	66,230
Goodwill	81,721	81,721
Other non-current assets	47,405	48,077
Total assets	$974,751	$1,048,687
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$98,171	$106,357
Accrued employee compensation	21,414	21,588
Other accrued liabilities	132,911	143,742
Deferred revenue	30,722	30,023
Income taxes payable	5,258	2,406
Total current liabilities	288,476	304,116
Non-current income taxes payable	14,402	15,252
Other non-current liabilities	10,412	7,754
Total liabilities	313,290	327,122
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock	32	35
Additional paid-in capital	474,875	454,144
Accumulated other comprehensive income (loss)	(43)	38
Retained earnings	186,597	267,348
Total stockholders' equity	661,461	721,565
Total liabilities and stockholders' equity	$974,751	$1,048,687

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		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Net revenue	$341,893	$353,338	$939,832	$1,040,333
Cost of revenue	245,566	251,005	677,569	742,889
Gross profit	96,327	102,333	262,263	297,444
Operating expenses:				
Research and development	21,572	23,337	63,126	67,994
Sales and marketing	35,923	39,283	107,538	117,373
General and administrative	11,803	11,726	33,192	34,995
Restructuring and other charges	1,016	1,360	6,384	2,190
Litigation reserves, net	—	69	(2,690)	254
Total operating expenses	70,314	75,775	207,550	222,806
Income from operations	26,013	26,558	54,713	74,638
Interest income	65	68	184	174
Other income (expense), net	(199)	2,246	(67)	1,911
Income before income taxes	25,879	28,872	54,830	76,723
Provision for income taxes	10,780	8,847	28,053	27,582
Net income	$15,099	$20,025	$26,777	$49,141
Net income per share:				
Basic	$0.47	$0.56	$0.80	$1.36
Diluted	$0.47	$0.55	$0.79	$1.34
Weighted average shares used to compute net income per share:				
Basic	31,979	35,643	33,473	36,133
Diluted	32,335	36,250	34,002	36,806

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 COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Net income	$15,099	$20,025	$26,777	$49,141
Other comprehensive income (loss), before tax:				
Unrealized gain (loss) on derivative instruments	10	139	(102)	66
Unrealized gain on available-for-sale securities	6	2	34	25
Other comprehensive income (loss), before tax	16	141	(68)	91
Tax expense related to items of other comprehensive income	(2)	(1)	(13)	(10)
Other comprehensive income (loss), net of tax	14	140	(81)	81
Comprehensive income	$15,113	$20,165	$26,696	$49,222

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)

	Nine Months Ended	
	September 27, 2015	September 28, 2014
Cash flows from operating activities:		
Net income	$26,777	$49,141
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,336	26,398
Purchase premium amortization/discount accretion on investments, net	(73)	42
Non-cash stock-based compensation	12,517	15,226
Income tax impact associated with stock option exercises	(1,049)	(394)
Excess tax benefit from stock-based compensation	(252)	(340)
Deferred income taxes	(149)	(2,133)
Changes in assets and liabilities:		
Accounts receivable	1,516	(12,084)
Inventories	52,870	17,963
Prepaid expenses and other assets	7,332	(9,846)
Accounts payable	(7,696)	(22,439)
Accrued employee compensation	(174)	4,021
Other accrued liabilities	(4,405)	(9,196)
Deferred revenue	(899)	9,221
Income taxes payable	2,002	1,974
Net cash provided by operating activities	115,653	67,554
Cash flows from investing activities:		
Purchases of short-term investments	(50,301)	(105,076)
Proceeds from sales and maturities of short-term investments	105,142	109,669
Purchase of property and equipment	(11,142)	(13,421)
Payments made in connection with business acquisitions	—	(1,050)
Net cash provided by (used in) investing activities	43,699	(9,878)
Cash flows from financing activities:		
Purchase and retirement of common stock	(107,531)	(68,006)
Proceeds from exercise of stock options	6,137	6,039
Proceeds from issuance of common stock under employee stock purchase plan	2,985	2,762
Excess tax benefit from stock-based compensation	252	340
Net cash used in financing activities	(98,157)	(58,865)
Net increase (decrease) in cash and cash equivalents	61,195	(1,189)
Cash and cash equivalents, at beginning of period	141,234	143,009
Cash and cash equivalents, at end of period	$202,429	$141,820

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 Basis of Presentation

NETGEAR, Inc. (“NETGEAR” or the “Company”) was incorporated in Delaware in January 1996. The Company is a global networking company that delivers innovative products to consumers, businesses and service providers. The Company's products are built on a variety of proven technologies such as wireless (WiFi and LTE), Ethernet and powerline, with a focus on reliability and ease-of-use. The product line consists of wired and wireless devices that enable networking, broadband access and network connectivity. These products are available in multiple configurations to address the needs of the end-users in each geographic region in which the Company's products are sold.

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, 2014 has been derived from audited financial statements at such date. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes typically found in the audited consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments considered necessary (consisting only of normal recurring adjustments) to fairly state the Company’s financial position, results of operations, comprehensive income 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, 2014.

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 net revenue and expenses during the reported period. Actual results could differ materially from those estimates and operating results for the three and nine months ended September 27, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or any future period.

Note 2. Summary of Significant Accounting Policies

The Company’s significant accounting policies are disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The Company’s significant accounting policies have not materially changed during the nine months ended September 27, 2015.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customer" (Topic 606). The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. An

entity should apply the amendments in the update either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. On July 9, 2015, the FASB concluded to delay the effective date of the new revenue standard by one year. ASU 2014-09 is effective for the Company beginning in the first quarter fiscal 2018. Early adoption is permitted but may not occur earlier than January 1, 2017, the original effective date of the standard for the Company. The Company is in the process of evaluating the available transition methods and the impact of this standard on its financial position, results of operations or cash flows.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory" (Topic 330). Under the current guidance, inventory is measured at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. Under the new guidance, inventory is required to be measured at the lower of cost or net realizable value. ASU 2015-11 should be applied on a prospective basis and is effective for the Company

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

beginning in the first fiscal quarter of 2017. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its financial position, results of operations or cash flows.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Balance Sheet Components

Available-for-sale short-term investments (in thousands)

	As of September 27, 2015				December 31, 2014			
	Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
U.S. treasuries	$60,067	$26	$—	$60,093	$114,944	$6	$(15)	$114,935
Certificates of deposit	269	—	—	269	158	—	—	158
Total	$60,336	$26	$—	$60,362	$115,102	$6	$(15)	$115,093

The Company's short-term investments are primarily comprised of marketable securities that are classified as available-for-sale and consist of government securities with an original maturity or remaining maturity at the time of purchase of greater than three months and no more than 12 months. Accordingly, none of the available-for-sale securities have unrealized losses greater than 12 months.

Accounts receivable, net (in thousands)

	As of September 27, 2015	December 31, 2014
Gross accounts receivable	$291,345	$296,239
Allowance for doubtful accounts	(1,255)	(1,255)
Allowance for sales returns	(14,394)	(17,489)
Allowance for price protection	(1,523)	(1,806)
Total allowances	(17,172)	(20,550)
Total accounts receivable, net	$274,173	$275,689

Inventories (in thousands)

	As of September 27, 2015	December 31, 2014
Raw materials	$2,382	$3,625
Work in process	1	8
Finished goods	167,630	219,250
Total inventories	$170,013	$222,883

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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NETGEAR, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Property and equipment, net (in thousands)

	As of September 27, 2015	December 31, 2014
Computer equipment	$10,399	$9,779
Furniture, fixtures and leasehold improvements	18,202	19,379
Software	30,140	29,294
Machinery and equipment	65,094	60,135
Total property and equipment, gross	123,835	118,587
Accumulated depreciation and amortization	(99,884)	(88,893)
Total property and equipment, net	$23,951	$29,694

Depreciation and amortization expense pertaining to property and equipment was $4.4 million and $13.8 million for the three and nine months ended September 27, 2015, respectively, and $4.6 million and $13.1 million for the three and nine months ended September 28, 2014, respectively.

Intangibles, net (in thousands)

	Gross	Accumulated Amortization	Net
September 27, 2015			
Technology	$61,099	$(46,275)	$14,824
Customer contracts and relationships	56,500	(21,519)	34,981
Other	10,545	(7,159)	3,386
Total intangibles, net	$128,144	$(74,953)	$53,191

	Gross	Accumulated Amortization	Net
December 31, 2014			
Technology	$61,099	$(39,341)	$21,758
Customer contracts and relationships	56,500	(16,205)	40,295
Other	10,545	(6,368)	4,177
Total intangibles, net	$128,144	$(61,914)	$66,230

Amortization of intangibles was $4.2 million and $13.0 million for the three and nine months ended September 27, 2015, respectively, and $4.5 million and $13.4 million for the three and nine months ended September 28, 2014, respectively.
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NETGEAR, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Estimated amortization expense related to intangibles for each of the next five years and thereafter is as follows (in thousands):

Year Ending December 31	Amount
2015 (remaining three months)	$4,244
2016	16,921
2017	11,386
2018	7,871
2019	6,028
Thereafter	6,741
Total estimated amortization expense	$53,191

Other non-current assets (in thousands)

	As of September 27, 2015	December 31, 2014
Non-current deferred income taxes	$38,805	$38,696
Cost method investment	1,322	1,322
Other	7,278	8,059
Total other non-current assets	$47,405	$48,077

Other accrued liabilities (in thousands)

	As of September 27, 2015	December 31, 2014
Sales and marketing programs	$52,130	$54,582
Warranty obligation	47,928	44,888
Freight	6,550	6,827
Other	26,303	37,445
Total other accrued liabilities	$132,911	$143,742

Note 4. Derivative Financial Instruments

The Company’s subsidiaries have had, and will continue to have material future cash flows, including revenue and expenses, which are denominated in currencies other than the Company’s functional currency. The Company and all its subsidiaries designate the U.S. dollar as the functional currency. Changes in exchange rates between the Company’s functional currency and other currencies in which the Company transacts business will cause fluctuations in cash flow expectations and cash flow realized or settled. Accordingly, the Company uses derivatives to mitigate its business exposure to foreign exchange risk. The Company enters into foreign currency forward contracts in Australian dollars, British pounds, Euros, and Japanese yen to manage the exposures to foreign exchange risk related to expected future cash flows on certain forecasted revenue, costs of revenue, operating expenses and existing assets and liabilities. The Company does not enter into derivatives transactions for trading or speculative purposes.

The Company’s foreign currency forward contracts do not contain any credit-risk-related contingent features. The Company is exposed to credit losses in the event of nonperformance by the counter-parties of its forward contracts. The Company enters into derivative contracts with high-quality financial institutions and limits the amount of credit exposure to any one counter-party. In addition, the derivative contracts typically mature in less than six months and

the Company continuously evaluates the credit standing of its counter-party financial institutions. The counter-parties to these arrangements are large, highly rated financial institutions and the Company does not consider non-performance a material risk.

The Company may choose not to hedge certain foreign exchange exposures for a variety of reasons, including, but not limited to, materiality, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no

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NETGEAR, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign exchange rates. The Company's accounting policies for these instruments are based on whether the instruments are designated as hedge or non-hedge instruments in accordance with the authoritative guidance for derivatives and hedging. The Company records all derivatives on the balance sheet at fair value. The effective portions of cash flow hedges are recorded in other comprehensive income ("OCI") until the hedged item is recognized in earnings. Derivatives that are not designated as hedging instruments and the ineffective portions of its designated hedges are adjusted to fair value through earnings in other income (expense), net in the unaudited condensed consolidated statement of operations.

The fair values of the Company's derivative instruments and the line items on the unaudited condensed consolidated balance sheets to which they were recorded as of September 27, 2015 and December 31, 2014 are summarized as follows (in thousands):

Derivative Assets	Balance Sheet Location	Fair Value at September 27, 2015	Balance Sheet Location	Fair Value at December 31, 2014
Derivative assets not designated as hedging instruments	Prepaid expenses and other current assets	$505	Prepaid expenses and other current assets	$2,416
Derivative assets designated as hedging instruments	Prepaid expenses and other current assets	32	Prepaid expenses and other current assets	—
Total		$537		$2,416

Derivative Liabilities	Balance Sheet Location	Fair Value at September 27, 2015	Balance Sheet Location	Fair Value at December 31, 2014
Derivative liabilities not designated as hedging instruments	Other accrued liabilities	$641	Other accrued liabilities	$409
Derivative liabilities designated as hedging instruments	Other accrued liabilities	37	Other accrued liabilities	38
Total		$678		$447

For details of the Company's fair value measurements, see Note 11, Fair Value Measurements.

Offsetting Derivative Assets and Liabilities

The Company has entered into master netting arrangements which allow net settlements under certain conditions. Although netting is permitted, it is currently the Company's policy and practice to record all derivative assets and liabilities on a gross basis in the unaudited condensed consolidated balance sheets.

The following tables set forth the offsetting of derivative assets as of September 27, 2015 and December 31, 2014 (in thousands):

As of September 27, 2015		Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets	
			Net Amount

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Of Assets Presented in the Condensed Consolidated Balance Sheets	Financial Instruments	Cash Collateral Pledged	
Barclays	$73	$—	$73	$(73)	$—	$—
Wells Fargo	464	—	464	(283)	—	181
Total	$537	$—	$537	$(356)	$—	$181

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of December 31, 2014	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Of Assets Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Barclays	$319	$—	$319	$(16)	$—	$303
Wells Fargo	2,097	—	2,097	(431)	—	1,666
Total	$2,416	$—	$2,416	$(447)	$—	$1,969

The following tables set forth the offsetting of derivative liabilities as of September 27, 2015 and December 31, 2014 (in thousands):

As of September 27, 2015	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Of Liabilities Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Barclays	$372	$—	$372	$(73)	$—	$299
JP Morgan Chase	23	—	23	—	—	23
Wells Fargo	283	—	283	(283)	—	—
Total	$678	$—	$678	$(356)	$—	$322

As of December 31, 2014	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Of Liabilities Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Barclays	$16	$—	$16	$(16)	$—	$—
Wells Fargo	431	—	431	(431)	—	—
Total	$447	$—	$447	$(447)	$—	$—

Cash flow hedges

To help manage the exposure of operating margins to fluctuations in foreign currency exchange rates, the Company hedges a portion of its anticipated foreign currency revenue, costs of revenue and certain operating expenses. These hedges are designated at the inception of the hedge relationship as cash flow hedges under the authoritative guidance

for derivatives and hedging. Effectiveness is tested at least quarterly both prospectively and retrospectively using regression analysis to ensure that the hedge relationship has been effective and is likely to remain effective in the future. The Company typically hedges portions of its anticipated foreign currency exposure for three to five months. The Company enters into about five forward contracts per quarter with an average size of approximately $7.0 million USD equivalent related to its cash flow hedging program.

The Company expects to reclassify to earnings all of the amounts recorded in OCI associated with its cash flow hedges over the next twelve months. OCI associated with cash flow hedges of foreign currency revenue is recognized as a component of net revenue in the same period as the related revenue is recognized. OCI associated with cash flow hedges of foreign currency costs of revenue and operating expenses are recognized as a component of cost of revenue and operating expense in the same period as the related costs of revenue and operating expenses are recognized.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur within the designated hedge period or if not recognized within 60 days following the end of the hedge period. Deferred gains and losses in OCI with such derivative instruments are reclassified immediately into earnings through other income and expense. Any subsequent changes in fair value of such derivative instruments also are reflected in current earnings

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

unless they are re-designated as hedges of other transactions. The Company did not recognize any material net gains or losses related to the loss of hedge designation as there were no discontinued cash flow hedges during the three and nine months ended September 27, 2015 and September 28, 2014.

The effects of the Company's derivative instruments on OCI and the unaudited condensed consolidated statement of operations for the three and nine months ended September 27, 2015 and September 28, 2014 are summarized as follows (in thousands):

	Three Months Ended September 27, 2015				
Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized in OCI - Effective Portion (a)	Location of Gain (Loss) Reclassified from OCI into Income - Effective Portion	Gain (Loss) Reclassified from OCI into Income - Effective Portion (a)	Location of Gain (Loss) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gain (Loss) Recognized in Income and Excluded from Effectiveness Testing
Cash flow hedges:					
Foreign currency forward contracts	$(416)	Net revenue	$(552)	Other income (expense), net	$ (9)
Foreign currency forward contracts	—	Cost of revenue	3	Other income (expense), net	—
Foreign currency forward contracts	—	Operating expenses	123	Other income (expense), net	—
Total	$(416)		$(426)		$ (9)

(a) Refer to Note 8, Stockholders' Equity, which summarizes the accumulated other comprehensive income activity related to derivatives.

	Nine Months Ended September 27, 2015				
Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized in OCI - Effective Portion (a)	Location of Gain (Loss) Reclassified from OCI into Income - Effective Portion	Gain (Loss) Reclassified from OCI into Income - Effective Portion (a)	Location of Gain (Loss) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gain (Loss) Recognized in Income and Excluded from Effectiveness Testing
Cash flow hedges:					
Foreign currency forward contracts	$(1,299)	Net revenue	$(1,474)	Other income (expense), net	$ (43)
Foreign currency forward contracts	—	Cost of revenue	7	Other income (expense), net	—
Foreign currency forward contracts	—	Operating expenses	270	Other income (expense), net	—
Total	$(1,299)		$(1,197)		$ (43)

(a) Refer to Note 8, Stockholders' Equity, which summarizes the accumulated other comprehensive income activity related to derivatives.

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NETGEAR, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Three Months Ended September 28, 2014				
Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized in OCI - Effective Portion (a)	Location of Gain (Loss) Reclassified from OCI into Income - Effective Portion	Gain (Loss) Reclassified from OCI into Income - Effective Portion (a)	Location of Gain (Loss) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gain (Loss) Recognized in Income and Excluded from Effectiveness Testing
Cash flow hedges:					
Foreign currency forward contracts	$401	Net revenue	$320	Other income (expense), net	$ (41)
Foreign currency forward contracts	—	Cost of revenue	—	Other income (expense), net	—
Foreign currency forward contracts	—	Operating expenses	(58)	Other income (expense), net	—
Total	$401		$262		$ (41)

(a) Refer to Note 8, Stockholders' Equity, which summarizes the accumulated other comprehensive income activity related to derivatives.

	Nine Months Ended September 28, 2014				
Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized in OCI - Effective Portion (a)	Location of Gain (Loss) Reclassified from OCI into Income - Effective Portion	Gain (Loss) Reclassified from OCI into Income - Effective Portion (a)	Location of Gain (Loss) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gain (Loss) Recognized in Income and Excluded from Effectiveness Testing
Cash flow hedges:					
Foreign currency forward contracts	$(170)	Net revenue	$(221)	Other income (expense), net	$ (107)
Foreign currency forward contracts	—	Cost of revenue	8	Other income (expense), net	—
Foreign currency forward contracts	—	Operating expenses	(23)	Other income (expense), net	—
Total	$(170)		$(236)		$ (107)

(a) Refer to Note 8, Stockholders' Equity, which summarizes the accumulated other comprehensive income activity related to derivatives.

Non-designated hedges

The Company enters into non-designated hedges under the authoritative guidance for derivatives and hedging to manage the exposure of non-functional currency monetary assets and liabilities held on its financial statements to fluctuations in foreign currency exchange rates, as well as to reduce volatility in other income and expense. The non-designated hedges are generally expected to offset the changes in value of its net non-functional currency asset and liability position resulting from foreign exchange rate fluctuations. Foreign currency denominated accounts receivable and payable are hedged with non-designated hedges when the related anticipated foreign revenue and expenses are recognized in the Company’s financial statements. The Company also hedges certain non-functional

currency monetary assets and liabilities that may not be incorporated into the cash flow hedge program. The Company adjusts its non-designated hedges monthly and enters into about 15 non-designated derivatives per quarter. The average size of its non-designated hedges is approximately $2.0 million USD equivalent and these hedges range from one to five months in duration.

The effects of the Company's non-designated hedged included in other income (expense), net in the unaudited condensed consolidated statements of operations for the three and nine months ended September 27, 2015 and September 28, 2014 are as follows (in thousands):

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Derivatives Not Designated as Hedging Instruments	Location of Gains (Losses) Recognized in Income on Derivative	Amount of Gains (Losses) Recognized in Income			
		Three Months Ended		Nine Months Ended	
		September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Foreign currency forward contracts	Other income (expense), net	$1,267	$3,567	$3,278	$1,629

Note 5. Net Income Per Share

Basic net income per share is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income 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 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 estimated tax benefit that would be recorded in additional paid-in capital upon exercise are assumed to be used to repurchase shares.

Net income per share for the three and nine months ended September 27, 2015 and September 28, 2014 are as follows (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Numerator:				
Net income	$15,099	$20,025	$26,777	$49,141
Denominator:				
Weighted average common shares - basic	31,979	35,643	33,473	36,133
Potentially dilutive common share equivalent	356	607	529	673
Weighted average common shares - dilutive	32,335	36,250	34,002	36,806
Basic net income per share	$0.47	$0.56	$0.80	$1.36
Diluted net income per share	$0.47	$0.55	$0.79	$1.34
Anti-dilutive employee stock-based awards, excluded	2,768	2,774	$2,486	$2,608

Note 6. Income Taxes

The income tax provision for the three and nine months ended September 27, 2015 was $10.8 million, or an effective tax rate of 41.7%, and $28.1 million, or an effective tax rate of 51.2%, respectively. The income tax provision for the three and nine months ended September 28, 2014 was $8.8 million, or an effective tax rate of 30.6%, and $27.6 million, or an effective tax rate of 36.0%, respectively. During the three and nine months ended September 27, 2015 and September 28, 2014, the Company incurred losses in a jurisdiction where no tax benefit could be recorded. As a result, the forecasted losses from this jurisdiction were excluded from the determination of tax expense for the respective periods. The increase in the effective tax rate for the three and nine month period ended September 27, 2015 compared to the same period in the prior year was primarily caused by an increase in losses incurred in a

jurisdiction where no tax benefit could be recorded as well as a shift in the distribution of earnings to jurisdictions with relatively higher tax rates.

The Company files income tax returns in the U.S. federal jurisdiction as well as various state, local, and foreign jurisdictions. Due to the uncertain nature of ongoing tax audits, the Company has recorded its liability for uncertain tax positions as part of its long-term liability as payments cannot be anticipated over the next twelve months. The existing tax positions of the Company continue to generate an increase in the liability for uncertain tax positions. The liability for uncertain tax positions may be reduced for liabilities that are settled with taxing authorities or on which the statute of limitations could expire without assessment from

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tax authorities. The possible reduction in liabilities for uncertain tax positions resulting from the expiration of statutes of limitation in multiple jurisdictions in the next twelve months is approximately $0.7 million, excluding the interest, penalties and the effect of any related deferred tax assets or liabilities.

Note 7. Commitments and Contingencies

Leases

The Company leases office space, cars and equipment under operating leases, some of which are non-cancelable, 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.

Purchase Obligations

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 September 27, 2015, the Company had approximately $158 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. From time to time the Company's suppliers procure unique complex components on the Company's behalf. If these components do not meet specified technical criteria or are defective, the Company should not be obligated to purchase the materials. However, disputes may arise as a result and significant resources may be spent resolving such disputes.

Warranty Obligation
Changes in the Company's warranty obligation, which is included in other accrued liabilities in the unaudited condensed consolidated balance sheets, are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Balance as of beginning of the period	$40,967	$41,934	$44,888	$48,754
Provision for warranty obligation made during the period	22,625	17,175	53,862	44,630
Settlements made during the period	(15,664)	(16,357)	(50,822)	(50,632)
Balance at end of period	$47,928	$42,752	$47,928	$42,752

Guarantees and Indemnifications

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 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 each indemnification agreement is minimal. Accordingly, the

Company has no liabilities recorded for these agreements as of September 27, 2015.

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 by the Company's products of patents, trademarks or copyrights of third parties, subject to customary carve outs. The terms of these indemnification agreements are generally perpetual any time after execution date of the respective agreement. The maximum amount of potential future infringement indemnification is generally 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 September 27, 2015.

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Employment Agreements

The Company has signed various employment agreements with key executives pursuant to which, if their employment is terminated without cause, such employees are entitled to receive their base salary (and commission or bonus, as applicable) for 52 weeks (for the Chief Executive Officer), 39 weeks (for the Senior Vice President of Worldwide Operations and Support) and up to 26 weeks (for other key executives). Such employees will also continue to have stock options vest for up to a one-year period following such termination without cause. If a termination without cause or resignation for good reason occurs within one year of a change in control, such employees are entitled to full acceleration (for the Chief Executive Officer) and up to two years acceleration (for other key executives) of any unvested portion of his or her equity awards. The Company has no liabilities recorded for these agreements as of September 27, 2015.

Litigation and Other Legal Matters

The Company is involved in disputes, litigation, and other legal actions, including, but not limited to, the matters described below. In all cases, at each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies. In such cases, the Company accrues for the amount, or if a range, the Company accrues the low end of the range, only if there is not a better estimate than any other amount within the range, as a component of legal expense within litigation reserves, net. The Company monitors developments in these legal matters that could affect the estimate the Company had previously accrued. In relation to such matters, the Company currently believes that there are no existing claims or proceedings that are likely to have a material adverse effect on its financial position within the next twelve months, or the outcome of these matters is currently not determinable. There are many uncertainties associated with any litigation, and these actions or other third-party claims against the Company may cause the Company to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any intellectual property litigation may require the Company to make royalty payments, which could have an adverse effect in future periods. If any of those events were to occur, the Company's business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from the Company's estimates, which could result in the need to adjust the liability and record additional expenses.

Ericsson v. NETGEAR, Inc.

On September 14, 2010, Ericsson Inc. and Telefonaktiebolaget LM Ericsson (collectively “Ericsson”) filed a patent infringement lawsuit against the Company and defendants D-Link Corporation, D-Link Systems, Inc., Acer, Inc., Acer America Corporation, and Gateway, Inc. in the U.S. District Court, Eastern District of Texas alleging that the defendants infringe certain Ericsson patents. The Company has been accused of infringing eight U.S. patents: 5,790,516 (the “'516 Patent”); 6,330,435 (the “'435 Patent”); 6,424,625 (the “'625 Patent”); 6,519,223 (the “'223 Patent”); 6,772,215 (the “'215 Patent”); 5,987,019 (the “'019 Patent”); 6,466,568 (the “'568 Patent”); and 5,771,468 (the “'468 Patent"). Ericsson generally alleges that the Company and the other defendants have infringed and continue to infringe the Ericsson patents through the defendants' IEEE 802.11-compliant products. In addition, Ericsson alleged that the Company infringed the claimed methods and apparatuses of the '468 Patent through the Company's PCMCIA routers. The Company filed its answer to the Ericsson complaint on December 17, 2010 where it asserted the affirmative defenses of noninfringement and invalidity of the asserted patents. On March 1, 2011, the defendants filed a motion to transfer venue to the District Court for the Northern District of California and their memorandum of law in support thereof. On March 21, 2011, Ericsson filed its opposition to the motion, and on April 1, 2011, defendants filed their reply to Ericsson's opposition to the motion to transfer. On June 8, 2011, Ericsson filed an amended complaint that

added Dell, Toshiba and Belkin as defendants. At the status conference held on Jun 9, 2011, the Court set a Markman (claim construction) hearing for June 28, 2012 and trial for June 3, 2013. On June 14, 2011, Ericsson submitted its infringement contentions against the Company. On September 29, 2011, the Court denied the defendants' motion to transfer venue to the Northern District of California. In advance of the Markman hearing, the parties on March 9, 2012 exchanged proposed constructions of claim terms and on April 9, 2012 filed the Joint Claim Construction Statement with the District Court. On May 8, 2012, Ericsson submitted its opening Markman brief and on June 1, 2012 the defendants submitted their responsive Markman brief. Ericsson's Reply Markman brief was submitted June 15, 2012, and on June 28, 2012 the Markman hearing was held in the Eastern District of Texas. On June 21, 2012, Ericsson dismissed the '468 Patent (“Multi-purpose base station”) with prejudice and gave the Company a covenant not to sue as to products in the marketplace now or in the past. On June 22, 2012, Intel filed its complaint in Intervention, meaning that Intel became an official defendant in the Ericsson case. The parties thereafter completed fact discovery and exchanged expert reports. During the exchange of the expert reports, Ericsson dropped the '516 Patent (the OFDM “pulse shaping” patent). In addition, Ericsson dropped the '223 Patent (packet discard patent) against all the defendants' products, except for those products that use Intel chips. Thus, Ericsson has now dropped the '468 Patent (wireless base station), the '516 Patent (OFDM pulse shaping), and the '223 Patent (packet discard patent) for all non-Intel products. The five remaining patents were all only asserted against 802.11-compliant products.

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At a Court ordered mediation in Dallas on January 15, 2013, the parties did not come to an agreement to settle the litigation. On March 8, 2013, the parties received the Markman Order in response to the claim construction briefing and claim construction hearing.

A jury trial in the Ericsson case occurred in the Eastern District of Texas from June 3 through June 13, 2013. After hearing the evidence, the jury found no infringement of the '435 and '223 Patents, and the jury found infringement of claim 1 of the '625 Patent, claims 1 and 5 of the '568 Patent, and claims 1 and 2 of the '215 Patent. The jury also found that there was no willful infringement by any defendant. Additionally, the jury found no invalidity of the asserted claims of the '435 and '625 Patents. The jury assessed the following damages against the defendants: D-Link: $435,000; NETGEAR: $3,555,000; Acer/Gateway: $1,170,000; Dell: $1,920,000; Toshiba: $2,445,000; Belkin: $600,000. The damages awards equate to 15 cents per unit for each accused 802.11 device sold by each defendant. Thus, unless the defendants' various appeals are successful, the Company will likely have a 15 cent per unit obligation on its 802.11 devices until 2016 (when one infringed patent in suit expires), 10 cent per unit obligation from 2016 through 2018 (when a second infringed patent in suit expires), and a 5 cent per unit obligation from 2018 through 2020 (when the third and last infringed patent in suit expires).

The Company and other defendants submitted various post-trial motions and briefs to the Court for its consideration, including motions and briefs for judgment as a matter of law in favor of defendants on non-infringement and invalidity of the patents in suit and for a reduction in damages, and the defendants have also moved for a new trial. These motions were argued before the Court on July 16, 2013. On August 6, 2013, the Court issued its orders on the various JMOL's (“Judgment as a Matter of Law”) and other post-trial motions. The Court denied all the defendants’ motions and set the reasonable and nondiscriminatory (RAND) royalty rate for the infringed patents equivalent to the jury verdict of 15 cents per unit.

After negotiations, Ericsson and the Company agreed to the following as collateral while the appeal of the verdict, Court’s rulings, and the RAND royalty rate are pending. Ericsson will forego collecting the $3,555,000 verdict plus various fees (Prejudgment interest of $224,141; Post-judgment interest of $336 per day; Costs of $41,667) assigned to the Company pending appeal, so long as a Company representative declares and provides Ericsson with adequate quarterly assurances that the judgment can still be paid. For the ongoing royalties of 15 cents per 802.11n or 802.11ac device sold by the company that the jury and Court awarded, the Company will place the ongoing royalty amount into the Court’s registry (escrow account) and will give Ericsson a corresponding royalty report until the Company’s appeals of the jury verdict, the Court’s orders, and the RAND royalty rate are exhausted.

On December 16, 2013, the defendants submitted their appeal brief to the Federal Circuit. Ericsson filed its response brief on February 20, 2014, and the defendants filed their reply brief before on March 24, 2014. The oral arguments before the Federal Circuit took place on June 5, 2014.

On December 4, 2014, the Federal Circuit issued its opinion and order in the Company’s Ericsson appeal. The Federal Circuit vacated the entirety of the $3.6 million jury verdict against the Company and the ongoing 15 cent per unit royalty verdict, and also vacated the entirety of the verdict against the other defendants and their ongoing royalties, finding that the District Court hadn’t properly instructed the jury on royalty rates and Ericsson’s licensing promises. The Federal Circuit held that the lower court had failed to adequately instruct the jury about Ericsson’s actual commitments to license the infringed patents on reasonable and nondiscriminatory (“RAND”) terms. Further, the Federal Circuit stated that the lower court had neglected to inform the jury that a royalty for a patented technology must be removed from the value of the entire standard, and that a RAND royalty rate should be based on the invention’s value, rather than any added value from standardization. The jury’s damages awards were therefore

completely vacated, and the case was remanded for further proceedings. As of the end of the fourth quarter of 2014, based on the Federal Circuit's opinion and order, the Company made adjustments to decrease the accrual related to this case.

While the Federal Circuit found the district court had inadequate jury instructions, it held that there was enough evidence for the jury to find infringement of two claims of U.S. Patent Number 6,466,568 and two claims of U.S. Patent Number 6,772,215, but reversed the lower court's decision not to grant a noninfringement judgment as a matter of law regarding the third patent, U.S. Patent Number 6,424,625, finding that no reasonable jury could find that the '625 Patent was infringed by the defendants.

Neither Ericsson nor the defendants appealed the Federal Circuit's decision, and the Federal Circuit issued its mandate and sent the case back to the U.S. District Court in the Eastern District of Texas for a new damages trial. No proceedings have yet taken place in the U.S. District Court in the Eastern District of Texas following the Federal Circuit's mandate.

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In September of 2013, Broadcom filed petitions in the USPTO at the Patent Trial and Appeal Board (PTAB) seeking inter partes review (“IPR”) of Ericsson’s three patents that the jury found were infringed by the Company and other defendants. On March 6, 2015, the PTAB invalidated all the claims of these three patents that were asserted against the Company and other defendants at trial -- claim 1 of the '625 Patent, claims 1 and 5 of the '568 Patent, and claims 1 and 2 of the '215 Patent -- ruling these claims were anticipated or obvious in light of prior art. The PTAB also rejected two motions to amend by Ericsson, which sought to substitute certain proposed claims in the '625 and '568 patents, should they be found unpatentable by the PTAB. This PTAB decision comes on top of the Federal Circuit decision (a) vacating the jury verdict after finding that the district court had not properly instructed the jury on royalty rates and Ericsson’s licensing promises, and (b) ruling that no reasonable jury could have found the ‘625 Patent infringed. Ericsson appealed the PTAB decision to the Federal Circuit and also requested that the PTAB reconsider its decision, but the PTAB denied Ericsson’s request for reconsideration. While Ericsson appeals the PTAB decision the present status of the case is that the Company does not infringe on any valid Ericsson patent, and accordingly the Company reversed the accruals related to this case in the first fiscal quarter of 2015.

Agenzia Entrate Provincial Revenue Office 1 of Milan v. NETGEAR International, Inc.

In November 2012, the Italian Tax Police began a comprehensive tax audit of NETGEAR International, Inc.’s Italian Branch. The scope of the audit initially was from 2004 through 2011 and was subsequently expanded to include 2012. The tax audit encompasses Corporate Income Tax (IRES), Regional Business Tax (IRAP) and Value-Added Tax (VAT). In December 2013, December 2014, and August 2015, an assessment was issued by Inland Revenue Agency, Provincial Head Office No. 1 of Milan-Auditing Department (Milan Tax Office) for the 2004 tax year, the 2005 through 2007 tax years, and the 2008 through 2010 tax years, respectively. All other years remain under audit. In May 2014, the Company filed with the Provincial Tax Court of Milan (Tax Court) a Request for Hearing in Open Court and Request for Suspension of the Tax Assessment for the 2004 year. The hearing was held and decision was issued on November 7, 2014. The Tax Court found in favor of the Company and nullified the assessment by the Inland Revenue Agency for 2004. The Inland Revenue Agency appealed the decision of the Tax Court on June 12, 2015. The Company filed its counter appeal with respect to the 2004 year during September 2015. With respect to 2005 through 2007, the Company filed its briefs with the Tax Court in mid-February. In June, 2015, the Company filed with the Provincial Tax Court of Milan (Tax Court) a Request for Hearing in Open Court and Request for Suspension of the Tax Assessment for the 2005 through 2007 tax years. The hearing was held and the Request for Suspension of payment was granted. With respect to 2008 through 2010, the Company filed its briefs with the Tax Court in October 2015. It is too early to reasonably estimate any financial impact to the Company resulting from this litigation matter.

Via Vadis v. NETGEAR, Inc.

On August 22, 2014, the Company was sued by Via Vadis, LLC and AC Technologies, S.A. (“Via Vadis”), in the Western District of Texas. The complaint alleges that the Company’s ReadyNAS and Stora products “with built-in BitTorrent software" allegedly infringe three related patents of Via Vadis (U.S. Patent Nos. 7,904,680, RE40,521, and 8,656,125). Via Vadis filed similar complaints against Belkin, Buffalo, Blizzard, D-Link, and Amazon.

By referring to “built-in BitTorrent software,” the Company believes that the complaint is referring to the BitTorrent Sync application, which was released by BitTorrent Inc. in spring of 2014. At a high-level, the application allows file synchronization across multiple devices by storing the underlying files on multiple local devices, rather than on a centralized server. The Company’s ReadyNAS products do not include BitTorrent software when sold. The BitTorrent application is provided as one of a multitude of potential download options, but the software itself is not included on the Company’s devices when shipped. Therefore, the only viable allegation at this point is an indirect infringement allegation.

On November 10, 2014, the Company answered the complaint denying that it infringes the patents in suit and also asserting the affirmative defenses that the patents in suit are invalid and barred by the equitable doctrines of laches, waiver, and/or estoppel.

On February 5, 2015, the Court set the claim construction hearing for December 4, 2015 and allowed discovery for claim construction purposes to commence. On February 6, 2015, the Company filed its motion to transfer venue from the Western District of Texas to the Northern District of California with the Court; on February 13, 2015, Via Vadis filed its opposition to the Company's motion to transfer; and on February 20, 2015, the Company filed its reply brief on its motion to transfer. In early April 2015, the Company received the plaintiff's infringement contentions, and on June 12, 2015, the defendants served invalidity contentions. Discovery in the case was stayed until the Court issues its claim construction order. On July 30, 2015 the Court granted the Company's motion to transfer venue to the Northern District of California. In addition, the Company recently learned that Amazon and Blizzard filed petitions for the inter partes reviews ("IPRs") for the patents in suit. On October 15, 2015, the Company and

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Via Vadis came to an agreement in principle to petition the California Court to stay the case pending resolution of the IPR proceedings filed by Amazon and Blizzard. No Scheduling Order has been issued by the California Court.

It is too early to reasonably estimate any financial impact to the Company resulting from this litigation matter.

Wetro Lan v. NETGEAR, Inc.

On January 30, 2015, the Company was sued by a non-practicing entity called Wetro Lan LLC (“Wetro Lan”) in United States District Court, Eastern District of Texas, Marshall Division. Wetro Lan alleges direct infringement by the Company of United States Patent No. 6,795,918 (the “'918 Patent”) entitled “Service Level Computer Security” based on the Company’s manufacture and selling of the “NETGEAR WGR614v9 Wireless Router and similarly situated NETGEAR, Inc. Wireless Routers.” On April 13, 2015 the Company answered the complaint. The Company denied that it infringed the patent and asserted several affirmative defenses (counterclaims), including noninfringement, invalidity, limitation of damages, laches, waiver, estoppel, and other equitable defenses, and on May 4, 2015 Wetro Lan answered the Company’s counterclaims.

On July 16, 2015, the Company filed with the Court a motion to transfer venue from the Eastern District of Texas to the Northern District of California. On August 17, 2015, Wetro Lan filed with the Court its opposition to the Company’s motion to transfer venue, and on August 24, 2015 the Company filed its Reply in Support of Transfer as filed. The Court has not yet ruled on the Company’s transfer motion. It is too early to reasonably estimate any financial impact to the Company resulting from this litigation matter.

Frequency Systems LLC v NETGEAR, Inc.

On May 8, 2015, the Company was sued by a non-practicing entity named Frequency Systems LLC (“Frequency Systems”) in the United States District Court, Eastern District of Texas. Frequency Systems alleges direct or indirect infringement by the Company of a single patent, U.S. Pat. No. 8,417,205 (the “'205 Patent”), entitled “Antenna selection scheme for multiple antennae.” Frequency Systems alleges infringement generically by the Company’s “wireless routers and access points product families” without specifying any models.

Frequency Systems also simultaneously sued ADTRAN, TCL Communications, Amped Wireless, ASUS, Belkin, Buffalo, Cisco, D-Link, EnGenius Technologies, Extreme Networks, HP, HTC, Huawei, ATEN Technology, IOGear, Kyocera, LG, Linksys, Motorola Mobility, Novatel Wireless, Sharp, TP-Link, TRENDnet, Western Digital, ZTE, and ZyXEL.

The Company answered the complaint on July 23, 2015 asserting various defenses, including noninfrigement and invalidity of the patent in suit.

Recently, it appears that Frequency Systems granted RPX Corporation a license. This is significant because the Company’s products that use WiFi chipsets of licensed companies (i.e. companies that are RPX members) likely will be licensed. The licensed RPX members include Broadcom and QualComm-Atheros.

On September 24, 2015, Frequency Systems served preliminary infringement contentions. Frequency Systems alleges that the Company infringes claims 1, 2 and 4 of the '205 Patent by the sale of products that are compliant with the 802.11n wireless standard, and identifies the following Company models as exemplars: R8000, R7500, R7000, R6400, R6300, R6250, AC1450, R6220, R6200, R6100, R6050, WNDR4700, WNDR4720, WNDR4500, WNDR4300, WNDR3700, WNDR3400, WNR2500, JNR3210, WNR2020, R7900, R6700, D7800, D7000, D6400,

D6200, DGND4000, DGND3700, C7000, C6300, C3700, MBR1515, MBR1515A, MVBR1517, MVBR1210C, WNDAP660, EX7000, EX6200, EX6150, EX6100, X3920, EX3700, WN2500RP, WN3000RP, EX2700, A6210, LG2200D, LG6100D, WNDAP620, WND930, WNDAP360, WNDAP350, WN203, WN802T, and D2200D.

The Court held its initial scheduling conference on September 30, 2015. The Company's invalidity contentions are due on November 25, 2015.

It is too early to reasonably estimate any financial impact to the Company resulting from this litigation matter.

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Verifire Network Solutions v NETGEAR, Inc.

On June 3, 2015, the Company was sued by a non-practicing entity named Verifire Network Solutions, LLC. ("Verifire") in the United States District Court, Eastern District of Texas. Verifire alleges direct infringement by the Company of a single patent, US Patent No. 8,463,727 (the "'727 Patent"), entitled "Communication management system and communication management method," and the complaint targets Netgear's ProSAFE® business-class VPN Firewall and ProSECURE® UTM Firewall product families. Verifire recently has sued several other companies in the same Court on the same patent, including Fortinet, WatchGuard, Check Point, and Hewlett Packard.

The Company received an extension to answer the complaint and filed its Answer to the on August 26, 2015. On September 22, 2015, Verifire produced its preliminary infringement contentions. Verifire asserted that claims 1 and 3 of the '727 Patent cover all network security equipment, including firewalls such as the ProSAFE and ProSECURE lines manufactured by the Company.

Recently, many defendants settled, as RPX Corporation appears to have signed a settlement agreement with Verifire to settle out RPX members. The remaining defendants are: ADTRAN, Panda Distribution, Inc., and the Company. The Court held its initial scheduling conference on September 30, 2015. The Company's invalidity contentions are due on November 25, 2015.

It is too early to reasonably estimate any financial impact to the Company resulting from this litigation matter.

Chrimar Systems, Inc. v NETGEAR, Inc.

On July 1, 2015, the Company was sued by a non-practicing entity named Chrimar Systems, Inc., doing business as CMS Technologies and Chrimar Holding Company, LLC (collectively, "CMS"), in the Eastern District of Texas for allegedly infringing four patents-U.S. Patent Nos. 8,155,012 (the "'012 Patent"), entitled "System and method for adapting a piece of terminal equipment"; 8,942,107 (the "'107 Patent"), entitled "Piece of ethernet terminal equipment"; 8,902,760 (the "'760 Patent"), entitled "Network system and optional tethers"; and 9,019,838 (the "'838 Patent"), entitled "Central piece of network equipment" (collectively "patents-in-suit").

The patents-in-suit relate to using or embedding an electrical DC current or signal into an existing Ethernet communication link in order to transmit additional data about the devices on the communication link, and the specifications for the patents are identical. It appears that Chrimar has approximately 40 active cases in the Eastern District of Texas, as well as some cases in the Northern District of California on the patents-in-suit and the parent patent to the patents-in-suit.

The Company received an extension until September 15, 2015 to answer the complaint. The Company answered the complaint with a Motion to Dismiss Chrimar's indirect infringement claims. Chrimar subsequently filed a response to the Company's motion to dismiss and Chrimar's First Amended Complaint. Chrimar responded to the Motion to Dismiss by dropping its induced infringement claims and providing supplemental allegations in support of its contributory infringement claims with respect to the '760 Patent. For the '012, '107 and '838 Patents, Chrimar now only alleges direct infringement. Chrimar originally asserted direct and indirect infringement for all four patents-in-suit.

Subsequently, on October 5, 2015, the Company filed a Motion to Dismiss the Direct Infringement Claims Relating to the '760 Patent. Chrimar filed its response to this motion to dismiss on October 15, 2015, and the Company filed its Reply on October 26, 2015.

It is too early to reasonably estimate any financial impact to the Company resulting from this litigation matter.

IP Indemnification Claims

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 by the Company's products of patents, trademarks or copyrights of third parties that are asserted against the Indemnified Parties, subject to customary carve outs. 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.

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Environmental Regulation

The Company is required to comply and is currently in compliance with the European Union ("EU") and other Directives on the Restrictions of the use of Certain Hazardous Substances in Electrical and Electronic Equipment (“RoHS”), Waste Electrical and Electronic Equipment ("WEEE") requirements, Energy Using Product (“EuP”) requirements, the REACH Regulation, Packaging Directive and the Battery Directive.

The Company is subject to various federal, state, local, and foreign environmental laws and regulations, including those governing the use, discharge, and disposal of hazardous substances in the ordinary course of our manufacturing process. The Company believes that its current manufacturing and other operations comply in all material respects with applicable environmental laws and regulations; however, it is possible that future environmental legislation may be enacted or current environmental legislation may be interpreted to create an environmental liability with respect to its facilities, operations, or products. See further discussion of the business risks associated with environmental legislation under the risk titled, "We are subject to, and must remain in compliance with, numerous laws and governmental regulations concerning the manufacturing, use, distribution and sale of our products, as well as any such future laws and regulations. Some of our customers also require that we comply with their own unique requirements relating to these matters. Any failure to comply with such laws, regulations and requirements, and any associated unanticipated costs, may adversely affect our business, financial condition and results of operations." within Item 1A Risk Factors of this Form 10-Q.

Note 8. Stockholders' Equity

Common Stock Repurchase Program

From time to time, the Company’s Board of Directors has authorized programs under which the Company may repurchase shares of its common stock, depending on market conditions, in the open market or through privately negotiated transactions. Under the authorizations, the timing and actual number of shares subject to repurchase are at the discretion of management and are contingent on a number of factors, such as levels of cash generation from operations, cash requirements for acquisitions and the price of the Company’s common stock. Repurchases made by the Company pursuant to Board-authorized programs during the nine months ended September 27, 2015 and September 28, 2014 are discussed below. As of September 27, 2015, 2.6 million shares remained authorized for repurchase under the repurchase program approved by the Board on July 21, 2015. There were no remaining shares authorized under any previously approved programs.

The Company repurchased, reported based on trade date, 3.4 million shares of common stock at a cost of $105.2 million during the nine months ended September 27, 2015. The Company repurchased, reported based on trade date, 2.1 million shares of common stock at a cost of $68.6 million under the repurchase authorization during the nine months ended September 28, 2014.

The Company repurchased, as reported based on trade date, approximately 77,000 shares of common stock at a cost of $2.4 million under a repurchase program to help administratively facilitate the withholding and subsequent remittance of personal income and payroll taxes for individuals receiving restricted stock units ("RSUs") during the nine months ended September 27, 2015. Similarly, during the nine months ended September 28, 2014, the Company repurchased approximately 50,000 shares of common stock at a cost of $1.6 million under the same program to help facilitate tax withholding for RSUs.

These shares were retired upon repurchase. The purchase price for the shares of the Company’s stock repurchased is reflected as a reduction to stockholders’ equity. The Company’s policy related to repurchases of its common stock is to charge the excess of cost over par value to retained earnings. All repurchases were made in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

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Accumulated Other Comprehensive Income, Net

The following table sets forth the changes in accumulated other comprehensive income ("AOCI") by component, net of tax, for the nine months ended September 27, 2015 (in thousands):

	Gains and losses on available for sale securities	Gains and losses on derivatives	Total
Beginning balance as of December 31, 2014	$(5)	$43	$38
Other comprehensive income (loss) before reclassifications	21	(1,299)	(1,278)
Amounts reclassified from accumulated other comprehensive income	—	1,197	1,197
Net current period other comprehensive income (loss)	21	(102)	(81)
Ending balance as of September 27, 2015	$16	$(59)	$(43)

The following tables provide details about significant amounts reclassified out of each component of AOCI for the three and nine months ended September 27, 2015 and September 28, 2014 (in thousands):

	Three Months Ended September 27, 2015		Nine Months Ended September 27, 2015	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from AOCI	Affected Line Item in the Statement of Operations	Amount Reclassified from AOCI	Affected Line Item in the Statement of Operations
Gains and losses on cash flow hedge:				
Foreign currency forward contracts	$(552)	Net revenue	$(1,474)	Net revenue
Foreign currency forward contracts	3	Cost of revenue	7	Cost of revenue
Foreign currency forward contracts	123	Operating expenses	270	Operating expenses
	(426)	Total before tax	(1,197)	Total before tax
	—	Tax expense (1)	—	Tax expense (1)
	$(426)	Total, net of tax	$(1,197)	Total, net of tax

(1) Under our tax structure all hedging gains and losses from derivative contracts are ultimately borne by a legal entity in a jurisdiction with no income tax.

	Three Months Ended September 28, 2014		Nine Months Ended September 28, 2014	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from AOCI	Affected Line Item in the Statement of Operations	Amount Reclassified from AOCI	Affected Line Item in the Statement of Operations
Gains and losses on cash flow hedge:				
Foreign currency forward contracts	$320	Net revenue	$(221)	Net revenue
Foreign currency forward contracts	—	Cost of revenue	8	Cost of revenue
Foreign currency forward contracts	(58)	Operating expenses	(23)	Operating expenses
	262	Total before tax	(236)	Total before tax
	—	Tax expense (1)	—	Tax expense (1)

$262	Total, net of tax	$(236)	Total, net of tax

(1) Under our tax structure all hedging gains and losses from derivative contracts are ultimately borne by a legal entity in a jurisdiction with no income tax.

Note 9. Employee Benefit Plans

The Company grants options and RSUs from the Amended and Restated 2006 Long-Term Incentive Plan, under which awards may be granted to all employees. Award vesting periods for this plan is generally four years. As of September 27, 2015, approximately 1.5 million shares from this plan were reserved for future grants.

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. As of September 27, 2015, approximately 0.1 million shares were reserved under the ESPP.

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Option Activity
Stock option activity during the nine months ended September 27, 2015 was as follows:

	Number of shares	Weighted Average Exercise Price Per Share
	(in thousands)	(in dollars)
Outstanding at December 31, 2014	3,939	$30.58
Granted	296	31.34
Exercised	(262)	23.44
Cancelled	(128)	33.23
Expired	(246)	34.82
Outstanding at September 27, 2015	3,599	$30.78

RSU Activity

RSU activity during the nine months ended September 27, 2015 was as follows:

	Number of shares	Weighted Average Grant Date Fair Value Per Share
	(in thousands)	(in dollars)
Outstanding at December 31, 2014	858	$30.68
RSUs granted	468	32.13
RSUs vested	(259)	31.04
RSUs cancelled	(108)	31.44
Outstanding at September 27, 2015	959	$31.59

Valuation and Expense Information
The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton option valuation model that uses the assumptions noted in the following table. The estimated 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 a remaining term commensurate with the estimated expected term. Expected volatility is based on historical volatility over the most recent period commensurate with the estimated expected term.
The table below sets forth the weighted average assumptions used to estimate the fair value of option grants during the three and nine months ended September 27, 2015 and September 28, 2014.

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Expected life (in years)	N/A	N/A	4.5	4.5
Risk-free interest rate	N/A	N/A	1.44%	1.44%
Expected volatility	N/A	N/A	39.3%	42.6%
Dividend yield	N/A	N/A	—	—

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The following table sets forth the stock-based compensation expense resulting from stock options, RSUs and the ESPP included in the Company's unaudited condensed consolidated statements of operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Cost of revenue	$358	$573	$1,190	$1,533
Research and development	877	1,255	2,495	3,878
Sales and marketing	1,173	1,409	3,838	4,759
General and administrative	1,703	1,925	4,994	5,056
Total stock-based compensation	$4,111	$5,162	$12,517	$15,226

As of September 27, 2015, $7.9 million of unrecognized compensation cost related to stock options, adjusted for estimated forfeitures, is expected to be recognized over a weighted-average period of 2.53 years. Additionally, $21.0 million of unrecognized compensation cost related to unvested RSUs, adjusted for estimated forfeitures, is expected to be recognized over a weighted-average period of 2.66 years.

Note 10. Segment Information and Operations by Geographic Area

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 ("CODM") of an organization, in order to determine operating and resource allocation decisions. By this definition, the Company operates in three specific business units: retail, commercial, and service provider. The retail business unit consists of high performance, dependable and easy-to-use home networking, home security automation and storage products. The commercial business unit consists of business networking, storage and security solutions that bring enterprise class functionality down to the small and medium-sized business at an affordable price. The service provider business unit consists of made-to-order and retail proven, whole home networking hardware and software solutions as well as 4G LTE hotspots sold to service providers for sale to their subscribers. The Company believes this structure enables it to better focus its efforts on the Company's core customer segments and allows it to be more nimble and opportunistic as a company overall.

The Company's CEO began temporarily serving as interim general manager of the retail business unit in March 2014 and as interim general manager of the service provider business unit in February 2015, due to the previous general managers' departures from the Company. As of September 27, 2015, the CEO continued to serve as interim general manager of both business units and will do so until replacements for the positions are appointed.

The results of the reportable segments are derived directly from the Company's management reporting system. The results are based on the Company's method of internal reporting and are not necessarily in conformity with accounting principles generally accepted in the United States. Management measures the performance of each segment based on several metrics, including contribution income. Segment contribution income includes all product line segment revenues less the related cost of sales, research and development and sales and marketing costs. Contribution income is used, in part, to evaluate the performance of, and allocate resources to, each of the segments. Certain operating expenses are not allocated to segments because they are separately managed at the corporate level. These unallocated indirect costs include corporate costs, such as corporate research and development, corporate marketing expense and general and administrative costs, amortization of intangibles, stock-based compensation expense, restructuring and other charges, acquisition-related expense, losses on inventory commitments due to restructuring, litigation reserves, net, and interest and other income (expense), net. The Company does not evaluate operating segments using discrete

asset information.

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Financial information for each reportable segment and a reconciliation of segment contribution income to income before income taxes is as follows (in thousands, except percentage data):

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Net revenue:				
Retail	$164,081	$131,341	$416,847	$360,236
Commercial	65,187	71,974	200,935	226,284
Service provider	112,625	150,023	322,050	453,813
Total net revenue	341,893	353,338	939,832	1,040,333
Contribution income:				
Retail	$21,149	$21,813	$53,715	$51,222
Retail contribution margin	12.9 %	16.6 %	12.9 %	14.2 %
Commercial	13,700	15,112	42,507	51,781
Commercial contribution margin	21.0 %	21.0 %	21.2 %	22.9 %
Service Provider	14,819	14,164	27,472	42,918
Service Provider contribution margin	13.2 %	9.4 %	8.5 %	9.5 %
Total segment contribution income	49,668	51,089	123,694	145,921
Corporate and unallocated costs	(14,363)	(13,544)	(39,559)	(40,428)
Amortization of intangibles (1)	(4,165)	(4,396)	(12,804)	(13,177)
Stock-based compensation expense	(4,111)	(5,162)	(12,517)	(15,226)
Restructuring and other charges	(1,016)	(1,360)	(6,384)	(2,190)
Acquisition-related expense	—	—	—	(8)
Losses on inventory commitments due to restructuring	—	—	(407)	—
Litigation reserves, net	—	(69)	2,690	(254)
Interest income	65	68	184	174
Other income (expense), net	(199)	2,246	(67)	1,911
Income before income taxes	$25,879	$28,872	$54,830	$76,723

(1) Amount excludes amortization expense related to patents included in cost of revenue.

The Company conducts business across three geographic regions: Americas, Europe, Middle-East and Africa (“EMEA”) and Asia Pacific ("APAC"). Net revenue by geography comprises gross revenue less such items as end-user customer rebates and other sales incentives deemed to be a reduction of net revenue per the authoritative guidance for revenue recognition, sales returns and price protection. For reporting purposes revenue is attributed to each geographic region based on the location of the customer. The following table shows net revenue by geography for the periods indicated (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
United States (U.S.)	$213,913	$ 188,569	$552,787	$ 561,067
Americas (excluding U.S.)	5,823	5,335	13,194	15,150
United Kingdom (U.K.)	27,850	38,933	80,965	122,707
EMEA (excluding U.K.)	49,875	69,488	153,862	192,943
APAC	$44,432	$ 51,013	$139,024	$ 148,466
Total net revenue	$341,893	$ 353,338	$939,832	$ 1,040,333

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Property and equipment, net, by geographic location are as follows (in thousands):

	As of September 27, 2015	December 31, 2014
United States	$10,200	$12,453
Canada	3,982	4,375
EMEA	506	657
China	7,723	10,786
APAC (excluding China)	1,540	1,423
	$23,951	$29,694

Note 11. Fair Value Measurements (in thousands)
The following tables summarize assets and liabilities measured at fair value on a recurring basis as of September 27, 2015:

	As of September 27, 2015			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents—money-market funds	$45,904	$45,904	$—	$—
Available-for-sale securities—U.S. treasuries (1)	60,093	60,093	—	—
Available-for-sale securities—certificates of deposit (1)	269	269	—	—
Trading securities—mutual funds (1)	1,057	1,057	—	—
Foreign currency forward contracts (2)	537	—	537	—
Total assets measured at fair value	$107,860	$107,323	$537	$—

(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 September 27, 2015			
	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)	$678	$—	$678	$—
Total liabilities measured at fair value	$678	$—	$678	$—

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

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The following tables summarize assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

	As of December 31, 2014			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents—money-market funds	$4,408	$4,408	$—	$—
Available-for-sale securities—U.S. treasuries (1)	114,935	114,935	—	—
Available-for-sale securities—certificates of deposit (1)	158	158	—	—
Trading securities—mutual funds (1)	802	802	—	—
Foreign currency forward contracts (2)	2,416	—	2,416	—
Total assets measured at fair value	$122,719	$120,303	$2,416	$—

(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, 2014			
	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)	$447	$—	$447	$—
Total liabilities measured at fair value	$447	$—	$447	$—

(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 classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company enters into foreign currency forward contracts with only those counterparties that have long-term credit ratings of A-/A3 or higher. The Company's foreign currency forward contracts are classified within Level 2 of the fair value hierarchy as they 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 September 27, 2015 and December 31, 2014, 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.

Note 12. 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 $2.3 million and $7.9 million for the three and nine months ended September 27, 2015, respectively, and $2.7 million and $7.7 million for the three and nine months ended September 28, 2014, respectively.

Note 13. Restructuring and Other Charges

The Company incurred restructuring and other charges of $1.0 million and $6.4 million during the three and nine months ended September 27, 2015, respectively. Restructuring and other charges recognized in the nine months ended September 27, 2015 are primarily related to contract and employee termination charges, as well as other activities attributable to the restructuring actions announced in February 2015. Restructuring and other charges incurred in the nine months ended September 28, 2014 were

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primarily attributable to charges recognized associated with the early termination of a lease agreement in Canada and one-time separation costs, primarily relating to the departure of the general manager of the retail business unit in the first quarter of 2014.

Accrued restructuring and other charges are classified within other accrued liabilities in the unaudited condensed consolidated balance sheets. Amounts attributable to employee termination and other charges are expected to be paid out by the end of the first fiscal quarter of 2016. Amounts attributable to lease contract termination charges will be paid over the remaining lease term until January 2022.

The following table provides a summary of the activity related to accrued restructuring and other charges for the nine months ended September 27, 2015 (in thousands):

	Accrued Restructuring and Other Charges at December 31, 2014	Additions (a)	Cash Payments	Accrued Restructuring and Other Charges at September 27, 2015
Restructuring				
Employee termination charges	$ 316	$4,689	$(4,610)	$ 395
Lease contract termination and other charges	—	1,243	$(592)	651
Total Restructuring and other charges	$ 316	$5,932	$(5,202)	$ 1,046

(a) Total restructuring and other charges recognized in the Company's unaudited condensed consolidated statement of operations for the nine months ended September 27, 2015 includes non-cash charges and adjustments, net of $0.5 million. These amounts have been excluded from the table above.

In the third quarter of 2015, the Company completed the steps necessary to reduce the cost structure of the service provider business unit and supporting functions to match the reduced revenue outlook and to concentrate resources on LTE and long-term and profitable accounts. Management does not expect to incur any material incremental charges associated with the restructuring actions announced in February 2015.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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,” “could,” “may,” “will,” 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” 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.

Business and Executive Overview

We are a global networking company that delivers innovative products to consumers, businesses and service providers. Our products are built on a variety of proven technologies such as wireless (WiFi and LTE), Ethernet and powerline, with a focus on reliability and ease-of-use. Our product line consists of wired and wireless devices that enable 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 operate in three specific business segments: retail, commercial, and service provider. We believe this structure enables us to better focus our efforts on our core customer segments and allows us to be more nimble and opportunistic as a company overall. Our CEO began temporarily serving as interim general manager of the retail business unit in March 2014 and as interim general manager of the service provider business unit in February 2015 due to the previous general managers' departures from the

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Company. Our CEO will continue to serve as interim general manager of both business units until replacements are appointed. The retail business unit is focused on individual consumers and consists of high performance, dependable and easy-to-use home networking, home security automation and storage products. The commercial business unit is focused on small and medium-sized businesses and consists of business networking, storage and security solutions that bring enterprise class functionality at an affordable price. The service provider business unit is focused on the service provider market and consists of made-to-order and retail-proven whole home networking hardware and software solutions, as well as 4G LTE hotspots sold to service providers for sale to their subscribers. We conduct business across three geographic regions: Americas, Europe, Middle-East and Africa ("EMEA") and Asia Pacific ("APAC").

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

We sell our networking products through multiple sales channels worldwide, including traditional retailers, online retailers, wholesale distributors, direct market resellers ("DMRs"), value-added resellers ("VARs"), and broadband service providers. Our retail channel includes traditional retail locations domestically and internationally, such as Best Buy, Costco, Fry's Electronics, K-mart, Staples, Target, Wal-Mart, Argos (U.K.), Dixons (U.K.), PC World (U.K.), MediaMarkt (Germany, Austria), Dick Smith (Australia), JB HiFi (Australia), Elkjop (Norway) and Sunning and Guomei (China). Online retailers include Amazon.com, 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 and retailers. We expect that these wholesale distributors and retailers will continue to contribute a significant percentage of our net revenue for the foreseeable future.

During the third quarter of 2015, we experienced a 3.2% decrease in net revenue compared to the third quarter of 2014, driven primarily by a reduction in service provider net revenue. The decrease was primarily attributable to a reduction in gross shipments driven, in part, by continued weakness in carrier spending in North America and Europe, combined with the negative effects of a high degree of variability in carrier customer ordering patterns, a characteristic inherent to the service provider business unit. As previously announced, during the first quarter of 2015 we began to execute on our plans to reduce the cost structure of the service provider business unit and supporting functions to better align with the reduced revenue outlook, and to concentrate resources on LTE and long term and profitable accounts. These efforts continued in the third quarter of 2015. Retail net revenue increased compared to the prior year period, due primarily to an increase in gross shipments of broadband gateways, home wireless and home security automation products, partially offset by a reduction in gross shipments of multimedia products. We continue to see strong demand for our retail products, including the Nighthawk series and recently introduced Arlo Smart Home cameras. Commercial net revenue decreased compared to the prior year period due primarily to a reduction in gross shipments of network storage, wireless products and switches driven by a difficult small business climate in Europe caused by weakening foreign currencies compared to the U.S. dollar and economic uncertainty surrounding the Greek economic crisis. On a geographic basis, net revenue increased in the Americas, offset by declines experienced in EMEA and APAC. The increase in the Americas was driven primarily by an increase in gross shipments of our broadband gateways, home security automation, home wireless products and switches, partially offset by a decrease in

gross shipments of our mobile and multimedia products. The decline in EMEA was driven primarily by a reduction in gross shipments of broadband gateways, home wireless, network storage products and switches, partially offset by an increase in gross shipments of home security automation and mobile products. The decline in APAC was driven primarily by a reduction in gross shipments of mobile and home wireless products, partially offset by an increase in gross shipments of our broadband gateways and home security automation products.

Looking forward, we expect growth in our retail business unit mainly driven by continued introduction and wider adoption of our new 802.11ac technology, the accelerated penetration of home security automation products and successfully establishing our cable gateways in the retail market. We expect growth in our commercial business unit driven by sales of our 10Gig switches, PoE switches, storage and wireless products among small and medium-sized businesses and end users. Although service provider results remained relatively strong in 2014, we began to see softening in the fourth quarter of the year and continued to experience declines in the nine months ended September 27, 2015 due to continued weakness in capital expense spending by certain service providers in both North America and in Europe. In the third quarter of 2015 we completed the steps necessary to reduce the cost structure of the service provider business unit and supporting functions to match the reduced revenue outlook and to concentrate

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resources on LTE and long-term and profitable accounts. We remain focused on improving profitability, while investing in key strategic growth areas. The areas that we are targeting continue to be LTE, 802.11ac, home security automation and our switching category of products.

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Results of Operations

The following table sets forth the unaudited condensed consolidated statements of operations for the three and nine months ended September 27, 2015, with the comparable reporting period in the preceding year.

	Three Months Ended						Nine Months Ended					
	September 27, 2015			September 28, 2014			September 27, 2015			September 28, 2014		
	(In thousands, except percentage data)											
Net revenue	$341,893	100.0	%	$353,338	100.0	%	$939,832	100.0	%	$1,040,333	100.0	%
Cost of revenue	245,566	71.8	%	251,005	71.0	%	677,569	72.1	%	742,889	71.4	%
Gross profit	96,327	28.2	%	102,333	29.0	%	262,263	27.9	%	297,444	28.6	%
Operating expenses:												
Research and development	21,572	6.3	%	23,337	6.6	%	63,126	6.7	%	67,994	6.5	%
Sales and marketing	35,923	10.5	%	39,283	11.2	%	107,538	11.5	%	117,373	11.3	%
General and administrative	11,803	3.5	%	11,726	3.3	%	33,192	3.5	%	34,995	3.4	%
Restructuring and other charges	1,016	0.3	%	1,360	0.4	%	6,384	0.7	%	2,190	0.2	%
Litigation reserves, net	—	—	%	69	0.0	%	(2,690)	(0.3)	%	254	0.0	%
Total operating expenses	70,314	20.6	%	75,775	21.5	%	207,550	22.1	%	222,806	21.4	%
Income from operations	26,013	7.6	%	26,558	7.5	%	54,713	5.8	%	74,638	7.2	%
Interest income	65	0.1	%	68	0.1	%	184	0.0	%	174	0.0	%
Other income (expense), net	(199)	(0.1)	%	2,246	0.6	%	(67)	0.0	%	1,911	0.2	%
Income before income taxes	25,879	7.6	%	28,872	8.2	%	54,830	5.8	%	76,723	7.4	%
Provision for income taxes	10,780	3.2	%	8,847	2.5	%	28,053	3.0	%	27,582	2.7	%
Net income	$15,099	4.4	%	$20,025	5.7	%	$26,777	2.8	%	$49,141	4.7	%

Net Revenue by Geographic Segment

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 the authoritative guidance for revenue recognition, and net changes in deferred revenue.

We conduct business across three geographic regions: Americas, EMEA and APAC. For reporting purposes revenue is attributed to each geographic region based upon the location of the customer.

	Three Months Ended				Nine Months Ended			
	September 27, 2015	% Change	September 28, 2014		September 27, 2015	% Change	September 28, 2014	
	(In thousands, except percentage data)							
Americas	$219,736	13.3 %	$193,904		$565,981	(1.8)%	$576,217	
Percentage of net revenue	64.3 %		54.9 %		60.2 %		55.4 %	
EMEA	$77,725	(28.3)%	$108,421		$234,827	(25.6)%	$315,650	
Percentage of net revenue	22.7 %		30.7 %		25.0 %		30.3 %	
APAC	$44,432	(12.9)%	$51,013		$139,024	(6.4)%	$148,466	

Percentage of net revenue	13.0	%		14.4	%	14.8	%		14.3	%		
Total net revenue	$341,893	(3.2	)%	$353,338		$939,832	(9.7	)%	$1,040,333			

Americas

The increase in Americas net revenue for the three months ended September 27, 2015 compared to the prior year periods was driven primarily by an increase in gross shipments of our broadband gateways, home security automation, home wireless products and switches, partially offset by a decrease in gross shipments of our mobile and multimedia products. The increase was due primarily to continued growth in the retail business unit driven by strong demand for our products, including the Nighthawk

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series and recently introduced Arlo Smart Home cameras. The increase in Americas net revenue was partially offset by a reduction in in service provider demand driven, in part, by continued weakness in North American carrier spending.

The decrease in Americas net revenue for the nine months ended September 27, 2015 compared to the prior year periods was driven primarily by a reduction in gross shipments of our mobile and multimedia products, partially offset by an increase in gross shipments of our broadband gateways, home security automation and home wireless products. The decrease was due primarily to a reduction in service provider demand driven by continued weakness in North American carrier spending. In our retail channel, we continue to see strong demand for our products, including the Nighthawk series and recently introduced Arlo Smart Home cameras.

EMEA

The decrease in EMEA net revenue for the three and nine months ended September 27, 2015 compared to the prior year periods was driven primarily by a reduction in gross shipments of broadband gateways, home wireless, network storage products and switches, partially offset by an increase in gross shipments of home security automation and mobile products. The decrease was primarily attributable to a reduction in gross shipments driven, in part, by continued weakness in European carrier spending, combined with the negative effects of a high degree of variability in carrier customer ordering patterns, a characteristic inherent to the service provider business unit. Our success in the region continues to be challenged by a difficult small business market climate caused by weakening foreign currencies compared to the U.S. dollar and economic uncertainty surrounding the Greek economic crisis.

APAC

The decrease in APAC net revenue for the three and nine months ended September 27, 2015 compared to the prior year periods was driven primarily by a reduction in gross shipments of mobile and home wireless products, partially offset by an increase in gross shipments of our broadband gateway and home security automation products. Similar to EMEA, APAC net revenue was constrained by weakening foreign currencies compared to the U.S. dollar.

Cost of Revenue and Gross Margin

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; third-party software licensing fees; inbound freight; warranty costs associated with returned goods; write-downs for excess and obsolete inventory, amortization expense of certain acquired intangibles and acquisition accounting adjustments to inventory.

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 average selling prices, end-user customer rebates and other sales incentives, 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, charges for excess or obsolete inventory and amortization of acquired intangible assets. The following table presents costs of revenue and gross margin, for the periods indicated:

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(In thousands, except percentage data)					
Cost of revenue	$245,566	(2.2)%	$251,005	$677,569	(8.8)%	$742,889
Gross margin percentage	28.2%		29.0%	27.9%		28.6%

Cost of Revenue

Cost of revenue decreased for the three and nine months ended September 27, 2015 compared to the prior year periods due primarily to the decrease in net revenue and related product costs attributable, in part, to continued weakness in carrier spending in North America and Europe, partially offset by higher freight costs.

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Gross Margin

Our gross margin decreased for the three months ended September 27, 2015 compared to the prior year period due primarily to weakening foreign currencies compared to the U.S. dollar and, to a lesser extent, an increase in per unit freight costs and warranty costs.

Our gross margin decreased for the nine months ended September 27, 2015 compared to the prior year period due primarily to weakening foreign currencies compared to the U.S. dollar and, to a lesser extent, an increase in per unit freight costs, partially offset by the positive effects of lower excess and obsolete inventory charges combined with a benefit recognized in the first quarter of 2015 relating to royalties previously accrued relating to the Ericsson patent litigation.

We expect gross margin percentage to remain relatively flat in the near term. Forecasting future gross margin percentages is difficult, and there are a number of risks related to our ability to maintain or improve our current gross margin levels. Our cost of revenues as a percentage of revenues can vary significantly based upon a number of factors such as the following: uncertainties surrounding revenue levels, including future pricing and/or potential discounts as a result of the economy or in response to the strengthening of the U.S. dollar in our international markets, and related production level variances; competition; changes in technology; changes in product mix; variability of stock-based compensation costs; royalties to third parties; fluctuations in freight and repair costs; manufacturing and purchase price variances; changes in prices on commodity components; warranty costs; and the timing of sales, particularly to service providers.

Operating Expenses

Research and Development

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. The following table presents research and development expense, for the periods indicated:

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(In thousands, except percentage data)					
Research and development expense	$21,572	(7.6)%	$ 23,337	$63,126	(7.2)%	$ 67,994

Research and development expense decreased for the three months ended September 27, 2015 compared to the prior year period due primarily to a reduction in personnel-related costs of $1.4 million, driven by a reduction in headcount attributable to the restructuring activities executed in the first quarter of 2015, professional services of $0.7 million and facility-related expenses of $0.2 million, partially offset by an increase in variable compensation costs of $0.7 million.

Research and development expense decreased for the nine months ended September 27, 2015 compared to the prior year period due primarily to a reduction in personnel-related costs of $3.8 million, driven by a reduction in headcount attributable to the restructuring activities executed in the first quarter of 2015, and projects and professional services of $1.4 million.

Headcount decreased by 34 employees to 323 employees at September 27, 2015 compared to 357 employees at September 28, 2014.

We believe that innovation and technological leadership is critical to our future success, and we are committed to continuing a significant level of research and development to develop new technologies and products to combat

competitive pressures. We continue to invest in research and development to expand our cloud platform capabilities, grow our home security camera and home automation device portfolio, develop innovative whole home WiFi coverage solutions and be first to market with the latest LTE technology. We expect research and development expenses to decrease as a percentage of revenue in the near term. Research and development expenses will fluctuate depending on the timing and number of development activities in any given quarter and could vary significantly as a percentage of revenue, depending on actual revenues achieved in any given quarter.

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Sales and Marketing

Sales and marketing expenses consist primarily of advertising, trade shows, corporate communications and other marketing expenses, product marketing expenses, outbound freight costs, amortization expenses, personnel expenses for sales and marketing staff and technical support expenses. The following table presents sales and marketing expense, for the periods indicated:

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(In thousands, except percentage data)					
Sales and marketing expense	$35,923	(8.6)%	$ 39,283	$107,538	(8.4)%	$ 117,373

Sales and marketing expense decreased for the three months ended September 27, 2015 compared to the prior year period due primarily to a reduction in personnel-related costs of $2.2 million, driven by a reduction in headcount attributable to the restructuring activities executed in the first quarter of 2015, $0.2 million in marketing costs and $0.2 million in facility-related expenses.

Sales and marketing expense decreased for the nine months ended September 27, 2015 compared to the prior year period due primarily to a reduction in personnel-related costs of $5.7 million, driven by a reduction in headcount attributable to the restructuring activities executed in the first quarter of 2015, $1.9 million in outside professional services, $1.5 million in variable compensation, $0.5 million in marketing costs and $0.4 million in facility-related expenses, partially offset by an increase in freight costs of $0.3 million.

Headcount decreased by 34 employees to 349 employees at September 27, 2015 compared to 383 employees at September 28, 2014.

We expect our sales and marketing expense in the near term to remain relatively flat as a percentage of net revenue while we continue adjust our sales coverage to better align with our 2015 net revenue outlook, particularly for the service provider business unit. Expenses may fluctuate depending on revenue levels achieved as certain expenses, such as commissions, are determined based upon the revenues achieved. Forecasting sales and marketing expenses as a percentage of revenues is highly dependent on expected revenue levels and could vary significantly depending on actual revenues achieved in any given quarter. Marketing expenses will also fluctuate depending upon the timing, extent and nature of marketing programs as we introduce new products.

General and Administrative

General and administrative expenses consist of salaries and related expenses for executives, finance and accounting, human resources, information technology, professional fees, allowance for doubtful accounts and other general corporate expenses. The following table presents general and administrative expense, for the periods indicated:

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(In thousands, except percentage data)					
General and administrative expense	$11,803	0.7 %	$ 11,726	$33,192	(5.2)%	$ 34,995

General and administrative expense increased for the three months ended September 27, 2015 compared to the prior year period. The increase in variable compensation costs of $0.7 million was largely offset by reductions in personnel-related expenses of $0.5 million and facility, allocation and other expenses of $0.1 million.

General and administrative expense decreased for the nine months ended September 27, 2015 compared to the prior year period due primarily to a reduction in facilities, allocation and other expenses of $1.8 million, outside professional services of $1.2 million and personnel-related expenses of $0.2 million, partially offset by an increase in

variable compensation of $1.0 million and software-related expenses of $0.4 million.

Headcount decreased by 2 employees to 155 employees at September 27, 2015 compared to 157 employees at September 28, 2014.

We expect our general and administrative expenses to remain consistent with fiscal year 2014 as a percentage of net revenue in the near term but they could fluctuate depending on a number of factors, including the level and timing of expenditures associated

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with the litigation described in Note 7, Commitments and Contingencies, in the notes to unaudited condensed consolidated financial statements. Future general and administrative expense increases or decreases in absolute dollars are difficult to predict due to the lack of visibility of certain costs, including legal costs associated with defending claims against us, as well as legal costs associated with asserting and enforcing our intellectual property portfolio and other factors.

Restructuring and Other Charges

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(In thousands, except percentage data)					
Restructuring and other charges	$1,016	(25.3)%	$ 1,360	$6,384	191.5 %	$ 2,190

** Percentage change not meaningful.

Restructuring and other charges increased for the three months ended September 27, 2015 compared to the prior year period. Charges recognized in the third quarter of 2015 relate primarily to lease contract and employee termination charges associated with the restructuring actions announced in February 2015. Expenses incurred during the third quarter of 2014 relate primarily to lease contract termination charges.

Restructuring and other charges increased for the nine months ended September 27, 2015 compared to the prior year period. Expenses recognized for the nine months ended September 27, 2015 relate primarily to contract and employee termination charges, as well as other activities attributable to the restructuring actions announced in February 2015. Expenses recognized in the nine months ended September 28, 2014 relate primarily to contract termination charges and one-time employee separation charges associated with the departure of the retail business unit general manager.

In the third quarter of 2015 we completed the steps necessary to reduce the cost structure of the service provider business unit and supporting functions to match the reduced revenue outlook and to concentrate resources on LTE and long-term and profitable accounts. Management does not expect to incur any additional material charges associated with the restructuring actions announced in February 2015. We remain focused on improving profitability, while investing in key strategic growth areas. The areas that we are targeting continue to be LTE, 802.11ac, home security automation and our switching category of products. Restructuring actions are subject to significant risks, including delays in implementing expense control programs or workforce reductions and the failure to meet operational targets due to the loss of employees, all of which would impair our ability to achieve anticipated cost reductions. If we do not achieve anticipated cost reductions, our financial results could be negatively impacted. We do not believe that the estimated annual cost savings as a result of restructuring actions taken by the Company will result in a significant reduction of operating expenses as a percentage of net revenue in the near term.

For further discussion of restructuring and other charges, refer to Note 13, Restructuring and Other Charges, of the notes to unaudited condensed consolidated financial statements.

Litigation Reserves, Net

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(In thousands, except percentage data)					
Litigation reserves, net	$—	(100.0)%	$ 69	$(2,690)	**	$ 254

** Percentage change not meaningful.

No significant litigation reserves were recognized during the three months ended September 27, 2015 or September 28, 2014.

We recognized a benefit of $2.7 million during the nine months ended September 27, 2015 resulting from adjustments recorded to release litigation reserves previously accrued associated with the Ericsson patent litigation matter. In contrast, we recognized an expense of $0.3 million during the nine months ended September 28, 2014 for costs related to the settlement of lawsuits.

For a detailed discussion of our litigation matters, refer to Note 7, Commitments and Contingencies, in the notes to unaudited condensed consolidated financial statements.

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Interest Income and Other Income (Expense), Net

Interest income represents amounts earned on our cash, cash equivalents and short-term investments. Other income (expense), net primarily represents gains and losses on transactions denominated in foreign currencies and other miscellaneous income and expenses. The following table presents interest income and other income (expense), net, for the periods indicated:

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(In thousands, except percentage data)					
Interest income	$65	(4.4)%	$ 68	$184	5.7 %	$ 174
Other income (expense), net	(199)	(108.9)%	2,246	(67)	(103.5)%	1,911
Total interest income and other income (expense), net	$(134)	(105.8)%	$ 2,314	$117	(94.4)%	$ 2,085

** Percentage change not meaningful.

Total interest income and other income (expense), net, decreased for the three and nine months ended September 27, 2015 compared to the prior year period. In the third quarter of 2014, we recognized income of $2.8 million relating to the execution of a litigation settlement agreement, which was partially offset by foreign currency losses incurred. In contrast, no significant other income (expense) was recognized during the three and nine months ended September 27, 2015.

Our foreign currency hedging program effectively reduced volatility associated with hedged currency exchange rate movements during the three and nine months ended September 27, 2015. For a detailed discussion of our hedging program and related foreign currency contracts, refer to Note 4, Derivative Financial Instruments, in the notes to unaudited condensed consolidated financial statements.

Provision for Income Taxes

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(In thousands, except percentage data)					
Provision for income taxes	$10,780	21.8 %	$ 8,847	$28,053	1.7 %	$ 27,582
Effective tax rate	41.7 %		30.6 %	51.2 %		36.0 %

During the three and nine months ended September 27, 2015, we incurred losses in a jurisdiction where no tax benefit could be recorded. As a result, the forecasted losses from this jurisdiction were excluded from the determination of tax expense for the respective periods. The increases in the effective tax rate for the three and nine months ended September 27, 2015 compared to the prior year periods were due primarily to an increase in losses incurred in a jurisdiction where no tax benefit could be recorded, as well as a shift in the distribution of earnings to jurisdictions with relatively higher tax rates. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Our future foreign tax rate could be affected by changes in the composition in earnings in countries with tax rates differing from the U.S. federal rate. We are under examination in various U.S. and foreign jurisdictions.

In July 2015, the United States Tax Court (the “Court”) issued a taxpayer-favorable opinion with respect to Altera’s litigation with the Internal Revenue Service (“IRS”). The litigation relates to the treatment of share-based compensation expense in an inter-company cost-sharing arrangement with the taxpayer’s foreign subsidiary. In its opinion, the Court accepted Altera’s position of excluding share-based compensation in its cost sharing arrangement and concluded that the related IRS Regulations were invalid. Because there is uncertainty related to the IRS response to the Court’s

opinion, the final resolution of this litigation, and the potential favorable benefits to us, we did not record any benefit for the three and nine months ended September 27, 2015. Management will continue to monitor developments related to this case and the potential impact of those developments on our current and future financial statements.

Segment Information

A description of our products and services, as well as segment financial data, for each segment and a reconciliation of segment contribution income to income before income taxes can be found in Note 10, Segment Information and Operations by Geographic Area, in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

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Retail

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(in thousands, except percentage data)					
Net revenue	$164,081	24.9 %	$ 131,341	$416,847	15.7 %	$ 360,236
Percentage of net revenue	48.0 %		37.1 %	44.3 %		34.6 %
Contribution income	$21,149	(3.0)%	$ 21,813	$53,715	4.9 %	$ 51,222
Contribution margin	12.9 %		16.6 %	12.9 %		14.2 %

Net revenue increased for the three and nine months ended September 27, 2015 compared to the prior year periods due primarily to an increase in gross shipments of broadband gateways, home wireless and home security automation products, partially offset by a reduction in gross shipments of multimedia products. Geographically, we experienced growth in the Americas, while net revenue in EMEA declined due primarily to challenges resulting from the macro-economic environment, increased competition and pricing pressures we continue to experience in the region, as well as weakening foreign currencies compared to the U.S. dollar. Net revenue in APAC also declined in the three and nine month compared to the prior year period. We continue to see strong end-user demand for our retail products, including the Nighthawk series and recently introduced Arlo Smart Home cameras. Through the nine months ended September 27, 2015, we have continued to expand our distribution of Arlo with U.S. retail customers and in select international markets, driving sequential gross shipment growth in each of the first three quarters of 2015. In contrast, no net revenue was generated by this product in 2014.

Contribution income decreased for the three months ended September 27, 2015 compared to the prior year period due primarily to weakening foreign currencies compared to the U.S. dollar and an increase in operating expenses occurring at a higher rate than the increase in net revenue. Contribution income was also impacted by an increase in freight costs of $2.8 million, driven by an increase in gross shipments.

Contribution income increased for the nine months ended September 27, 2015 compared to the prior year period due primarily to a decrease in excess and obsolete inventory charges and per unit warranty expense relative to the increase in net revenue.

Commercial

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(in thousands, except percentage data)					
Net revenue	$65,187	(9.4)%	$ 71,974	$200,935	(11.2)%	$ 226,284
Percentage of net revenue	19.1 %		20.4 %	21.4 %		21.8 %
Contribution income	$13,700	(9.3)%	$ 15,112	$42,507	(17.9)%	$ 51,781
Contribution margin	21.0 %		21.0 %	21.2 %		22.9 %

Net revenue decreased for the three months ended September 27, 2015 compared to the prior year period due primarily to a reduction in gross shipments of network storage, wireless products and switches. Geographically, we experienced a reduction in net revenue in EMEA, offset by growth in Americas and, to a lesser extent, APAC.

Net revenue decreased for the nine months ended September 27, 2015 compared to the prior year period due primarily to a reduction in gross shipments of network storage, wireless products and switches. Geographically, we experienced a reduction in EMEA and APAC net revenue, partially offset by growth in the Americas.

For the three and nine months ended September 27, 2015, net revenue continued to be impacted by the difficult small business market climate in Europe, caused by weakening foreign currencies compared to the U.S. dollar driving increased pricing pressures, and economic uncertainty surrounding the Greek economic crisis.

Contribution income decreased for the three and nine months ended September 27, 2015 compared to the prior year periods due primarily to a reduction in net revenue.

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Service Provider

	Three Months Ended			Nine Months Ended		
	September 27, 2015	% Change	September 28, 2014	September 27, 2015	% Change	September 28, 2014
	(in thousands, except percentage data)					
Net revenue	$112,625	(24.9)%	$ 150,023	$322,050	(29.0)%	$ 453,813
Percentage of net revenue	32.9%		42.5%	34.3%		43.6%
Contribution income	$14,819	4.6%	$ 14,164	$27,472	(36.0)%	$ 42,918
Contribution margin	13.2%		9.4%	8.5%		9.5%

Net revenue decreased for the three and nine months ended September 27, 2015 compared to the prior year periods due primarily to a reduction in gross shipments of broadband gateways, mobile, home wireless products and switches. Geographically, we experienced a reduction in the Americas, EMEA and, to a lesser extent, APAC. As we previously reported and have expected, service provider net revenue continues to be negatively impacted by weakness in capital expense spending by certain service providers in both North America and in Europe as the industry continues through a period of consolidation. Net revenue was also impacted by the negative effects of a high degree of variability in carrier customer ordering patterns, a characteristic inherent to the service provider business unit. Further, during the second quarter of 2015, we recorded a charge of $3.3 million relating to an anticipated credit to a customer to resolve a disputed product quality issue, further reducing net revenue for the nine months ended September 27, 2015.
Contribution income increased for the three months ended September 27, 2015 compared to the prior year period due primarily to a reduction in cost of revenue occurring at a higher rate than net revenue. Contribution income also benefited from a decrease in operating expenses, primarily research and development, resulting from actions initiated in the first quarter of 2015 to reduce the cost structure of the service provider business unit.
Contribution income decreased for the nine months ended September 27, 2015 compared to the prior year period due primarily to a reduction in net revenue occurring at a higher rate than the reduction in cost of revenue, combined with weakening foreign currencies compared to the U.S. dollar. This effect was further amplified by the $3.3 million reduction of net revenue recorded during the second quarter of 2015 related to an anticipated credit to a customer to resolve a disputed product quality issue.

As previously announced, during the first quarter of 2015 we began to execute on our plans to reduce the cost structure of the service provider business unit and supporting functions to better align with the reduced revenue outlook, and to concentrate resources on LTE and long term and profitable accounts. These efforts continued in the third quarter of 2015.

Liquidity and Capital Resources

Our cash and cash equivalents balance increased from $141.2 million as of December 31, 2014 to $202.4 million as of September 27, 2015. Our short-term investments, which represent the investment of funds available for current operations, decreased from $115.9 million as of December 31, 2014 to $61.4 million as of September 27, 2015, due primarily to the maturity of treasuries being used to fund the repurchase of common stock during the period.
Operating activities during the nine months ended September 27, 2015 provided cash of $115.7 million, compared to $67.6 million provided in the nine months ended September 28, 2014, resulting primarily from changes in working capital. Investing activities during the nine months ended September 27, 2015 provided cash of $43.7 million, resulting primarily from net proceeds from the sale and maturities of short term investments, partially offset by purchases of property and equipment. During the nine months ended September 27, 2015, financing activities used cash of $98.2 million, primarily due to the repurchase of common stock, partially offset by proceeds from the issuance of common stock upon exercise of stock options and our employee stock purchase program.
Our days sales outstanding ("DSO") was 73 days as of September 27, 2015, consistent with the DSO as of December 31, 2014.

Our accounts payable decreased from $106.4 million at December 31, 2014 to $98.2 million at September 27, 2015. The decrease was primarily attributable to timing of payments.

Inventory decreased by $52.9 million from $222.9 million at December 31, 2014 to $170.0 million at September 27, 2015. In the three months ended September 27, 2015, we experienced annualized ending inventory turns of approximately 5.8, up from 4.5 turns in the three months ended December 31, 2014.

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We enter into foreign currency forward-exchange contracts, which typically mature in three to five months, to hedge a portion of our exposure to foreign currency fluctuations of foreign currency-denominated revenue, costs of revenue, certain operating expenses, receivables, payables, and cash balances. We record, in the unaudited condensed 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 and in our unaudited condensed consolidated balance sheet. Gains and losses associated with currency rate changes on hedge contracts that are non-designated under the authoritative guidance for derivatives and hedging are recorded within other income (expense), net, offsetting foreign exchange gains and losses on our monetary assets and liabilities. Gains and losses associated with currency rate changes on hedge contracts that are cash flow hedges under the authoritative guidance for derivatives and hedging are recorded within accumulated other comprehensive income until the related revenue, costs of revenue, or expenses are recognized.

From time to time, the Company’s Board of Directors has authorized programs under which the Company may repurchase shares of its common stock, depending on market conditions, in the open market or through privately negotiated transactions. Under these authorizations, the timing and actual number of shares subject to repurchase are at the discretion of management and are contingent on a number of factors, such as levels of cash generation from operations, cash requirements for acquisitions and the price of our common stock. During the nine months ended September 27, 2015, we repurchased and retired, reported based on trade date, approximately 3.4 million shares of common stock at a cost of $105.2 million. During the nine months ended September 28, 2014, we repurchased and retired, reported based on trade date, 2.1 million shares of common stock at a cost of $68.6 million. We plan to continue to repurchase shares opportunistically.

We repurchased, as reported based on trade date, approximately 77,000 shares of common stock at a cost of $2.4 million under a repurchase program to help administratively facilitate the withholding and subsequent remittance of personal income and payroll taxes for individuals receiving restricted stock units ("RSUs") during the nine months ended September 27, 2015. Similarly, during the nine months ended September 28, 2014, we repurchased approximately 50,000 shares of our common stock at a cost of $1.6 million under the same program to help facilitate tax withholding for RSUs. These shares were retired upon repurchase.

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 would 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.

Contractual Obligations

There have been no material changes during the nine months ended September 27, 2015 to the contractual obligations disclosed in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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 September 27, 2015, we had approximately $158 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. From time to time our suppliers procure unique complex components on our behalf. If these components do not meet specified technical criteria or are defective, we should not be obligated to purchase the materials. However, disputes may arise as a result and significant resources may be spent resolving such disputes.

As of September 27, 2015, we had $14.4 million of total gross unrecognized tax benefits and related interest. The timing of any payments that could result from these unrecognized tax benefits will depend upon a number of factors. The possible reduction in liabilities for uncertain tax positions in multiple jurisdictions that may impact the statement of operations in the next 12 months is approximately $0.7 million, excluding the interest, penalties and the effect of any related deferred tax assets or liabilities.

Off-Balance Sheet Arrangements

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As of September 27, 2015, we did not have any off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies and Estimates

For a complete description of what we believe to be the critical accounting policies and estimates used in the preparation of our unaudited condensed consolidated financial statements, refer to our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no changes to our critical accounting policies and estimates during the nine months ended September 27, 2015.

Recent Accounting Pronouncements

See Note 2, Summary of Significant Accounting Policies, in Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Report on Form 10-Q, for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial condition and results of operations, which are hereby incorporated by reference.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the nine months ended September 27, 2015, there were no material changes to our market risk disclosures as set forth in Part II Item 7A "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management (including our Chief Executive Officer and Chief Financial Officer), our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting. It should be noted that any system of controls, however well designed and operated, can provide only reasonable assurance, and not absolute assurance, that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals in all future circumstances.

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PART II: OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under Note 7, Commitments and Contingencies, in Item 1 of Part I of this Quarterly Report on Form 10-Q, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, see the section entitled “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

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. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described in this section. This section should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q

We have marked with an asterisk (*) those risks described below that reflect substantive changes from the risks described under Part I, Item 1A "Risk Factors" included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 20, 2015.

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 results 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;
- unanticipated shift or decline in profit by geographical region that would adversely impact our tax rate;
- 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;
- foreign currency exchange rate fluctuations in the jurisdictions where we transact sales and expenditures in local currency;
- operational disruptions, such as transportation delays or failure of our order processing system, particularly if they occur at the end of a fiscal quarter;
- geopolitical disruption leading to delay or even stoppage of our operations in manufacturing, transportation, technical support and research and development;
- delay or failure of our service provider customers to purchase at the volumes that they forecast;

- 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;

- allowance for bad debts exposure with our existing customers and new customers, particularly as we expand into new international markets;

- disruptions or delays related to our financial and enterprise resource planning systems;

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- our inability to accurately forecast product demand, particularly from our service provider sales channel, resulting in increased inventory exposure;
- component supply constraints from our vendors;
- unfavorable level of inventory and turns;
- shift in overall product mix sales from higher to lower margin products, or from one business unit to another, that would adversely impact our margins;
- terms of our contracts with customers or suppliers that cause us to incur additional expenses or assume additional liabilities;
- the inability to maintain stable operations by our suppliers and other parties with which we have commercial relationships;
- 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;
- litigation involving alleged patent infringement;
- epidemic or widespread product failure, or unanticipated safety issues, in one or more of our products;
- challenges associated with integrating acquisitions that we make, or with realizing value from our strategic investments in other companies;
- failure to effectively manage our third party customer support partners which may result in customer complaints and/or harm to the NETGEAR brand;
- our inability to monitor and ensure compliance with our anti-corruption compliance program and domestic and international anti-corruption laws and regulations, whether in relation to our employees or with our suppliers or customers;
- labor unrest at facilities managed by our third-party manufacturers;
- seasonal shifts in end market demand for our products, particularly in our retail business;
- unanticipated increase in costs, including air freight, associated with shipping and delivery of our products;
- our failure to implement and maintain the appropriate internal controls over financial reporting which may result in restatements of our financial statements; 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.

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

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;

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- 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, including government efforts to stabilize currencies;

- interest rate or currency exchange rate fluctuations;

- our ability to report accurate financial results in our periodic reports filed with the SEC;

- 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.

*If we fail to continue to introduce or acquire 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 or acquire, and introduce new products that achieve broad market acceptance. Our future success will depend in large part upon our ability to identify demand trends in the commercial business, retail, and service provider markets and quickly develop or acquire, and manufacture and sell products that satisfy these demands in a cost effective manner. In order to differentiate our products from our competitors' products, we must continue to increase our focus and capital investment in research and development, including software development. For example, we recently introduced our new Arlo Smart Home camera products and have committed a substantial amount of resources to their development, manufacture and sale. If these products do not achieve widespread market acceptance, or if we are unsuccessful in capitalizing on other Smart Home market opportunities, our future growth may be slowed and our financial results could be harmed. 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.

In addition, we have acquired companies and technologies in the past and as a result, have introduced new product lines in new markets. We may not be able to successfully manage integration of the new product lines with our existing products. Selling new product lines in new markets will require our management to learn different strategies in order to be successful. We may be unsuccessful in launching a newly acquired product line in new markets which requires management of new suppliers, potential new customers and new business models. Our management may not have the experience of selling in these new markets and we may not be able to grow our business as planned. For example, in April 2013, we completed the acquisition of the AirCard product line from Sierra Wireless. Similarly, we acquired certain technology and intellectual property in connection with our acquisition of AVAAK, Inc. in July 2012 that has been key to the development of our Arlo Smart Home camera products. If we are unable to effectively and successfully further develop these new product lines, we may not be able to increase or maintain our sales and our gross margins may be adversely affected.

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. Online Internet reviews of our products are increasingly becoming a significant factor in the success of our new product launches, especially in the retail business unit. If we are unable to quickly respond to negative reviews, including end user reviews posted on various prominent online

retailers, our ability to sell these products will be harmed. Any future delays in product development and introduction, or product introductions that do not meet broad market acceptance, or unsuccessful launches of new product lines 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.

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Throughout the past few years, we have significantly increased the rate of our new product introductions. If we cannot sustain that pace of product introductions, either through rapid innovation or acquisition of new products or product lines, we may not be able to maintain or increase the market share of our products. In addition, if we are unable to successfully introduce or acquire new products with higher gross margins, our net revenue and overall gross margin would likely decline.

*If we fail to overcome the challenges associated with managing 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. Our service provider business unit accounted for a significant portion of our growth over the last several fiscal quarters and has become a larger proportion of our business, especially after our acquisition of the Sierra Wireless AirCard business. The service provider business is challenging and exceptionally competitive. In the first quarter of 2015, we undertook a reorganization of our service provider business unit to reduce the cost structure of the unit and supporting functions in order to match a reduced revenue outlook. The reorganization also sought to concentrate our resources on long-term and profitable accounts. This reorganization may not be successful in meeting these goals or the other challenges posed by the service provider channel. Difficulties and challenges in selling to service providers 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 irregular and unpredictable ordering habits. For example, rigorous service provider certification processes may delay our sale of new products, or our products ultimately may fail these tests. In either event, we may lose some or all of the amounts we expended in trying to obtain business from the service provider, as well as lose the business opportunity altogether. In addition, even if we have a product which a service provider customer may wish to purchase, we may choose not to supply products to the potential service provider customer if the contract requirements, such as service level requirements, penalties, and liability provisions, are too onerous. Accordingly, our business may be harmed and our revenues may be reduced. We have, in exceptional limited circumstances, while still in contract negotiations, shipped products in advance of and subject to agreement on a definitive contract. We do not record revenue from these shipments until a definitive contract exists. There is risk that we do not ultimately close and sign a definitive contract. If this occurs, the timing of revenue recognition is uncertain and our business would be harmed. In addition, we often commence building custom-made products prior to execution of a contract in order to meet the customer's contemplated launch dates and requirements. Service provider products are generally custom-made for a specific customer and may not be salable to other customers or in other channels. If we have pre-built custom-made products but do not come to agreement on a definitive contract, we may be forced to scrap the custom-made products or re-work them at substantial cost and our business would be harmed.

Further, successful engagements with service provider customers requires a constant analysis of technology trends. If we are unable to anticipate technology trends and service provider customer product needs, and to allocate research and development resources to the right projects, we may not be successful in continuing to sell products to service provider customers. In addition, because our service provider customers command significant resources, including for software support, and demand extremely competitive pricing, certain ODMs have declined to develop service provider products on an ODM basis. Accordingly, as our ODMs increasingly limit development of our service provider products, our service provider business will be harmed if we cannot replace this capability with alternative ODMs or in-house development.

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 particular, managing inventory and production of our products for our service provider customers is a challenge. Many of our service provider customers

have irregular purchasing requirements. These customers may decide to cancel orders for customized products specific to that customer, and we may not be able to reconfigure and sell those products in other channels. These cancellations could lead to substantial write-offs. In addition, these customers may issue unforecasted orders for products which we may not be able to produce in a timely manner and as such, we may not be able to accept and deliver on such unforecasted orders. 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. Further, as the technology underlying our products deployed by broadband service providers matures and more competitors offer alternative products with similar technology, we anticipate competing in an extremely price sensitive market and our margins may be affected. If we are unable to introduce new products with sufficiently advanced technology to attract service provider interest in a timely manner, our service provider customers may then require us to lower our prices, or they may choose to purchase products from our competitors. If this occurs, our business would be harmed and our revenues would be reduced.

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 expectations for a particular period of

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time and therefore adversely affect our stock price. For example, many of our competitors in the service provider space aggressively price their products in order to gain market share. We may not be able to match the lower prices offered by our competitors. Many of the service provider customers will seek to purchase from the lowest cost provider, notwithstanding that our products may be higher quality or that our products were previously validated for use on their proprietary network. Accordingly, we may lose customers who have lower, more aggressive pricing and our revenues may be reduced. These particular challenges are a significant reason for the reduced service provider business unit revenue outlook that we announced in the first quarter of 2015. 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 slowdowns in capital expenditures by certain of our service provider customers in the past, and believe there may be potential for similar slowdowns in the future. Any slowdown in the general economy, over supply, 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 manage our service provider sales channel and our financial results will be harmed.

*We rely on a limited number of traditional and online retailers, wholesale distributors and service provider customers for a substantial portion of our sales, and our net revenue could decline if they refuse to pay our requested prices or reduce their level of purchases or if there is significant consolidation in our customer base which results in fewer customers for our products.

We sell a substantial portion of our products through traditional and online retailers, including Best Buy Co., Inc., Amazon.com, Inc. and their affiliates, wholesale distributors, including Ingram Micro, Inc. and Tech Data Corporation, and service providers, including Virgin Media Limited and AT&T. We expect that a significant portion of our net revenue will continue to come from sales to a small number of customers for the foreseeable future. In addition, because our accounts receivable are often 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 are also exposed to increased credit risk if any one of these limited numbers of customers fails or becomes insolvent. We generally have no minimum purchase commitments or long-term contracts with any of these customers. These purchasers could decide at any time to discontinue, decrease or delay their purchases of our products. If our customers 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. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us, including demands on product pricing and on contractual terms, which often results in the allocation of risk to us as the supplier. Accordingly, the prices that they pay for our products are subject to negotiation and could change at any time. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If any of our major customers 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. Our traditional retail customers have faced increased and significant competition from online retailers, and some of these traditional retail customers have increasingly become a smaller portion of our business. If key retail customers continue to reduce their level of purchases, our business could be harmed.

Additionally, consolidation among our customer base may allow certain customers to command increased leverage in negotiating prices and other terms of sale, which could adversely affect our profitability. In addition, if, as a result of increased leverage, customer pressures require us to reduce our pricing such that our gross margins are diminished, we could decide not to sell our products to a particular customer, which could result in a decrease in our revenue. Consolidation among our customer base may also lead to reduced demand for our products, elimination of sales opportunities, replacement of our products with those of our competitors and cancellations of orders, each of which would harm our operating results. For example, in February 2015, one of our large retail customers, Staples, announced a proposed acquisition of another large retail customer, Office Depot. If this transaction is completed, it

may provide the combined company with increased negotiating power, and it is uncertain how it may impact the aggregate quantities of our products purchased in the future. Consolidation among our service provider customers worldwide may also make it more difficult to grow our service provider business, given the fierce competition for the already limited number of service providers worldwide and the long sales cycles to close deals. For example, in June 2013, Liberty Global, a service provider with operations worldwide, completed its acquisition of Virgin Media Limited, one of our significant customers. Because we have not conducted business with Liberty Global in the past, Virgin Media may be directed by Liberty Global to develop relationships and business with other Liberty Global vendors, many of which are our competitors. Similarly, in July 2013 SoftBank Corp. acquired majority ownership of Sprint Nextel Corp., the parent company of one of our significant customers for AirCard products. In addition, in the first half of 2015, Charter Communications announced agreements to acquire Time Warner Cable and Bright House Networks. If consolidation among our customer base becomes more prevalent, our operating results may be harmed.

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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.

Further, our revenue may be impacted by significant one-time purchases which are not contemplated to be repeatable. While such purchases are reflected in our financial statements, we do not rely on and do not forecast for continued significant one-time purchases. As a result, lack of repeatable one-time purchases will adversely affect our revenue.

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 have a negative impact to our operating results. 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.

*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 fiercely competitive market, and we expect competition to continue to be intense, including price competition. Our principal competitors in the commercial business market include Allied Telesys, Barracuda, Buffalo, Data Robotics, Dell, D-Link, Fortinet, Hewlett-Packard, Huawei, Cisco Systems, the Linksys line of products under Belkin, QNAP Systems, Seagate Technology, SonicWALL, Synology, TRENDnet, WatchGuard and Western Digital. Our principal competitors in the home market for networking devices and television connectivity products include Amped Wireless, Apple, AsusTEK, Belkin, D-Link, Google, the Linksys line of products under Belkin, Roku, TP-Link and Western Digital. Our principal competitors in the broadband service provider market include Actiontec, ARRIS, Compal Broadband, Comtrend, D-Link, Hitron, Huawei, Motorola, NetComm Wireless, Novatel Wireless, Pace, Sagem, Scientific Atlanta-a Cisco company, SMC Networks, TechniColor, Ubee, ZTE and ZyXEL. Other competitors include numerous local vendors such as Devolo, LEA, AVM and the Hercules brand of Guillemot Corporation in Europe, Corega and Melco in Japan and TP-Link in China. In addition, these local vendors may target markets outside of their local regions and may increasingly compete with us in other regions worldwide. Our potential competitors also include other consumer electronics vendors, including LG Electronics, Microsoft, Panasonic, Samsung, Sony, Toshiba and Vizio, who could integrate networking and streaming capabilities into their line of products, such as televisions, set top boxes and gaming consoles, 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. In the service provider space, we are also facing

significant and increased competition from original design manufacturers, or ODMs, and contract manufacturers who are selling and attempting to sell their products directly to service providers around the world. In addition, as we expand our product portfolio to include home security cameras and services, we also face competition from incumbents and specialty providers in this space, including Axis Communications, Belkin, D-Link, the Linksys line of products under Belkin, Logitech, Nest Labs (owned by Google) and Sercomm.

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. In addition, certain competitors may have different business models, such as integrated manufacturing capabilities, that may allow them to achieve cost savings and to compete on the basis of price. Other competitors may have fewer resources, but may be more nimble in developing new or disruptive technology or in entering new markets. We anticipate that current and potential competitors will also intensify their efforts to penetrate our target

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markets. For example, price competition is intense in our industry in certain geographical regions and product categories. Many of our competitors in the service provider and retail spaces price their products significantly below our product costs in order to gain market share. Average sales prices have declined in the past and may again 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. In addition, many of these competitors leverage a broader product portfolio and offer lower pricing as part of a more comprehensive end-to-end solution which we may not have. These companies could devote more capital resources to develop, manufacture and market competing products than we could. Our competitors may also acquire other companies in the market and leverage combined resources to gain market share. For example, in March 2013, Belkin completed its acquisition of the Linksys division from Cisco. Belkin and Linksys are two of our significant competitors. The combined company may have synergies which increase opportunities for Belkin to gain market share, especially in North America. 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. For example, in the first quarter of 2013, while transitioning from our existing ReadyNAS product line to our new line of ReadyNAS products, we were not able to execute on the launch of the new product. This led to our inability to have sufficient quantities of the existing line of ReadyNAS products as we had ramped down supply anticipating the transition, which adversely affected our profitability for the quarter.

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.

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 and customers 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 as well as our global operations, and non-U.S. dollar denominated operating expenses and certain assets and liabilities. 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 hedge our exposure to fluctuations in foreign currency exchange rates as a response to the risk 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

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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, we hedge to reduce the impact of volatile exchange rates on net revenue, gross profit and operating profit for limited periods of time. However, the use of these hedging activities may only offset a portion of the adverse financial effect resulting from unfavorable movements in foreign exchange rates.

*Changes in tax rates, adverse changes in tax laws or exposure to additional income tax liabilities could affect our future profitability.

Factors that could materially affect our future effective tax rates include but are not limited to:

- changes in the regulatory environment;
- changes in accounting and tax standards or practices;
- changes in the composition of operating income by tax jurisdiction; and
- our operating results before taxes.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our effective tax rate has fluctuated in the past and may fluctuate in the future. Future effective tax rates could be affected by changes in the composition of earnings in countries with differing tax rates, changes in deferred tax assets and liabilities, or changes in tax laws. Numerous foreign jurisdictions have been influenced by studies performed by the OECD (Organization of Economic Cooperation and Development) and are increasingly active in evaluating changes to their tax laws. In July 2013 the OECD, which represents a coalition of member countries, issued an action plan containing 15 comprehensive actions intended to address tax base erosion and jurisdictional profit shifting (BEPS). Since that time, the OECD has issued a number of discussion drafts addressing each of the 15 actions outlined in their action plan. Their recommendations are aimed at combating what they believe is tax avoidance and to attempt to harmonize the application of transfer pricing rules amongst member states. A number of counties are opting to not wait for the finalization of the OECD action plan and have chosen to change their tax laws. Changes in tax laws could affect the distribution of our earnings, result in double taxation and adversely affect our results.

We have been under examination by the Italian Tax Authority (ITA) for the 2004 through 2012 tax years. The ITA examination included an audit of income, gross receipts and value-added taxes. Currently, we are in litigation with the ITA for the 2004 through 2010 years and we are waiting for the issuance of the tax assessment for the 2011 through 2012 years. If we are unsuccessful in defending our tax positions, our profitability will be reduced. Additionally, we are under examination in Germany for the 2009 through 2013 tax years for corporate income, trade and valued-added taxes.

We are also subject to examination by the Internal Revenue Service, or IRS, and other tax authorities, including state revenue agencies and other foreign governments. While we regularly assess the likelihood of favorable or unfavorable outcomes resulting from examinations by the IRS and other tax authorities to determine the adequacy of our provision for income taxes, there can be no assurance that the actual outcome resulting from these examinations will not materially adversely affect our financial condition and operating results. Additionally, the IRS and several foreign tax authorities have increasingly focused attention on intercompany transfer pricing with respect to sales of products and services and the use of intangibles. Tax authorities could disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. If we do not prevail in any such disagreements, our profitability may be affected.

We obtain several key components from limited or sole sources, and if these sources fail to satisfy our supply requirements or we are unable to properly manage our supply requirements with our third-party manufacturers, 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

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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. Other factors which may affect our suppliers' ability to supply components to us include internal management or reorganizational issues, such as roll-out of new equipment which may delay or disrupt supply of previously forecasted components. 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.

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. For example, in the first quarter of 2013, our third-party manufacturers were not able to manufacture sufficient quantities of our new line of ReadyNAS products in order to meet demand, adversely affecting our profitability for the quarter. 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.

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 or our cost of obtaining these components may increase. Component shortages and delays affect our ability to meet scheduled product deliveries, damage our brand and reputation in the market, and cause us to lose sales and market share. For example, component shortages and disruptions in supply in the past have limited our ability to supply all the worldwide demand for our products, and our revenue was affected. In addition, at times sole suppliers of highly specialized components have provided components that were either defective or did not meet the criteria required by our customers, resulting in delays, lost revenue opportunities and potentially substantial write-offs.

Another example relates to the record flooding in Thailand in the third quarter of 2011. Many major manufacturers of hard disk drives and their component suppliers maintain significant operations in Thailand in areas affected by the flooding. These include most, if not all, of our direct and indirect suppliers of hard disk drives for our ReadyNAS product line. All of our major direct and indirect suppliers of hard disk drives informed us that our supply chain would be constrained for an indefinite amount of time, in some cases up to six months. Some therefore declared a force majeure event and have stated that, in addition to and because of the supply constraints, pricing for hard disk drives would increase significantly until they were able to stabilize the situation. As a result, we experienced increased prices in the cost of hard disk drives and ceased accepting any additional orders containing ReadyNAS products with hard disk drives at then current prices and all shipments of ReadyNAS products with hard disk drives were placed on hold. In addition, all sales and marketing promotions involving ReadyNAS products were terminated temporarily. Further, we declared the existence of a force majeure event under our contracts with certain customers. Accordingly, our business was harmed. Certain events or natural disasters that occur in the future may harm our business as well.

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, finance 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. Our business model requires extremely skilled and experienced senior management who are able to withstand the rigorous requirements and expectations of our business. Our success depends on senior management being able to execute at a very high level. 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 our business. While we have adopted an emergency succession plan for the short term, we have not formally adopted a long term succession plan. As a result, if we suffer the loss of services of any key executive, our long term business results may be harmed. While we believe that we have mitigated some of the business execution and business continuity risk with our reorganization into three business units, the loss of any key personnel would still be disruptive and harm our business, especially given that our business is leanly staffed and relies on the expertise and high performance of our key personnel. In addition, because we do not

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have a formal long term succession plan, we may not be able to have the proper personnel in place to effectively execute our long term business strategy if Mr. Lo or other key personnel retire, resign or are otherwise terminated.

The average selling prices of our products typically decrease rapidly over the sales cycle of the product, which may negatively affect our net revenue and 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 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. Our sales channels consist of traditional retailers, online retailers, DMRs, VARs, and broadband service providers. Some of these entities purchase our products through our wholesale distributor customers. 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 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. Our traditional retail customers have faced increased and significant competition from online retailers. If we cannot effectively manage our business amongst our online customers and traditional retail customers, our business would be harmed. 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. In addition, our efforts to realign or consolidate our sales channels may cause temporary disruptions in our product sales and revenue, and these changes may not result in the expected longer-term benefits.

We also sell products to broadband service providers. Competition for selling to broadband service providers is fierce and 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 are 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.

*System security risks, data protection breaches and cyber-attacks could disrupt our internal operations, information technology systems, products or services, and any such disruption could reduce our expected revenue, increase our

expenses, damage our reputation and adversely affect our stock price.

Maintaining the security of our computer information systems and communication systems is a critical issue for us and our customers. Hackers may develop and deploy viruses, worms and other malicious software programs that are designed to attack our products and systems, including our internal network, or those of our vendors or customers. Additionally, outside parties may attempt to fraudulently induce our employees or users of our products to disclose sensitive information in order to gain access to our information technology systems, our data or our customers' data. We have established a crisis management plan and business continuity program. While we regularly test the plan and the program, there can be no assurance that the plan and program can withstand an actual or serious disruption in our business, including a data protection breach or cyber-attack. While we have established infrastructure and geographic redundancy for our critical systems, our ability to utilize these redundant systems requires further testing and we cannot be assured that such systems are fully functional. For example, much of our order fulfillment process is automated and the order information is stored on our servers. A significant business

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interruption could result in losses or damages and harm our business. If our computer systems and servers go down at the end of a fiscal quarter, our ability to recognize revenue may be delayed until we are able to utilize back-up systems and continue to process and ship our orders. This could cause our stock price to decline significantly.

We devote significant resources to network security, data encryption and other security measures to protect our systems and data, but these security measures cannot provide absolute security. Potential breaches of our security measures and the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, our employees or our customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Our products and services may contain unknown security vulnerabilities. For example, the firmware and software that we or our manufacturing partners have installed on our products may be susceptible to hacking or misuse. In addition, we offer a comprehensive online cloud monitoring service paired with our Arlo Smart Home cameras. If hackers compromise this cloud service, or if customer confidential information is accessed without authorization, our business will be harmed. Operating an online cloud service is a relatively new business for us and we may not have the expertise to properly manage risks related to data security and systems security. We rely on third-party providers for a number of critical aspects of our cloud services and customer support, including web hosting services, billing and payment processing, and consequently we do not maintain direct control over the security of the associated systems. If we or our third-party providers are unable to successfully prevent breaches of security relating to our products, services or customer private information, including customer videos and customer personal identification information, our management would need to spend increasing amounts of time and effort in this area, we would incur substantial expenses, and our business would be harmed.

We must comply with indirect tax laws in multiple foreign jurisdictions. Audits of our compliance with these rules may result in additional liabilities for tax, interest and penalties related to our international operations which would reduce our profitability.

Our international operations are routinely subject to audit by tax authorities in various countries. Many countries have indirect tax systems where the sale and purchase of goods and services are subject to tax based on the transaction value. These taxes are commonly referred to as value-added tax (VAT) or goods and services tax (GST). Failure to comply with these systems can result in the assessment of additional tax, interest and penalties. While we believe we are in compliance with local laws, there is no assurance that foreign tax authorities agree with our reporting positions and upon audit may assess us additional tax, interest and penalties. If this occurs and we cannot successfully defend our position, our profitability will be reduced.

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 37% of overall net revenue in the third quarter of 2015 and 46% in fiscal year 2014. We continue to be committed to growing our international sales and while we have committed resources to expanding our international operations and sales channels, these efforts may not be successful. International operations are subject to a number of other risks, including:

- exchange rate fluctuations;
-

political and economic instability, international terrorism and anti-American sentiment, particularly in emerging markets;

- potential for violations of anti-corruption laws and regulations, such as those related to bribery and fraud;
- preference for locally branded products, and laws and business practices favoring local competition;
- increased difficulty in managing inventory;
- delayed revenue recognition;
- less effective protection of intellectual property;

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- stringent consumer protection and product compliance regulations, including but not limited to the Restriction of Hazardous Substances directive, the Waste Electrical and Electronic Equipment directive and the recently enacted European Ecodesign directive, or EuP, that are costly to comply with and may vary from country to country;

- difficulties and costs of staffing and managing foreign operations;

- business difficulties, including potential bankruptcy or liquidation, of any of our worldwide third party logistics providers; and

- changes in local tax laws or changes in the enforcement, application or interpretation of such laws.

While we believe we generally have good relations with our employees, employees in certain jurisdictions have rights which give them certain collective rights. If management must expend significant resources and effort to address and comply with these rights, our business may be harmed. We are also required to comply with local environmental legislation and our customers rely on this compliance in order to sell our products. If our customers do not agree with our interpretations and requirements of new legislation, such as the EuP, they may cease to order our products and our revenue would be 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.

In addition, epidemic failure clauses are found in certain of our customer contracts, especially contracts with service providers. If invoked, these clauses may entitle the customer to return for replacement or obtain credits for products and inventory, as well as assess liquidated damage penalties and terminate an existing contract and cancel future or then current purchase orders. In such instances, we may also be obligated to cover significant costs incurred by the customer associated with the consequences of such epidemic failure, including freight and transportation required for product replacement and out-of-pocket costs for truck rolls to end user sites to collect the defective products. Costs or payments we make in connection with an epidemic failure may materially adversely affect our results of operations and financial condition. 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, defects in, or misuse of, certain of our products could cause safety concerns, including the risk of property damage or personal injury. If any of these events occurred, our reputation and brand could be damaged, and we could face product liability or other claims regarding our products, resulting in unexpected expenses and adversely impacting 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.

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 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. Weakness in, and uncertainty about, global economic conditions may 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.

In the recent past, slow economic growth throughout various regions worldwide, especially in Europe, presented significant challenges to our business. For example, we believe that decreased demand in Europe has adversely impacted our net revenue in all three of our business units since fiscal 2013. If conditions in the global economy, including Europe, Australia and the United States, or other key vertical or geographic markets do not fully recover, 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.

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In addition, the economic problems affecting the financial markets and the uncertainty in global economic conditions resulted in a number of adverse effects including a low level of liquidity in many financial markets, extreme volatility in credit, equity, currency and fixed income markets, instability in the stock market and high unemployment. For example, the challenges faced by the European Union to stabilize some of its member economies, such as Greece, Portugal, Spain, Hungary and even Italy, has had international implications affecting the stability of global financial markets and hindering economies worldwide. Many member nations in the European Union have been addressing the issues with controversial austerity measures. Should the European Union monetary policy measures be insufficient to restore confidence and stability to the financial markets, the recovery of the global economy, including the U.S. and European Union economies where we have a significant presence, could be hindered or reversed, which could have a material adverse effect on us. For example, the aggregate number of resellers of our products decreased during the third quarter of 2012; we believe this was caused by the difficult worldwide economic environment, and especially the difficulties experienced in Europe. There could also be a number of other 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.

*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 third-party manufacturers, including original design manufacturers, or ODMs, and original equipment manufacturers, as well as contract manufacturers. In most cases, we rely on these manufacturers to procure components and, in some cases, subcontract engineering work. Some of our products are manufactured by a single manufacturer. For example, we currently rely on a single manufacturer for our Arlo Smart Home cameras. 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 changing economic conditions, the viability of some of these third-party manufacturers may be at risk. Our ODMs are increasingly refusing to work with us on certain projects, such as projects for manufacturing products for our service provider customers. Because our service provider customers command significant resources, including for software support, and demand extremely competitive pricing, our ODMs are starting to refuse to engage on service provider terms. 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. Ensuring that a contract manufacturer is qualified to manufacture our products to our standards is time consuming. In addition, there is no assurance that a contract manufacturer can scale its production of our products at the volumes and in the quality that we require. If a contract manufacturer is unable to do these things, we may have to move production for the products to a new or existing third party manufacturer which would take significant effort and our business may be harmed. In addition, as we contemplate moving manufacturing into different jurisdictions, we will be subject to additional significant challenges in ensuring that quality, processes and costs, among other issues, are consistent with our expectations. For example, while we expect our manufacturers to be responsible for penalties assessed on us because of excessive failures of the products, there is no assurance that we will be able to collect such reimbursements from these manufacturers, which causes us to take on additional risk for potential failures of our products.

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 and reliability of finished products;

- inability to control delivery schedules;

- potential liability for expenses incurred by third-party manufacturers in reliance on our forecasts that later prove to be inaccurate;

- potential lack of adequate capacity to manufacture all or a part of the products we require; and

- potential labor unrest affecting the ability of the third-party manufacturers to produce our products.

All of our products must satisfy safety and regulatory standards and some of our products must also receive government certifications. Our third party manufacturers are primarily responsible for obtaining most regulatory approvals for our products. If our third party manufacturers fail to obtain timely domestic or foreign regulatory approvals or certificates, we would be unable

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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.

Specifically, substantially all of our manufacturing occurs in the Asia Pacific region and any disruptions from natural disasters, health epidemics and political, social and economic instability would affect the ability of our third party manufacturers to manufacture our products. In addition, our third party manufacturers in China have continued to increase our costs of production, particularly in the past couple of years. If these costs continue to increase, it may affect our margins and ability to lower prices for our products to stay competitive. Recent labor unrest in China may also affect our third party manufacturers as workers may strike and cause production delays. If our third party manufacturers fail to maintain good relations with their employees or contractors, and production and manufacturing of our products is affected, then we may be subject to shortages of products and quality of products delivered may be affected. Further, if our manufacturers or warehousing facilities are disrupted or destroyed, we would have no other readily available alternatives for manufacturing our products and our business would be significantly harmed.

As we continue to work with more third party manufacturers on a contract manufacturing basis, we are also exposed to additional risks not inherent in a typical ODM arrangement. Such risks may include our inability to properly source and qualify components for the products, lack of software expertise resulting in increased software defects, and lack of resources to properly monitor the manufacturing process. In our typical ODM arrangement, our ODMs are generally responsible for sourcing the components of the products and warranting that the products will work against a product's specification, including any software specifications. In a contract manufacturing arrangement, we would take on much more, if not all, of the responsibility around these areas. If we are unable to properly manage these risks, our products may be more susceptible to defects and our business would be harmed.

We have been and will be investing increased additional in-house resources on software research and development, which could disrupt our ongoing business and present distinct risks from our historically hardware-centric business.

We plan to continue to evolve our historically hardware-centric business model towards a model that includes more sophisticated software offerings. As such, we will further evolve the focus of our organization towards the delivery of more integrated hardware and software solutions for our customers. While we have invested in software development in the past, we will be expending additional resources in this area in the future. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, insufficient revenue to offset liabilities assumed and expenses associated with the strategy, inadequate return on capital, and unidentified issues not discovered in our due diligence. Software development is inherently risky for a company such as ours with a historically hardware-centric business model, and accordingly, our efforts in software development may not be successful. Any increased investment in software research and development may materially adversely affect our financial condition and operating results.

We may spend a proportionately greater amount on software research and development in the future. If we cannot proportionately decrease our cost structure in response to competitive price pressures, our gross margin and, therefore, our profitability could be adversely affected. In addition, if our software solutions, pricing and other factors are not sufficiently competitive, or if there is an adverse reaction to our product decisions, we may lose market share in certain areas, which could adversely affect our revenue and prospects.

Software research and development is complex. We must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. We must accurately forecast mixes of software solutions and configurations that meet customer requirements, and we may not succeed at doing so within a given product's life cycle or at all. Any delay in the development, production or marketing of a new software solution could result in us not being among the first to market, which could further harm our competitive position. In addition, our regular testing

and quality control efforts may not be effective in controlling or detecting all quality issues and defects. We may be unable to determine the cause, find an appropriate solution or offer a temporary fix to address defects. Finding solutions to quality issues or defects can be expensive and may result in additional warranty, replacement and other costs, adversely affecting our profits. If new or existing customers have difficulty with our software solutions or are dissatisfied with our services, our operating margins could be adversely affected, and we could face possible claims if we fail to meet our customers' expectations. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our brand and reputation, which could adversely affect our operating results.

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

Under generally accepted accounting principles, we review our 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 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 intangible assets recorded on our balance sheet. In addition, significant negative industry or economic trends, such as those that have occurred as a result of the recent economic downturn, including reduced estimates of future cash flows or disruptions to our business could indicate that goodwill or 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. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results and market conditions. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for each reporting unit. 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 intangible assets be determined resulting in an adverse impact on our results of operations. For example, in the fourth fiscal quarter of 2014, we completed our annual impairment test of goodwill and determined that the full carrying value of goodwill allocated to the service provider business unit of $74.2 million was impaired, and as a result a corresponding charge was reflected in the fourth quarter of 2014.

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, 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. For example, in June 2012 and June 2013 we acquired select assets of two separate engineering operations in India to enhance our wireless product offerings in our commercial business unit. Additionally in July 2012, we closed the acquisition of privately held AVAAK, Inc., creators of the VueZone® home security automation system, and in April 2013, we closed the acquisition of the AirCard business of Sierra Wireless, Inc. The AirCard acquisition represents our largest acquisition, both in terms of consideration and headcount. 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;
- higher than anticipated acquisition and integration costs and expenses;
- reliance on third parties to provide transition services for a period of time after closing to ensure an orderly transition of the business;
- growing or maintaining revenues to justify the purchase price and the increased expenses associated with acquisitions;
- entering into territories or markets with which we have limited or no prior experience;
- 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;

- disruption of, and demands on, our ongoing business as a result of integration activities including diversion of management's time and attention from running the day to day operations of our business;

- inability to implement uniform standards, disclosure controls and procedures, internal controls over financial reporting and other procedures and policies in a timely manner;

- inability to realize the anticipated benefits of or successfully integrate with our existing business the businesses, products, technologies or personnel that we acquire; and

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- potential post-closing disputes.

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. Following the closing of an acquisition, we may also have disputes with the seller regarding contractual requirements and covenants. Any such disputes may be time consuming and distract management from other aspects of our business. In addition, if we continue to increase the pace or size of acquisitions, as we have done since mid-2012, we will have to expend significant management time and effort into the transactions and the integrations and we may not have the proper human resources bandwidth to ensure successful integrations and accordingly, our business could be harmed.

As part of the terms of acquisition, we may commit to pay additional contingent consideration if certain revenue or other performance milestones are met. We are required to evaluate the fair value of such commitments at each reporting date and adjust the amount recorded if there are changes to the fair value.

We cannot ensure 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 are subject to, and must remain in compliance with, numerous laws and governmental regulations concerning the manufacturing, use, distribution and sale of our products, as well as any such future laws and regulations. Some of our customers also require that we comply with their own unique requirements relating to these matters. Any failure to comply with such laws, regulations and requirements, and any associated unanticipated costs, may adversely affect our business, financial condition and results of operations.

We manufacture and sell products which contain electronic components, and such components may contain materials that are subject to government regulation in both the locations that we manufacture and assemble our products, as well as the locations where we sell our products. For example, certain regulations limit the use of lead in electronic components. To our knowledge, we maintain compliance with all applicable current government regulations concerning the materials utilized in our products, for all the locations in which we operate. Since we operate on a global basis, this is a complex process which requires continual monitoring of regulations and an ongoing compliance process to ensure that we and our suppliers are in compliance with all existing regulations. There are areas where new regulations have been enacted which could increase our cost of the components that we utilize or require us to expend additional resources to ensure compliance. For example, the SEC passed final rules in August 2012 regarding investigation and disclosure of the use of certain “conflict minerals” in our products. These rules apply to our business, and we are expending significant resources to ensure compliance. The implementation of these requirements by government regulators and our partners and/or customers could adversely affect the sourcing, availability, and pricing of minerals used in the manufacture of certain components used in our products. In addition, the supply-chain due diligence investigation required by the conflict minerals rules will require expenditures of resources and management attention regardless of the results of the investigation. If there is an unanticipated new regulation which significantly impacts our use of various components or requires more expensive components, that regulation would have a material adverse impact on our business, financial condition and results of operations.

One area which has a large number of regulations is the environmental compliance. Management of environmental pollution and climate change has produced significant legislative and regulatory efforts on a global basis, and we

believe this will continue both in scope and the number of countries participating. These changes could directly increase the cost of energy which may have an impact on the way we manufacture products or utilize energy to produce our products. In addition, any new regulations or laws in the environmental area might increase the cost of raw materials we use in our products. Environmental regulations require us to reduce product energy usage, monitor and exclude an expanding list of restricted substances and to participate in required recover and recycling of our products. While future changes in regulations are certain, we are currently unable to predict how any such changes will impact us and if such impacts will be material to our business. If there is a new law or regulation that significantly increases our costs of manufacturing or causes us to significantly alter the way that we manufacture our products, this would have a material adverse effect on our business, financial condition and results of operations.

Our selling and distribution practices are also regulated in large part by U.S. federal and state as well as foreign antitrust and competition laws and regulations. In general, the objective of these laws is to promote and maintain free competition by prohibiting certain forms of conduct that tend to restrict production, raise prices, or otherwise control the market for goods or services to the

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detriment of consumers of those goods and services. Potentially prohibited activities under these laws may include unilateral conduct, or conduct undertaken as the result of an agreement with one or more of our suppliers, competitors, or customers. The potential for liability under these laws can be difficult to predict as it often depends on a finding that the challenged conduct resulted in harm to competition, such as higher prices, restricted supply, or a reduction in the quality or variety of products available to consumers. We utilize a number of different distribution channels to deliver our products to the end consumer, and regularly enter agreements with resellers of our products at various levels in the distribution chain that could be subject to scrutiny under these laws in the event of private litigation or an investigation by a governmental competition authority. In addition, many of our products are sold to consumers via the Internet. Many of the competition-related laws that govern these Internet sales were adopted prior to the advent of the Internet, and, as a result, do not contemplate or address the unique issues raised by online sales. New interpretations of existing laws and regulations, whether by courts or by the state, federal or foreign governmental authorities charged with the enforcement of those laws and regulations, may also impact our business in ways we are currently unable to predict. Any failure on our part or on the part of our employees, agents, distributors or other business partners to comply with the laws and regulations governing competition can result in negative publicity and diversion of management time and effort and may subject us to significant litigation liabilities and other penalties.

In addition to government regulations, many of our customers require us to comply with their own requirements regarding manufacturing, health and safety matters, corporate social responsibility, employee treatment, anti-corruption, use of materials and environmental concerns. Some customers may require us to periodically report on compliance with their unique requirements, and some customers reserve the right to audit our business for compliance. We are increasingly subject to requests for compliance with these customer requirements. For example, there has been significant focus from our customers as well as the press regarding corporate social responsibility policies. We regularly audit our manufacturers; however, any deficiencies in compliance by our manufacturers may harm our business and our brand. In addition, we may not have the resources to maintain compliance with these customer requirements and failure to comply may result in decreased sales to these customers, which may have a material adverse effect on our business, financial condition and results of operations.

We are currently involved in numerous 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 our 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 also include third-party non-practicing entities 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. We may also choose to join defensive patent aggregation services in order to prevent or settle litigation against such non-practicing entities and avoid the associated significant costs and uncertainties of litigation. These patent aggregation services may obtain, or have previously obtained, licenses for the alleged patent infringement claims against us and other patent assets that could be used offensively against us. The costs of such defensive patent aggregation services, while potentially lower than the costs of litigation, may be significant as well. At any time, any of these non-practicing entities, 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 or even end user 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 7, Commitments and Contingencies, in notes to unaudited condensed consolidated financial statements in Item 1 of Part I of this Quarterly Report on Form 10-Q. If we do not resolve these claims on a favorable basis, our business, operating results and financial condition could be significantly harmed.

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

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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. From time to time, we conduct internal investigations as a result of whistleblower complaints. In some instances, the whistleblower complaint may implicate potential areas of weakness in our internal controls. Although all known material weaknesses have been remediated, we cannot be certain that the measures we have taken ensure that restatements will not occur in the future. Execution of restatements create a significant strain on our internal resources and could cause delays in our filing of quarterly or annual financial results, increase our costs and cause management distraction. Restatements may also significantly affect our stock price in an adverse manner.

Continued performance of the system and process documentation and evaluation needed to comply with Section 404 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. If we are unable to assert that 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.

The marketability of our AirCard products may suffer if wireless telecommunications operators do not deliver acceptable wireless services.

The success of the AirCard product line depends, in part, on the capacity, affordability, reliability and prevalence of wireless data networks provided by wireless telecommunications operators and on which our AirCard products operate. Currently, various wireless telecommunications operators, either individually or jointly with us, sell our products in connection with the sale of their wireless data services to their customers. Growth in demand for wireless data access may be limited if, for example, wireless telecommunications operators cease or materially curtail operations, fail to offer services that customers consider valuable at acceptable prices, fail to maintain sufficient capacity to meet demand for wireless data access, delay the expansion of their wireless networks and services, fail to offer and maintain reliable wireless network services or fail to market their services effectively.

In addition, the future growth of our AirCard product line depends on the successful deployment of next generation wireless data networks provided by third parties, including those networks for which we are currently developing products. If these next generation networks are not deployed or widely accepted, or if deployment is delayed, there will be no market for the AirCard products we are developing to operate on these networks. If any of these events occurs, or if for any other reason the demand for wireless data access fails to grow, sales of our products will decline or remain stagnant and our business could be harmed.

*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 likely 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. For

example, in June 2013, a ship carrying containers of our products among its cargo sank, and the shipment was lost. Although covered by insurance, this loss led to delays in delivery and our receipt of payment. Labor disputes among freight carriers and at ports of entry are common, particularly in Europe, and we expect labor unrest and its effects on shipping our products to be a continuing challenge for us. A port worker strike, work slow-down or other transportation disruption in Long Beach, California, where we have a significant distribution center, could significantly disrupt our business. For example, a series of work stoppages and slow-downs arising from labor disputes at the Long Beach port and other West Coast ports, particularly in the first quarter of 2015, negatively impacted our ability to timely deliver certain product shipments to the United States and resulted in additional transportation expense. Our international freight is regularly subjected to inspection by governmental entities. 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 extensive air freight to meet unexpected spikes in demand, shifts in demand

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between product categories, to bring new product introductions to market quickly and to timely ship products previously ordered. 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 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.

In the past, there have been bankruptcies amongst our customer base, and certain of our customers' businesses face financial challenges that put them at risk of future bankruptcies. For example, our customer RadioShack Corp. recently filed for Chapter 11 bankruptcy protection. 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 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.

*We have expanded our operations and infrastructure, which may strain our operations and increase our operating expenses.

We have expanded our operations and are pursuing market opportunities both domestically and internationally in order to grow our sales. As a result of the acquisition of the AirCard business of Sierra Wireless in 2013, we added two new locations with over 80 personnel housed at each site, one in Carlsbad, California, and one in Richmond, British Columbia. This expansion required 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 and reorganization, our business could be harmed.

For example, we have invested, and will continue to invest, significant capital and human resources in the design and enhancement of our financial and enterprise resource planning systems, 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 enhancement of systems may be much more costly than we anticipated. If we are unable to continue to enhance our information technology systems as planned, our financial position, results of operations and cash flows could be negatively impacted.

We invest in companies for both strategic and financial reasons, but may not realize a return on our investments.

We have made, and continue to seek to make, investments in companies around the world to further our strategic objectives and support our key business initiatives. These investments may include equity or debt instruments of public or private companies, and may be non-marketable at the time of our initial investment. We do not restrict the types of companies in which we seek to invest. These companies may range from early-stage companies that are often still defining their strategic direction to more mature companies with established revenue streams and business models. If any company in which we invest fails, we could lose all or part of our investment in that company. If we determine that an other-than-temporary decline in the fair value exists for an equity or debt investment in a public or private company in which we have invested, we will have to write down the investment to its fair value and recognize the related write-down as an investment loss. The performance of any of these investments could result in significant impairment charges and gains (losses) on other equity investments. We must also analyze accounting and legal issues when making these investments. If we do not structure these investments properly, we may be subject to certain adverse accounting issues, such as potential consolidation of financial results.

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Furthermore, if the strategic objectives of an investment have been achieved, or if the investment or business diverges from our strategic objectives, we may seek to dispose of the investment. Our non-marketable equity investments in private companies are not liquid, and we may not be able to dispose of these investments on favorable terms or at all. The occurrence of any of these events could harm our results. Gains or losses from equity securities could vary from expectations depending on gains or losses realized on the sale or exchange of securities and impairment charges related to debt instruments as well as equity and other investments.

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 into certain markets may be lower for potential or existing competitors than if we owned exclusive rights to the technology that we license and use. Moreover, 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 that 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. In addition, these licenses often require royalty payments or other consideration to the third party licensor. Our success will depend, in part, on our continued ability to access these technologies, and we do not know whether these third-party technologies will continue to be licensed to us on commercially acceptable terms, if 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, which 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, as we require of them, we may experience delays in releasing new products or difficulties with supporting existing products and customers. In addition, if these third-party licensors fail or experience instability, then we may be unable to continue to sell products that incorporate the licensed technologies in addition to being unable to continue to maintain and support these products. We do require escrow arrangements with respect to certain third-party software which entitle us to certain limited rights to the source code, in the event of certain failures by the third party, in order to maintain and support such software. However, there is no guarantee that we would be able to understand and use the source code, as we may not have the expertise to do so. We are increasingly exposed to these risks as we continue to develop and market more products containing third-party software, such as our TV connectivity, security and network attached storage products.

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 that 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, particularly 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.

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, particularly 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

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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 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 business, we have investments with both domestic and international financial institutions. Accordingly, we face exposure to fluctuations in interest rates, which may limit our investment income. 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.

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, both of which are regions known for seismic activity. Substantially all of our critical enterprise-wide information technology systems, including our main servers, are currently housed in colocation facilities in Mesa, Arizona. While our critical information technology systems are located at colocation facilities in a different geographic region in the United States, our headquarters and warehouses remain susceptible to seismic activity so long as they are located in California. 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.

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. For example, labor disputes at manufacturing facilities in China occurred in 2010 and have led to workers going on strike. The recent trend of labor unrest could materially affect our third-party manufacturers' abilities to manufacture our products. In addition, all of our major direct and indirect suppliers of hard disk drives have been affected by record flooding in Thailand in the third fiscal quarter of 2011, and they informed us that our supply chain would be constrained for an indefinite amount of time, up to six months in some cases. Some therefore declared a force majeure event and have stated that, in addition to and because of the supply constraints, pricing for hard disk drives would increase significantly until they were able to stabilize the situation. As a result, we experienced increased prices in the cost of hard disk drives and ceased accepting any orders containing ReadyNAS products with hard disk drives. In addition, all sales and marketing promotions involving ReadyNAS products were terminated temporarily. Further, we declared the existence of a force majeure event under our contracts with certain customers. Accordingly, our business was harmed. Furthermore, earthquakes and resultant nuclear threats and tsunamis in Japan in March 2011 caused some disruption to our supply of raw materials and components for our products and impacted our operating results in Japan.

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

(a) None.

(b) None.

(c) Repurchase of Equity Securities by the Company

Period	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
June 29, 2015 - July 26, 2015	267,273	$30.31	266,418	3,000,000
July 27, 2015 - August 23, 2015	377,866	$33.26	376,033	2,623,967
August 24, 2015 - September 27, 2015	566	$30.38	—	2,623,967
Total	645,705	$32.04	642,451	

1. From time to time, the Company's Board of Directors has authorized programs under which the Company may repurchase shares of its common stock, depending on market conditions, in the open market or through privately negotiated transactions. Under these authorizations, the timing and actual number of shares subject to repurchase are at the discretion of management and are contingent on a number of factors, such as levels of cash generation from operations, cash requirements for acquisitions and the price of our common stock. During the three months ended September 27, 2015, we repurchased and retired, reported based on trade date, approximately 0.6 million shares of common stock at a cost of $20.6 million.

2. We repurchased, as reported based on trade date, approximately 3,000 shares of common stock at a cost of approximately $0.1 million to help administratively facilitate the withholding and subsequent remittance of personal income and payroll taxes for individuals receiving RSUs during the three months ended September 27, 2015.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

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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: October 30, 2015

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Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
3.1	Amended and Restated Certificate of Incorporation of the registrant	S-1	7/30/2003	3.3	
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the registrant	10-Q	7/31/2015	3.2	
3.3	Amended and Restated Bylaws of the registrant	10-Q	7/31/2015	3.3	
4.1	Form of registrant's common stock certificate	S-1	7/30/2003	4.1	
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer				X
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer				X
32.1#	Section 1350 Certification of Principal Executive Officer				X
32.2#	Section 1350 Certification of Principal Financial Officer				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

This certification is deemed to accompany this Form 10-Q and will not be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities of that section. This certification will not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.