NETGEAR, INC
Form 10-Q
November 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended October 1, 2017.

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to

Commission file number: 000-50350
NETGEAR, Inc.
(Exact name of registrant as specified in its charter)

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

(408) 907-8000
(Registrant's telephone number including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer	x	Accelerated filer	¨
Non-Accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.	¨

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 31,469,919 as of October 27, 2017.

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

	As of October 1, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$246,573	$ 240,468
Short-term investments	126,213	125,514
Accounts receivable, net	295,591	313,839
Inventories	249,078	247,862
Prepaid expenses and other current assets	27,711	35,102
Total current assets	945,166	962,785
Property and equipment, net	20,228	19,473
Intangibles, net	27,527	37,899
Goodwill	85,463	85,463
Other non-current assets	82,773	78,836
Total assets	$1,161,157	$ 1,184,456
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$92,863	$ 112,436
Accrued employee compensation	20,501	33,096
Other accrued liabilities	187,533	170,674
Deferred revenue	45,627	35,301
Income taxes payable	5,803	5,146
Total current liabilities	352,327	356,653
Non-current income taxes payable	14,635	15,119
Other non-current liabilities	17,680	15,865
Total liabilities	384,642	387,637
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock	32	33
Additional paid-in capital	594,215	566,307
Accumulated other comprehensive income (loss)	(4,762)	1,938
Retained earnings	187,030	228,541
Total stockholders' equity	776,515	796,819
Total liabilities and stockholders' equity	$1,161,157	$ 1,184,456

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	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Net revenue	$355,483	$338,458	$1,009,863	$960,369
Cost of revenue	252,388	235,336	717,900	658,894
Gross profit	103,095	103,122	291,963	301,475
Operating expenses:				
Research and development	23,127	21,935	69,167	65,876
Sales and marketing	40,311	37,337	115,001	110,703
General and administrative	14,229	14,111	40,373	39,995
Restructuring and other charges	19	(130)	78	3,859
Litigation reserves, net	15	13	68	58
Total operating expenses	77,701	73,266	224,687	220,491
Income from operations	25,394	29,856	67,276	80,984
Interest income	501	291	1,388	804
Other income (expense), net	666	116	1,384	(582)
Income before income taxes	26,561	30,263	70,048	81,206
Provision for income taxes	5,767	9,144	18,678	27,464
Net income	$20,794	$21,119	$51,370	$53,742
Net income per share:				
Basic	$0.66	$0.64	$1.59	$1.64
Diluted	$0.64	$0.62	$1.54	$1.60
Weighted average shares used to compute net income per share:				
Basic	31,704	32,913	32,335	32,688
Diluted	32,393	33,913	33,269	33,624

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

NETGEAR, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended		Nine Months Ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Net income	$20,794	$21,119	$51,370	$53,742
Other comprehensive income (loss), before tax:				
Unrealized gains (losses) on derivative instruments	22	240	(7,678)	204
Unrealized gains (losses) on available-for-sale securities	41	(43)	(41)	104
Other comprehensive income (loss), before tax	63	197	(7,719)	308
Tax benefit (provision) related to derivative instruments	—	(30)	1,005	(30)
Tax benefit (provision) related to available-for-sale securities	(15)	16	14	(39)
Other comprehensive income (loss), net of tax	48	183	(6,700)	239
Comprehensive income	$20,842	$21,302	$44,670	$53,981

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 October 1, 2017		October 2, 2016	
Cash flows from operating activities:				
Net income	$ 51,370		$ 53,742	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	20,219		24,601	
Purchase premium amortization/discount accretion on investments, net	102		106	
Non-cash stock-based compensation	16,412		14,300	
Income tax impact associated with stock option exercises	—		1,627	
Deferred income taxes	(66	)	1,327	
Changes in assets and liabilities:				
Accounts receivable	18,248		56,731	
Inventories	(1,216	)	(4,503	)
Prepaid expenses and other assets	5,557		9,772	
Accounts payable	(20,016	)	5,428	
Accrued employee compensation	(12,595	)	(3,842	)
Other accrued liabilities	12,918		(24,444	)
Deferred revenue	10,326		(2,610	)
Income taxes payable	173		1,082	
Net cash provided by operating activities	101,432		133,317	
Cash flows from investing activities:				
Purchases of short-term investments	(101,951	)	(117,994	)
Proceeds from maturities of short-term investments	101,544		85,286	
Purchases of property and equipment	(9,805	)	(6,984	)
Purchases of cost method investments	(2,900	)	—	
Payments made in connection with business acquisition, net	(737	)	—	

of cash acquired		
Net cash used in investing activities	(13,849)	(39,692)
Cash flows from financing activities:		
Repurchases of common stock	(86,630)	(23,252)
Restricted stock unit withholdings	(6,017)	(4,364)
Proceeds from exercise of stock options	6,405	21,874
Proceeds from issuance of common stock under employee stock purchase plan	4,764	3,892
Net cash used in financing activities	(81,478)	(1,850)
Net increase in cash and cash equivalents	6,105	91,775
Cash and cash equivalents, at beginning of period	240,468	181,945
Cash and cash equivalents, at end of period	$ 246,573	$ 273,720

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 company that delivers innovative networking and Internet connected products to consumers and growing businesses. 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 devices that create and extend wired and wireless networks as well as devices that provide a special function and attach to the network, such as IP security cameras and home automation devices and services. These products are available in multiple configurations to address the changing needs of the customers 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, 2016 has been derived from audited financial statements at such date. Accordingly, these unaudited 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 audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.
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 nine months ended October 1, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or any future period.

Reclassification

In the first quarter of fiscal 2017, the Company reorganized its operating segment structure resulting in a change to its reportable segments. This change primarily impacted Goodwill in Note 4, Balance Sheet Components and Note 11, Segment Information. The prior-year segment financial information has been reclassified to conform to the current-year presentation. None of the changes impact previously reported consolidated net revenue, income from operations, net income per share, total assets, or stockholders’ equity. Refer to Note 11, Segment Information, for a further discussion of the segment reorganization. Additionally, in the first quarter of fiscal 2017, upon adoption of ASU 2016-09, the Company elected to apply the presentation requirements for cash flows related to excess tax benefits retrospectively to all periods presented. Refer to recently adopted accounting pronouncement under Note 2, Summary of Significant Accounting Policies, for a further discussion of the impact from the adoption of ASU 2016-09.

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, 2016. The Company’s significant accounting policies have not materially changed during the nine months ended October 1, 2017.

Recent accounting pronouncements

Accounting Pronouncement Recently Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" (Topic 718), which simplifies the accounting for share-based payment transactions. The new guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement when stock awards vest or are settled. In addition, cash flows related to excess tax benefits will no longer be separately classified as an inflow from financing activities with a corresponding outflow from operating activities but will be classified along with other income tax cash flows as an operating activity. The standard also allows the entity to repurchase more of an employee’s vesting shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made to tax authorities on an employee’s behalf for withheld shares should be presented as a financing activity on the cash flows statement, and provides an accounting policy election to account for forfeitures as they occur. The new guidance became effective for the Company in the first quarter of fiscal 2017.

Upon adoption on January 1, 2017, the Company prospectively recorded all excess tax benefits and tax deficiencies arising from stock awards vesting or settlement as income tax expense or benefit rather than in equity. For the three and nine months ended October 1, 2017, the impact of the adoption was the recognition of $0.3 million and $2.1 million, respectively, excess tax benefits as a component of the provision for income taxes. The Company elected to account for forfeitures as they occur, rather than estimating expected forfeitures, which resulted in net cumulative-effect adjustment of $0.2 million decrease to retained earnings as of January 1, 2017. The Company elected to apply the presentation requirements for cash flows related to excess tax benefits retrospectively to all periods presented, which resulted in an increase to both net cash provided by operating activities and net cash used in financing activities of $2.3 million for the nine months ended October 2, 2016, respectively, on the unaudited condensed consolidated statements of cash flows. The presentation requirement for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented on the consolidated statements of cash flows since the Company has historically been presented such cash flows as a financing activity.

Accounting Pronouncements Not Yet Effective

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606), which was further updated in March, April, May and December 2016. 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 (full retrospective method) or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application (modified retrospective method). 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 of fiscal 2018 and early adoption is permitted.

The Company anticipates adopting the new standard effective January 1, 2018. The Company has identified major revenue streams, performed an analysis of a sample of contracts to evaluate the impact of the standard, and begun the drafting of its accounting policies and evaluating the new disclosure requirements. To date, the Company believes the new standard could impact the amount or the timing of its revenue on a go forward basis and could impact the timing, but not the amount, of past recognition. The new standard requires entities to determine the separate units of account or ‘‘performance obligations’’ in their customer contracts. The Company is still in the process of evaluating the impact of this guidance with respect to its multiple performance obligations and the resulting accounting treatment. Furthermore, the Company believes it will be impacted by the requirement of the new standard to estimate for yet to be committed sales incentives at the time revenue is recognized. Under Topic 605, these incentives are recognized as a reduction of revenue at the later of when the related revenue is recognized or when the program is offered to the channel partner. Applying Topic 606, where customary business practice of providing such incentives is determined, there is a timing difference and will require the Company upon adoption to record an estimate of yet to be committed future sales incentives with respect to revenue already recognized. The actual impact upon adoption will be based on open contracts existing at the earlier of the period presented under either full retrospective method or modified retrospective method, whichever the Company choses to adopt. In addition, the Company has determined that the presentation of certain reserve balances currently shown net within accounts receivable will be presented as refund liabilities within current liabilities upon adoption. The Company expects to complete the assessment process, including selecting a transition method for adoption, and to complete the implementation process, including adding procedures and evaluating necessary disclosures, prior to the first quarter of fiscal 2018.

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities" (Subtopic 825-10), which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income. This guidance simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. This guidance also clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. The Company expects to adopt the new guidance in the first quarter of fiscal 2018, when it is effective for the Company. The Company is currently evaluating the impact the guidance will have on its financial statements and related disclosures, including accounting policies and processes. To date, the Company believes the most significant impact will be that the adoption of the new guidance could increase the volatility of its other income (expense), net, as a result of the re-measurement of its equity securities that are classified as cost method investments under the current guidance upon the occurrence of observable price changes and impairments.

In February 2016, FASB issued ASU 2016-02, "Leases" (Topic 842), which requires lessees to recognize on the balance sheets a right-of-use asset, representing its right to use the underlying asset for the lease term, and a corresponding lease liability for all leases with terms greater than twelve months. The liability will be equal to the present value of lease payments while the right-of-use asset will be based on the liability, subject to adjustment, such as for initial direct costs. In addition, ASU 2016-02 expands the disclosure requirements for lessees. Upon adoption, the Company will be required to record a lease asset and lease liability related to its operating leases. ASU 2016-02 will be applied using a modified retrospective transition method and is effective for the Company in the first quarter fiscal 2019, with early adoption permitted. The Company does not plan to early adopt the guidance and is currently evaluating the impact the update will have on its financial position, results of operations and cash flows and related disclosures.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments" (Topic 326), which replaces the incurred-loss impairment methodology and requires immediate recognition of estimated credit losses expected to occur for most financial assets, including trade receivables. Credit losses on available-for-sale debt securities with unrealized losses will be recognized as allowances for credit losses limited to the amount by which fair value is below amortized cost. ASU 2016-13 is effective for the Company beginning in the first quarter of 2020 and early adoption is permitted. The Company continues to assess the potential impact of the new guidance, but does not expect it to have material impacts on its financial position, results of operations or cash flows.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory" (Topic 740), which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This removes the exception to postpone recognition until the asset has been sold to an outside party. ASU 2016-16 is effective for the Company in the first quarter of fiscal 2018 and early adoption is permitted. The Company does not plan to early adopt the guidance. Upon adoption, the Company anticipates the recognition of a deferred tax asset estimated at $30 million resulting from differences in the tax basis of assets and the consolidated book basis of assets resulting from intra-entity transfers of intangible assets. Other than the recognition of the deferred tax asset that will be established in retained earnings upon adoption, the Company estimates that adoption of the standard will increase tax expense by an approximate $1.5 million annually. The Company does not anticipate it to have a material impact on its cash flows.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations: Clarifying the Definition of a Business" (Topic 805), which changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. ASU 2017-01 is effective for the Company in the first quarter of fiscal 2018 and early adoption is permitted. The guidance should be applied prospectively to any transactions occurring on or after the adoption date. The Company does not expect it to have material impacts on its financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment" (Topic 350), which simplifies the subsequent measurement of goodwill by removing Step 2 of goodwill impairment test that requires the determination of the fair value of individual assets and liabilities of a reporting unit. The new guidance requires goodwill impairment to be measured as the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 will be applied prospectively and is effective for the Company in the first quarter of fiscal 2020, with early adoption permitted. The Company does not expect it to have material impacts on its financial position, results of operations or cash flows.

In May 2017, the FASB issued ASU 2017-09, "Compensation—Stock Compensation: Scope of Modification Accounting" (Topic 718), which clarifies when changes to the terms or conditions of a share-based payment award must by accounted for as modifications. Under the new guidance, an entity will not apply modification accounting if the award's fair value, vesting conditions and classification are the same immediately before and after the change. ASU 2017-09 is effective for the Company in the first quarter of fiscal 2018 and early adoption is permitted. The guidance should be applied prospectively to award modified on or after the adoption date. The Company does not expect it to have material impacts on its financial position, results of operations or cash flows.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities" (Topic 815), which expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The guidance also makes certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. ASU 2017-12 is effective for the Company in the first quarter of fiscal 2019 and early adoption is permitted. Entities should apply the guidance to existing cash flow and net investment hedge relationships using a modified retrospective approach with a cumulative effect adjustment recorded to opening retained earnings on the date of adoption. The guidance also provides transition relief to make it easier for entities to apply certain amendments to existing hedges where the hedge documentation needs to be modified. The Company is currently evaluating what impact, if any, the adoption of this guidance will have on its financial position, results of operations and cash flows.

Note 3. Business Acquisition

Placemeter, Inc.

On November 30, 2016, the Company acquired Placemeter, Inc. ("Placemeter"), an industry leader in computer vision analytics, for total purchase consideration of $9.6 million. The Company believes that Placemeter’s engineering talent will add value to NETGEAR’s Arlo smart security team, and that their proprietary computer vision algorithms will help to build video analytics solutions for the Arlo platform.

The Company paid $8.8 million of the aggregate purchase price in the fourth quarter of 2016 and paid the remaining $0.8 million in the first quarter of fiscal 2017. The acquisition qualified as a business combination and was accounted for using the acquisition method of accounting. The results of Placemeter have been included in the unaudited condensed consolidated financial statements since the date of acquisition. Pro forma results of operations for the acquisition are not presented as the financial impact to the Company's consolidated results of operations is not material.

The allocation of the purchase price was as follows (in thousands):

Cash and cash equivalents	$8
Accounts receivable	11
Prepaid expenses and other current assets	130
Property and equipment	83
Intangibles	6,000
Goodwill	3,742
Accounts payable	(40)
Other accrued liabilities	(74)
Deferred tax liabilities	(308)
Total purchase price	$9,552

The $3.7 million of goodwill recorded on the acquisition of Placemeter is not deductible for U.S. federal or U.S. state income tax purposes. The goodwill recognized, which was assigned to the Company's former retail segment upon acquisition

and was allocated to the Arlo segment under its current reporting structure, is primarily attributable to expected synergies resulting from the acquisition.
In connection with the acquisition, the Company recorded $0.3 million of deferred tax liabilities net of deferred tax assets. The deferred tax liabilities were recorded for the book basis of intangible assets for which the Company has no tax basis. The deferred tax liabilities are reduced by the tax benefit of the net operating losses as of the date of the acquisition after consideration of limitations on the use under U.S. Internal Revenue Code section 382.
The Company designated $5.5 million of the acquired intangibles as software technology and a further $0.2 million of the acquired intangibles as database. The valuations were arrived at using the replacement cost method, with consideration having been given to the estimated time, investment and resources required to recreate the acquired intangibles. A discount rate of 15.0% was used in the valuation of each intangible. The acquired intangibles are being amortized over an estimated useful life of four years.
The Company designated $0.3 million of the acquired intangibles as non-compete agreements. The value was calculated based on the present value of the future estimated cash flows derived from projections of future operations attributable to the non-compete agreements and discounted at 20.0%. The acquired agreements are being amortized over an estimated useful life of three years.

Note 4. Balance Sheet Components

Available-for-sale short-term investments

	As of October 1, 2017				December 31, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(In thousands)							
U.S. treasuries	$124,159	$ —	$ (72)	$124,087	$123,869	$ 9	$ (40)	$123,838
Certificates of deposit	162	—	—	162	148	—	—	148
Total	$124,321	$ —	$ (72)	$124,249	$124,017	$ 9	$ (40)	$123,986

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 twelve months. Accordingly, none of the available-for-sale securities have unrealized losses greater than twelve months.

Cost method investments

The carrying value of the Company's cost method investments was $3.0 million and $0.1 million as of October 1, 2017 and December 31, 2016. These investments are accounted under the cost method because the Company does not have a controlling interest or the ability to exercise significant influence over these companies and these investments do not have readily determinable fair values. These investments are included in other non-current assets in the unaudited condensed consolidated balance sheets and are carried at cost, adjusted for any impairment. The Company monitors these investments for impairment on a quarterly basis, and adjusts carrying value for any impairment charges recognized. There were no impairments recognized during the nine months ended October 1, 2017 and October 2, 2016, respectively. Realized gains and losses on these investments are reported in other income (expense), net in the unaudited condensed consolidated statements of operations. The Company did not recognize any material realized gains or losses during the nine months ended October 1, 2017 and October 2, 2016.

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

Accounts receivable, net

	As of October 1, 2017	As of December 31, 2016
	(In thousands)	
Gross accounts receivable	$317,206	$ 333,080
Allowance for doubtful accounts	(1,257)	(1,255)
Allowance for sales returns	(17,025)	(13,506)
Allowance for price protection	(3,333)	(4,480)
Total allowances	(21,615)	(19,241)
Total accounts receivable, net	$295,591	$ 313,839

Inventories

	As of October 1, 2017	As of December 31, 2016
	(In thousands)	
Raw materials	$5,171	$ 4,596
Finished goods	243,907	243,266
Total inventories	$249,078	$ 247,862

The Company records provisions for excess and obsolete inventory based on assumptions about future demand and market conditions. 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.

Property and equipment, net

	As of October 1, 2017	As of December 31, 2016
	(In thousands)	
Computer equipment	$10,725	$ 10,557
Furniture, fixtures and leasehold improvements	22,599	20,827
Software	28,973	28,663
Machinery and equipment	59,047	63,446
Total property and equipment, gross	121,344	123,493
Accumulated depreciation and amortization	(101,116)	(104,020)
Total property and equipment, net	$20,228	$ 19,473

Depreciation and amortization expense pertaining to property and equipment was $3.3 million and $9.8 million for the three and nine months ended October 1, 2017, respectively, and $3.4 million and $11.5 million for the three and nine months ended October 2, 2016, respectively.

Intangibles, net

	As of October 1, 2017		
	Gross	Accumulated Amortization	Net
	(In thousands)		
Technology	$66,599	$ (61,620)	$4,979
Customer contracts and relationships	56,500	(35,674)	20,826
Other	11,045	(9,323)	1,722
Total intangibles, net	$134,144	$ (106,617)	$27,527

	As of December 31, 2016		
	Gross	Accumulated Amortization	Net
	(In thousands)		
Technology	$66,599	$ (57,381)	$9,218
Customer contracts and relationships	56,500	(30,375)	26,125
Other	11,045	(8,489)	2,556
Total intangibles, net	$134,144	$ (96,245)	$37,899

Amortization of intangibles was $2.7 million and $10.4 million for the three and nine months ended October 1, 2017, respectively, and $4.2 million and $12.7 million for the three and nine months ended October 2, 2016, respectively.

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

	As of October 1, 2017
	(In thousands)
2017 (remaining three months)	$ 2,539
2018	9,396
2019	7,544
2020	6,622
2021	1,413
Thereafter	13
Total estimated amortization expense	$ 27,527

Goodwill

As discussed in Note 11, Segment Information, during the first quarter of fiscal 2017, the Company's Chief Operating Decision Maker requested changes in the information that he regularly reviews for purposes of allocating resources and assessing performance. With these changes, the Company revised its reportable segments. Beginning fiscal 2017, the Company operates and reports in three segments: Arlo, Connected Home, and Small and Medium Business ("SMB"). Goodwill was reallocated to the reportable segments using a relative fair value approach. As a result, the Company completed assessments of any potential goodwill impairment for all reportable segments immediately prior to and after the reallocation and determined that no impairment existed.

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The carrying amount of goodwill under these segments during the nine months ended October 1, 2017 are as follows:

	Arlo	Connected Home	SMB	Total
	(In thousands)			
Goodwill as of January 1, 2017	$21,149	$ 28,035	$36,279	$85,463
Goodwill as of October 1, 2017	$21,149	$ 28,035	$36,279	$85,463

Other non-current assets

	As of October 1, 2017	December 31, 2016
	(In thousands)	
Non-current deferred income taxes	$72,022	$ 70,859
Other	10,751	7,977
Total other non-current assets	$82,773	$ 78,836

Other accrued liabilities

	As of October 1, 2017	December 31, 2016
	(In thousands)	
Sales and marketing	$73,975	$ 74,330
Warranty obligation	67,550	58,520
Freight	6,232	8,980
Other	39,776	28,844
Total other accrued liabilities	$187,533	$ 170,674

Note 5. 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, Canadian dollars, 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. In addition, the derivative contracts typically mature in less than eleven 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 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

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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 October 1, 2017 and December 31, 2016 are summarized as follows:

Derivative Assets	Balance Sheet Location	Fair Value at October 1, 2017	Balance Sheet Location	Fair Value at December 31, 2016
		(In thousands)		(In thousands)
Derivative assets not designated as hedging instruments	Prepaid expenses and other current assets	$ 1,184	Prepaid expenses and other current assets	$ 5,873
Derivative assets designated as hedging instruments	Prepaid expenses and other current assets	1,356	Prepaid expenses and other current assets	2,890
Total		$ 2,540		$ 8,763

Derivative Liabilities	Balance Sheet Location	Fair Value at October 1, 2017	Balance Sheet Location	Fair Value at December 31, 2016
		(In thousands)		(In thousands)
Derivative liabilities not designated as hedging instruments	Other accrued liabilities	$ 5,547	Other accrued liabilities	$ 1,002
Derivative liabilities designated as hedging instruments	Other accrued liabilities	6,202	Other accrued liabilities	703
Total		$ 11,749		$ 1,705

For details of the Company’s fair value measurements, see Note 12, 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 October 1, 2017 and December 31, 2016:

As of October 1, 2017				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
	Gross Amounts	Gross Amounts	Net Amounts Of Assets	Financial Instruments	Cash Collateral	Net Amount

	of Recognized Assets	Offset in the Condensed Consolidated Balance Sheets	Presented in the Condensed Consolidated Balance Sheets		Pledged	
	(In thousands)					
Bank of America	$2,038	$ —	$ 2,038	$ (2,038)	$ —	$ —
Wells Fargo	502	—	502	(502)	—	—
Total	$2,540	$ —	$ 2,540	$ (2,540)	$ —	$ —

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of December 31, 2016	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
	(In thousands)					
J.P. Morgan Chase	$1,492	$ —	$ 1,492	$ (442)	$ —	$ 1,050
Wells Fargo	7,271	—	7,271	(1,263)	—	6,008
Total	$8,763	$ —	$ 8,763	$ (1,705)	$ —	$ 7,058

The following tables set forth the offsetting of derivative liabilities as of October 1, 2017 and December 31, 2016:

As of October 1, 2017	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
	(In thousands)					
Bank of America	$11,113	$ —	$ 11,113	$ (2,038)	$ —	$ 9,075
Wells Fargo	636	—	636	(502)	—	134
Total	$11,749	$ —	$ 11,749	$ (2,540)	$ —	$ 9,209

As of December 31, 2016	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated	Net Amounts Of Liabilities Presented in the Condensed	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets: Financial Instruments	Cash Collateral Pledged	Net Amount

		Balance Sheets	Consolidated Balance Sheets			
	(In thousands)					
J.P. Morgan Chase	$442	$ —	$ 442	$ (442)	$ —	$ —
Wells Fargo	1,263	—	1,263	(1,263)	—	—
Total	$1,705	$ —	$ 1,705	$ (1,705)	$ —	$ —

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 less than eleven months. The Company enters into about ten forward contracts per quarter with an average size of approximately $8.0 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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 (expense), net. Any subsequent changes in fair value of such derivative instruments also are reflected in current earnings 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 nine months ended October 1, 2017 and October 2, 2016.

The pre-tax effects of the Company's derivative instruments on OCI and the unaudited condensed consolidated statement of operations for the three and nine months ended October 1, 2017 and October 2, 2016 are summarized as follows:

	Three Months Ended October 1, 2017				
Derivatives Designated as Hedging Instruments	Gains (Losses) Recognized in OCI - Effective Portion	Location of Gains (Losses) Reclassified from OCI into Income - Effective Portion	Gains (Losses) Reclassified from OCI into Income - Effective Portion [(1)]	Location of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing
	(In thousands)				
Cash flow hedges:					
Foreign currency forward contracts	$(3,538)	Net revenue	$ (4,401)	Other income (expense), net	$ 528
Foreign currency forward contracts	—	Cost of revenue	19	Other income (expense), net	—
Foreign currency forward contracts	—	Operating expenses	822	Other income (expense), net	—
Total	$(3,538)		$ (3,560)		$ 528

(1) Refer to Note 9, Stockholders' Equity, which summarizes the accumulated other comprehensive income activity related to derivatives.

	Nine Months Ended October 1, 2017				
Derivatives Designated as Hedging Instruments	Gains (Losses) Recognized in OCI - Effective Portion	Location of Gains (Losses) Reclassified from OCI into Income - Effective Portion	Gains (Losses) Reclassified from OCI into Income - Effective Portion [(1)]	Location of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing
	(In thousands)				
Cash flow hedges:					
Foreign currency forward contracts	$(10,590)	Net revenue	$ (3,374)	Other income (expense), net	$ 1,196
Foreign currency forward contracts	—	Cost of revenue	5	Other income (expense), net	—

Foreign currency forward contracts	—	Operating expenses	457	Other income (expense), net	—
Total	$(10,590)		$ (2,912)		$ 1,196

(1) Refer to Note 9, Stockholders' Equity, which summarizes the accumulated other comprehensive income activity related to derivatives.

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Derivatives Designated as Hedging Instruments	Three Months Ended October 2, 2016 Gains (Losses) Recognized in OCI - Effective Portion (In thousands)	Location of Gains (Losses) Reclassified from OCI into Income - Effective Portion	Gains (Losses) Reclassified from OCI into Income - Effective Portion [(1)]	Location of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing
Cash flow hedges:					
Foreign currency forward contracts	$(417)	Net revenue	$ (824)	Other income (expense), net	$ 116
Foreign currency forward contracts	—	Cost of revenue	4	Other income (expense), net	—
Foreign currency forward contracts	—	Operating expenses	163	Other income (expense), net	—
Total	$(417)		$ (657)		$ 116

[(1)] Refer to Note 9, Stockholders' Equity, which summarizes the accumulated other comprehensive income activity related to derivatives.

Derivatives Designated as Hedging Instruments	Nine Months Ended October 2, 2016 Gains (Losses) Recognized in OCI - Effective Portion (In thousands)	Location of Gains (Losses) Reclassified from OCI into Income - Effective Portion	Gains (Losses) Reclassified from OCI into Income - Effective Portion [(1)]	Location of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing
Cash flow hedges:					
Foreign currency forward contracts	$(1,116)	Net revenue	$ (1,543)	Other income (expense), net	$ 169
Foreign currency forward contracts	—	Cost of revenue	4	Other income (expense), net	—
Foreign currency forward contracts	—	Operating expenses	219	Other income (expense), net	—
Total	$(1,116)		$ (1,320)		$ 169

[(1)] Refer to Note 9, 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 less than ten 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 three months in duration.

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The effects of the Company’s non-designated hedge included in other income (expense), net in the unaudited condensed consolidated statements of operations for the three and nine months ended October 1, 2017 and October 2, 2016 are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gains (Losses) Recognized in Income on Derivative	Three Months Ended		Nine Months Ended	
		October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
		(In thousands)			
Foreign currency forward contracts	Other income (expense), net	$(1,925)	$(493)	$(6,171)	$(1,252)

Note 6. 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 common shares issuable upon exercise of stock options, vesting of restricted stock awards, and issuances of shares under the Employee Stock Purchase Plan (the "ESPP"), which are reflected in diluted net income per share by application of the treasury stock method.
Net income per share for the three and nine months ended October 1, 2017 and October 2, 2016 are as follows:

	Three Months Ended		Nine Months Ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
	(In thousands, except per share data)			
Numerator:				
Net income	$20,794	$ 21,119	$51,370	$ 53,742
Denominator:				
Weighted average common shares - basic	31,704	32,913	32,335	32,688
Potentially dilutive common share equivalent	689	1,000	934	936
Weighted average common shares - dilutive	32,393	33,913	33,269	33,624
Basic net income per share	$0.66	$ 0.64	$1.59	$ 1.64
Diluted net income per share	$0.64	$ 0.62	$1.54	$ 1.60
Anti-dilutive employee stock-based awards, excluded	975	—	431	235

Note 7. Income Taxes

The income tax provision for the three and nine months ended October 1, 2017, was $5.8 million, or an effective tax rate of 21.7%, and $18.7 million, or an effective tax rate of 26.7%, respectively. The income tax provision for the three and nine months ended October 2, 2016, was $9.1 million, or an effective tax rate of 30.2%, and $27.5 million, or an effective tax rate of 33.8%, respectively. The decrease in the effective tax rate and the income tax provision for the three and nine months ended October 1, 2017, compared to the three and nine months ended October 2, 2016, resulted from the reversal of uncertain tax positions and related interest of $2.1 million from the completion of tax audits and the lapsing of statutes of limitation. The Company adopted ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting" on January 1, 2017, which requires excess tax benefits or deficiencies to be reflected in the unaudited condensed consolidated statements of operations as a component of the provision for income taxes whereas they previously were recorded in equity. Total excess tax benefits recognized in the three and nine months ended October 1, 2017 was $0.3 million and $2.1 million, respectively. The decrease in the effective tax rate and income tax provision for the three and nine months ended October 1, 2017, compared to the three and nine months ended October 2, 2016, was partially offset by a $1.8 million non-recurring tax benefit related to a change in estimate during the three months ended October 2, 2016.

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. The 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. The Company is under examination in various U.S. and foreign jurisdictions.

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 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 $0.9 million, excluding the interest, penalties and the effect of any related deferred tax assets or liabilities.

Note 8. 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. As of October 1, 2017, the Company had approximately $143.7 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.

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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:

	Three Months Ended		Nine Months Ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
	(In thousands)			
Balance as of beginning of the period	$60,451	$50,393	$58,520	$56,706
Provision for warranty obligation made during the period	35,815	27,939	97,083	62,748
Settlements made during the period	(28,716)	(24,506)	(88,053)	(65,628)
Balance at end of period	$67,550	$53,826	$67,550	$53,826

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 October 1, 2017.

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 October 1, 2017.

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 equity awards 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 October 1, 2017.

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 alleged 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 non-infringement and invalidity of the asserted patents. On June 8, 2011, Ericsson filed an amended complaint that added Dell, Toshiba and Belkin as defendants. At the status conference held on June 9, 2011, the Court set a Markman (claim construction) hearing for June 28, 2012 and trial for June 3, 2013. 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. 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.

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 equated to 15 cents per unit for each accused 802.11 device sold by each defendant (5 cents per patent).

On December 16, 2013, the Company and 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 cents 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.

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.

In September 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. Accordingly, the Company reversed the accruals related to this case in the first fiscal quarter of 2015. On September 16, 2016, the Federal Circuit upheld the invalidity of certain claims of the '625 Patent, the '568 Patent, and '215 Patent, as previously determined by the PTAB. The Federal Circuit only issued one precedential written opinion, on the 215 Patent; the PTAB invalidity rulings on the '625 and '568 Patents were upheld without a written decision. Ericsson petitioned the Federal Circuit for an en banc rehearing of the Federal Circuit's appeal decision, and the Federal Circuit agreed to the en banc rehearing. Arguments before the en banc panel of the Federal Circuit took place in May 2017, and the Federal Circuit has not yet released its en banc opinion. The present status of the case continues to be that the Company does not infringe on any valid Ericsson patent.

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 encompassed Corporate Income Tax (IRES), Regional Business Tax (IRAP) and Value-Added Tax (VAT). In December 2013, December 2014, August 2015, and December 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, the 2008 through 2010 tax years, and the 2011 through 2012 tax years, respectively.

In May 2014, the Company filed with the Provincial Tax Court of Milan an appeal brief, including 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 December 19, 2014. The Tax Court decided 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. On February 26, 2016 the Regional Tax Court conducted the appeals hearing for the 2004 year, ruling in favor of the Company. On June 13, 2016, the Inland Revenue Agency appealed the decision to the Supreme Court. The Company filed a counter appeal on July 23, 2016 and is awaiting scheduling of the hearing.

In June 2015, the Company filed with the Provincial Tax Court of Milan an appeal brief including a Request for Hearing in Open Court and Request for Suspension of the Tax Assessment for the 2005 through 2006 tax years. The hearing for suspension was held and the Request for Suspension of payment was granted. The hearing for the validity of the tax assessment for 2005 and 2006 was held in December 2015 with the Provincial Tax Court issuing its decision in favor of the Company. The Inland Revenue Agency filed its appeal with the Regional Tax Court. The Company filed its counter brief on September 30, 2016 and the hearing was held on March 22, 2017. A decision favorable to the Company was issued by the Court on July 5, 2017. The Italian Tax Authority has appealed the decision to the Supreme Court.

The hearing for the validity of the tax assessment for 2007 was held on March 10, 2016 with the Provincial Tax Court who issued its decision in favor of the Company on April 7, 2016. The Inland Revenue Agency has filed its appeal to the Regional Tax Court and the Company has submitted its counter brief. The hearing has been scheduled for November 17, 2017.

With respect to 2008 through 2010, the Company filed its briefs with the Tax Court in October 2015 and the hearing for the validity of the tax assessments was held on April 21, 2016 and a decision favorable to the Company was issued on May 12, 2016. The Inland Revenue Agency has filed its appeal to the Regional Tax Court. The Company filed its counter brief on February 5, 2017.

With respect to 2011 through 2012, the Company has filed its appeal brief on February 26, 2016 with the Provincial Tax Court to contest this assessment. The hearing for suspension was held and the Request for Suspension of payment was granted. On October 13, 2016, the Company filed its brief with the Provincial Tax Court. The hearing was held on October 24, 2016 and a decision favorable to the Company was issued by the Court. The Inland Revenue Agency appealed the decision on April 19, 2017. The Company filed its counter brief on June 16, 2017.

With regard to all tax years, 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 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. On July 30, 2015 the Court granted the Company's motion to transfer venue to the Northern District of California. In addition, the Company learned that Amazon and Blizzard filed petitions for the inter partes reviews ("IPRs") for the patents in suit. On October 30, 2015, the Company and Via Vadis filed a joint stipulation requesting that the Court vacate all deadlines and enter a stay of all proceedings in the case pending the Patent Trial and Appeal Board's final non-appealable decision on the IPRs initiated by Amazon and Blizzard. On November 2, 2015 the Court granted the requested stay. On March 8, 2016, the Patent Trial and Appeal Board issued written decisions instituting the IPRs jointly filed by Amazon and Blizzard. In early March of 2017, The Patent Trial and Appeal Board (PTAB) issued various decisions regarding Amazon's and Blizzard's IPRs of the patents in suit. One of the IPRs of the '125 patent resulted in a finding by the PTAB that Amazon and Blizzard had had failed to show invalidity. The second IPR on the '125 patent, however, resulted in cancellation of all claims asserted in Via Vadis's suit against the Company. Reissue '521 did not have any claims found invalid by the PTAB, and some dependent claims of the '680 patent survived the IPRs, and some claims of the '680 patent were canceled. The Northern District of California case against the Company remains stayed.

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 CMS 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 answered the complaint on September 15, 2015. On November 24, 2015, CMS served its infringement contentions on the Company, and CMS is generally attempting to assert that the patents in suit cover the Power over Ethernet standard (802.3af and 802.3at) used by certain of the Company's products.

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On December 3, 2015, the Company filed with the Court a motion to transfer venue to the District Court for the Northern District of California and their memorandum of law in support thereof. On December 23, 2015, CMS filed its response to the Company's motion to transfer, and, on January 8, 2016, the Company filed its reply brief in support of its motion to transfer venue. On January 15, 2016, the Court granted the Company's motion to transfer venue to the District Court for the Northern District of California. The initial case management conference in the Northern District of California occurred on May 13, 2016, and on August 19, 2016, the parties exchanged preliminary claim constructions and extrinsic evidence. On August 26, 2016, the Company and three defendants in other Northern District of California CMS cases (Juniper Networks, Inc., Ruckus Wireless, Inc., and Fortinet, Inc.) submitted motions to stay their cases. The defendants in part argued that stays were appropriate pending the resolution of the currently-pending IPRs of the patents-in-suit before the Patent Trial and Appeal Board (PTAB), including four IPR Petitions filed by Juniper. On September 9, 2016, CMS submitted its opposition to the motions to stay the cases. On September 26, 2016, the Court ordered the cases stayed in their entirety, until the PTAB reaches institution decisions with respect to Juniper's four pending IPR petitions. Juniper's four IPR petitions were instituted by the PTAB in January 2017, and the Company subsequently moved to join the IPR petitions as an "understudy" to Juniper, only assuming a more active role in the petitions in the event Juniper settles with CMS. For all four patents in suit against the Company, the PTAB ordered that (a) the Petitioners' (the Company, Ruckus, and Brocade) Motion for Joinder to the Juniper IPRs is granted; (b) the Petitioners IPRs are instituted on the same grounds as in the Juniper 'IPRs and Petitioners are joined with the Juniper IPRs; and (c) all further filings by Petitioners in the joined proceedings will be in the Juniper IPRs. The Company is now proceeding on the Juniper IPR schedule. The oral arguments for the Chrimar IPRs were held on August 31, 2017. The Northern District of California CMS cases remain stayed in their entirety by the Court.

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

Tessera v. NETGEAR, Inc.

On May 23, 2016, Tessera Technologies, Inc., Tessera, Inc., and Invensas Corp. (collectively, "Tessera") filed a complaint requesting that the U.S. International Trade Commission ("Commission") commence an investigation pursuant to Section 337 by reason of alleged infringement of certain patent claims by the Company and other respondents. On June 20, 2016, the Commission issued the related Notice of Investigation, and the Investigation was instituted on June 24, 2016.

The Tessera complaint alleges that the following respondents unlawfully import into the U.S., sell for importation, and/or sell within the U.S. after importation certain semiconductor devices, semiconductor device packages, and products containing the same that infringe one or more claims of U.S. Patent Nos. 6,856,007 (the '007 patent), 6,849,946 (the '946 patent), and 6,133,136 (the '136 patent) (collectively, the "asserted patents"): Broadcom Limited of Singapore; Broadcom Corp. of Irvine, California; Avago Technologies Limited of Singapore; Avago Technologies U.S. Inc. of San Jose, California; Arista Networks, Inc. of Santa Clara, California; ARRIS International plc of Suwanee, Georgia; ARRIS Group, Inc. of Suwanee, Georgia; ARRIS Technology, Inc. of Horsham, Pennsylvania; ARRIS Enterprises LLC of Suwanee, Georgia; ARRIS Solutions, Inc. of Suwanee, Georgia; Pace Ltd. (formerly Pace plc) of England; Pace Americas, LLC of Boca Raton, Florida; Pace USA, LLC of Boca Raton, Florida; ASUSTeK Computer Inc. of Taiwan; ASUS Computer International of Fremont, California; Comcast Cable Communications, LLC of Philadelphia, Pennsylvania; Comcast Cable Communications Management, LLC of Philadelphia, Pennsylvania; Comcast Business Communications, LLC of Philadelphia, Pennsylvania; HTC Corp. of Taiwan; HTC America, Inc. of Bellevue, Washington; Technicolor S.A. of France; Technicolor USA, Inc. of Indianapolis, Indiana; Technicolor Connected Home USA LLC of Indianapolis, Indiana; and the Company.

According to the complaint, the asserted patents generally relate to semiconductor packaging technology. In particular, the ‘007 patent relates to a compact and economical semiconductor chip assembly that includes a packaged semiconductor chip, a chip carrier with a metallic thermal conductor, and a circuit panel with a thermal conductor mounting. The ‘946 patent relates to a semiconductor layout configuration and method that results in a more efficient planarization process for a semiconductor chip. Lastly, the ‘136 patent relates to a structure for metal interconnects used in semiconductor packaging.

In the complaint, Tessera states that the respondents import and sell products that infringe the asserted patents. In particular, the complaint refers to multiple categories of accused semiconductor products associated with Broadcom and asserts that the remaining respondents import and sell products that contain these infringing Broadcom semiconductor products. Tessera requested that the Commission issue a permanent limited exclusion order and a permanent cease and desist order directed at the respondents and related entities.

Concurrently with the filing of the instant ITC complaint, Tessera also filed a complaint against Broadcom Corp. in the U.S. District Court for the District of Delaware alleging infringement of the asserted patents. The Company has not been sued in Delaware or any other jurisdiction other than the ITC.

The Company stipulated to certain facts regarding its importation and inventory of Broadcom-based products in return for various relief from discovery, such as reduced depositions and discovery responses in the ITC case. As per the ITC schedule, the parties exchanged direct exhibits and witness statements on February 20, 2017; rebuttal exhibits and witness statements on March 3, 2017; pre-trial briefs on March 9, 2017; and Motions in limine on March 13, 2017. The 5-day evidentiary hearing before the ITC Administrative Law Judge ("ALJ") commenced on March 27, 2017 and ended on March 31, 2017. The ITC rules provide for possible closing arguments before the ALJ after post-hearing briefing, which were submitted on April 19, 2017. Reply post-trial briefs were submitted on May 1, 2017.

On June 30, 2017 the ALJ released the Initial Determination based on the 5-day evidentiary hearing and related briefing. For the '946 patent, the ALJ found the four (4) claims infringed and valid, and that there is a domestic industry. For the '136 patent, the ALJ found the nine (9) claims were infringed and valid, but no domestic industry. For the '007 patent, the ALJ found (1) one claim infringed by the Company and Technicolor, claims 13 and 16 not infringed, all three asserted claims invalid, including the one claim found to be infringed, and no domestic industry.

In summary, the ALJ found a violation of section 337 of the Tariff Act due to infringement by the Company and other respondents of the '946 patent, but not as to the '136 patent or '007 patent. There is no violation with respect to the '136 patent even though it was found to be infringed and valid by the ALJ because Tessera could not show a domestic industry.

On August 2, 2017, the Company and other respondents filed their Public Interest Statements with the ITC and also submitted briefing to the ITC indicating why the adverse findings for the respondents of the Initial Determination should be reviewed.

On August 10, 2017, the Commission extended the target date for the investigation from October 30, 2017 to December 1, 2017 and also extended the date for determination of whether to review the Initial Determination from August 31, 2017 to September 29, 2017, and, on that date, the Commission determined to review essentially all issues on the '946 and '136 patents, and none of the issues for the '007 patent. Thus, the asserted claims of the '007 patent have been ruled invalid, and the '007 patent is out of the investigation.

On October 13, 2017, the respondents and Tessera submitted their Opening Submissions to the Commission. These Opening Submissions included opening briefs on infringement and invalidity topics, opening briefs on remedy, opening briefs on the public interest, opening briefs on bonding, and public interest submissions by the public. The Reply Submissions to the opening briefs were submitted on October 23, 2017.

At this point, there is still one patent remaining in the ITC action (the '946 patent), but this one patent could prevent the Company (and all the other respondents) from importing Broadcom-based products into the United States. There is no immediate legal effect from the ALJ's Initial Determination ahead of the Commission's Final Determination on December 1, 2017. If the Final Determination is not favorable to the respondents or the matter is not otherwise resolved, e.g. via settlement, then any exclusion order (injunction) on the Company (and all the other respondents) importing Broadcom-based products into the U.S. would go into effect the next day (December 2, 2017) (subject to postponement by up to two months until February 2, 2018 during the presidential review period upon posting of a bond by the Company). Such exclusion order on the Company's (and all the other respondents') importation of Broadcom-based products into the United States would potentially last until the '946 patent expires on August 31, 2018.

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

e.Digital v. NETGEAR, Inc.

On September 12, 2016, e.Digital Corporation ("e.Digital") filed a lawsuit against the Company in the Northern District of California accusing the Company of infringing U.S. Patent Nos. 8,311,522 (“the ’522 patent”); 8,311,524 (“the ’524 patent”); 9,002,331 (“the ’331 patent”); and 9,178,983 (“the ’983 patent”) (collectively, the “patents-in-suit”), which purportedly cover systems and methods for the remote detection, classification, and communication of sensor data. In the complaint, e.Digital broadly accuses the Company’s Arlo wireless camera systems, including the Arlo Wire-Free, Arlo Q, and Arlo Q Plus cameras (collectively, the “Accused Products”). The allegations are generally directed at the “remote monitoring and communication” functionality of the Accused Products. Specifically, the complaint alleges that the Accused Products infringe the patents-in-suit by utilizing sensors-such as cameras and microphones-to collect data and perform various operations-such as send alerts, trigger video recording, or take a snapshot-in response to a classification of the collected sensor data.

Beginning with a lawsuit against Dropcam in July, 2014, e.Digital has litigated the patents-in-suit, and related portfolio, against a handful of other companies with products similar to the Arlo wireless camera systems. The previous litigation includes the lawsuit against Dropcam along with suits against ArcSoft, Inc., ShenZhen Gospell Smarthome Electronic Co., Ltd., iBaby Labs, Inc., iSmart Alarm, Inc., MivaTek International, Inc., MyFox, Inc., and Nest. Concurrent with the filing of the instant complaint against the Company, e.Digital also filed similar suits against Netatmo LLC and Y-Cam Solutions, LLC. The Company submitted its answer to the e.Digital complaint in early November 2016, denying the infringement allegations and asserting several defenses.

In February of 2017, the Court consolidated some, but not all, of the e.Digital cases for purposes of claim construction. In particular, the Court ordered that the iSmart case, for which claim construction is already fully briefed, move forward as scheduled, while the later Company, Netatmo, and Utility Associates cases be informally consolidated for claim construction purposes. As such, claim construction briefing is set to begin in August 2017, and a claim construction hearing is set for October 2017. The Court has not yet set a trial date. The Company served invalidity contentions on March 6, 2017.

Without admitting any wrongdoing or violation of law and to avoid the distraction and expense of continued litigation and the uncertainty of a jury verdict on the merits, on June 27, 2017, the Company and e.Digital settled the lawsuit for a one-time payment from the Company to e.Digital in return for a license to the Company to the e.Digital patents and applications that are currently owned by e.Digital. The lawsuit against the Company was dismissed with prejudice on July 5, 2017, and the case was closed by the Court.

This litigation matter did not have a material financial impact on the Company.

Script Security Solutions v. NETGEAR, Inc.

On December 12, 2016, Script Security Solutions L.L.C. (“Script”) sued the Company in U.S. District Court, Eastern District of Texas for alleged patent infringement of U.S. Patent Nos. 6,542,078 and 6,828,909. Script is a non-practicing entity and has filed over twenty other lawsuits alleging infringement of the same patents. A first wave of cases was filed in March 2015 against 11 defendants. All but one of those cases has settled or been terminated. A second wave of cases was filed in June 2015 against six defendants. Only two of those cases remain active. The third and most recent wave of cases was filed on December 12, 2016, against the Company and six other defendants.

The asserted patents are related. The ‘909 patent is a continuation-in-part of the ’078 patent. The asserted patents are titled “Portable Motion Detector and Alarm System and Method” and allegedly claim priority to May 30, 1996. The asserted patents generally are directed to a portable security alarm system that detects movement of objects relative to a variety of predetermined positions.

The complaint is directed to the Company's Arlo Home Security Systems and VueZone wireless home video system and alleges that the Company directly infringes at least claim 1 of the '078 patent and claim 1 of the '909 patent.

The answer was originally due on January 12, 2017, but the Company received an extension until February 21, 2017 to answer the complaint. On that date, the Company answered the complaint by submitting a motion to dismiss the complaint because of Script's failure to properly and sufficiently state a claim for relief. On March 3, 2017, Script filed its consolidated response to the various Defendants' (including the Company's) Motions to Dismiss for Failure to State a Claim. The Company's reply brief was submitted on March 10, 2017. The Company also recently received Script's infringement contentions.

Without admitting any wrongdoing or violation of law and to avoid the distraction and expense of continued litigation and the uncertainty of a jury verdict on the merits, on August 1, 2017, the Company and Script Security executed a settlement agreement to settle the lawsuit for a one-time payment from the Company to Script Security in return for a license to the Company to the Script Security patents and applications that are currently owned by Script Security. The case accordingly was dismissed with prejudice on August 8, 2017.

The settlement did not have a material financial impact on the Company.

Realtime Data v. NETGEAR, Inc.

On February 27, 2017, the Company was sued in the Eastern District of Texas by Realtime Data LLC (“Realtime”), which claims to do business as “Ixo.” The complaint includes four (4) asserted patents:

- US 9,054,728, Data compression systems and methods;
- US 7,415,530, System and methods for accelerated data storage and retrieval;
- US 9,116,908, System and methods for accelerated data storage and retrieval; and
- US 8,717,204, Methods for encoding and decoding data

The accused products specifically include the Company’s “ReadyDATA RD5200, RDD516, ReadyRECOVER” products. Generally, the complaint alleges that the asserted patents are directed to various compression / decompression algorithms and systems and is directed at the Company’s ReadyDATA, ReadyNAS, and ReadyRECOVER products.

Realtime has filed several patent suits over the last few years and the asserted patents have gone through various rounds of litigation and IPRs. In this particular tranche of Realtime lawsuits, Realtime also sued Array Networks, Barracuda Networks, Carbonite, Circadence, Comm Vault, Exinda and Snacor.

The Company received an extension until May 8, 2017 to answer the complaint and answered the complaint on that date. On August 15, 2017, the Company filed its motion to transfer venue for convenience from the Eastern District of Texas to the Northern District of California. On September 19, 2017, the plaintiff filed its Opposition to the Company’s motion to transfer venue. On October 11, 2017, the Eastern District of Texas granted the Company’s motion to transfer venue to the Northern District of California.

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

Magnacross v. NETGEAR, Inc.

On April 12, 2017, Magnacross LLC (“Magnacross”) sued the Company in U.S. District Court, Eastern District of Texas for alleged patent infringement of exemplary claim 12 of US Patent 6,917,304, and appears to contend that compliance with 802.11 standards necessarily results in infringement, specifically mentioning 802.11b/g and 802.11n-compliant radios in the Company’s products. Magnacross sued five other companies on April 12, 2017, seven others in December 2016, and 17 others in May 2016 on the same patent. The complaint identifies the AC1750, AC1450, AC1200, and AC750 WiFi routers as exemplary accused products and also references the Company’s Arlo cameras.

The Company received an extension until June 7, 2017 to answer the complaint, and the Company answered the complaint on that date by requesting a transfer out of the Eastern District of Texas, as the Company's legal position is that venue is improper in the Eastern District of Texas.

Without admitting any wrongdoing or violation of law and to avoid the distraction and expense of continued litigation and the uncertainty of a jury verdict on the merits, on October 3, 2017, the Company and Magnacross settled the lawsuit for a one-time payment from the Company to Magnacross in return for a license to the Company to the patent in suit and all of its related patents and applications that are currently owned by Magnacross. The case accordingly was voluntarily dismissed with prejudice on October 30, 2017.

This litigation matter did not have a material financial impact on the Company.

Williams v. NETGEAR, Inc.

On April 14, 2017, Plaintiff Stewart Williams filed a putative class action against the Company in the United States District Court for the Northern District of California. Plaintiff is represented by Schubert Jonckheer & Kolbe LLP.

Plaintiff Stewart Williams alleges violations of California and Nevada state consumer protection laws based on NETGEAR’s sale and marketing of its CM700 cable modem (the “Modem”). Specifically, Plaintiff alleges that the Modem contains a defect that causes severe network latency, impairing network connectivity and preventing consumers from utilizing the maximum advertised network bandwidth. According to Plaintiff, NETGEAR had exclusive knowledge of this alleged defect and actively concealed the defect from consumers with false marketing and labeling.

Based on these allegations, Plaintiff seeks to bring his lawsuit as a class action representing a nationwide class of consumers. Plaintiff states causes of action under California’s (1) Song-Beverly Consumer Warranty Act; (2) Consumer Legal Remedies Act, (3) False Advertising Law, and (4) Unfair Competition Law. In addition, Plaintiff seeks to represent a subclass of Nevada consumers and brings a claim under Nevada’s Deceptive Trade Practices Act.

On June 15, 2017, Plaintiffs filed an amended complaint, adding two new named plaintiffs, both residents of California, and also adding the Company’s C6300 cable gateway as a product at issue. The parties agreed to extend the Company’s time to answer the complaint to August 11, 2017.

Without admitting any wrongdoing or violation of law and to avoid the distraction and expense of continued litigation and the uncertainty of a jury verdict on the merits, on August 9, 2017, the Company and the plaintiffs agreed to settle the lawsuit for a one-time payment and shipment of new products to the plaintiffs in return for a dismissal with prejudice of the lawsuit by the plaintiffs. The case accordingly was voluntarily dismissed with prejudice on August 9, 2017.

This litigation matter did not have a material financial impact on the Company.

Vivato v. NETGEAR, Inc.

On April 19, 2017, the Company was sued by XR Communications (d/b/a) Vivato (“Vivato”) in the United States District Court, Central District of California.

Based on its complaint, Vivato purports to be a research and development and product company in the Wi-Fi area, but it appears that Vivato is not currently a manufacturer of commercial products. The three (3) patents that Vivato asserts against the Company are U.S. Patent Nos. 7,062,296, 7,729,728, and 6,611,231. The ’296 and ’728 patents are entitled “Forced Beam Switching in Wireless Communication Systems Having Smart Antennas.” The ’231 patent is entitled “Wireless Packet Switched Communication Systems and Networks Using Adaptively Steered Antenna Arrays.” Vivato also has recently asserted the same patents in the Central District of California against D-Link, Ruckus, and Aruba, among others.

According to the complaint, the accused products include WiFi access points and routers supporting MU-MIMO, including without limitation access points and routers utilizing the IEEE 802.11ac-2013 standard. The accused technology is standards-based, and more specifically, based on the transmit beamforming technology in the 802.11ac Wi-Fi standard.

The Company answered an amended complaint on July 7, 2017. In its answer, the Company objected to venue and recited that objection as a specific affirmative defense, so as to expressly reserve the same. The Company also raised several other affirmative defenses in its answer.

On August 28, 2017, the Company submitted its initial disclosures to the plaintiff. The initial scheduling conference was on October 2, 2017, and the Court set five day jury trial for March 19, 2019 for the leading Vivato/D-Link case, meaning the Company’s trial date will be at some point after March 19, 2019. Discovery in this case is ongoing.

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

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Hera Wireless v. NETGEAR, Inc.

On July 14, 2017, the Company was sued by Sisvel (via Hera Wireless) in the District of Delaware on three related patents allegedly covering the 802.11n standard. Similar complaints were filed against Amazon, ARRIS, Belkin, Buffalo, and Roku. The Company has not yet answered the complaint and has received an extension until December 12, 2017 to do so.

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

MyMail v. NETGEAR, Inc.

On August 25, 2017, the non-practicing entity MyMail Ltd. (“MyMail”) sued the Company for patent infringement in the District of Delaware. This is MyMail’s third round of cases, starting in November 2016, and, in this round, MyMail also filed against Ricoh, Panasonic, Acer, and TCL Communications.

MyMail is accusing essentially all the Company’s routers and range extenders of infringing claim 5 of U.S. Patent 8,732,318 (the ‘318 patent), entitled “Method of Connecting a User to a Network.” Claim 5 of the ’318 Patent describes a method for modifying network access information and then accessing the network using the modified information. MyMail is specifically accusing the Wi-Fi Protected Setup (WPS) function of the accused routers and range extenders. The Company has not yet answered the complaint and has received an extension until November 7, 2017 to do so.

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.

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 9. Stockholders' Equity

Stock Repurchases

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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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. On April 25, 2017, the Board of Directors authorized the repurchase of up to 3.0 million shares of its outstanding common stock which, at the time of authorization, were incremental to the remaining shares under the Company's previous share repurchase program. As of October 1, 2017, 2.5 million shares remained authorized for repurchase under the repurchase program. All shares authorized under previously approved programs were fully utilized. The Company repurchased, as reported based on trade date, 1.8 million shares of common stock at a cost of $86.6 million during the nine months ended October 1, 2017. The Company repurchased, reported based on trade date, 0.6 million shares of common stock at a cost of $23.3 million under the repurchase authorization during the nine months ended October 2, 2016.

The Company repurchased, as reported based on trade date, approximately 127,000 shares of common stock at a cost of $6.0 million to help administratively facilitate the withholding and subsequent remittance of personal income and payroll taxes for individuals receiving RSUs during the nine months ended October 1, 2017. Similarly, during the nine months ended October 2, 2016, the Company repurchased, as reported based on trade date, approximately 99,000 shares of common stock at a cost of $4.4 million 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.

Accumulated Other Comprehensive Income

The following table sets forth the changes in accumulated other comprehensive income ("AOCI") by component for the nine months ended October 1, 2017 and October 2, 2016:

	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on derivatives	Estimated tax benefit (provision)	Total
	(In thousands)			
Balance as of December 31, 2016	$(31)	$ 2,230	$ (261)	$1,938
Other comprehensive income (loss) before reclassifications	(41)	(10,590)	2,038	(8,593)
Less: Amount reclassified from accumulated other comprehensive income	—	(2,912)	1,019	(1,893)
Net current period other comprehensive income (loss)	(41)	(7,678)	1,019	(6,700)
Balance as of October 1, 2017	$(72)	$ (5,448)	$ 758	$(4,762)

	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on derivatives	Estimated tax benefit (provision)	Total

	(In thousands)			
Balance as of December 31, 2015	$(64)	$ 43	$ 24	$3
Other comprehensive income (loss) before reclassifications	104	(1,116)	393	(619)
Less: Amount reclassified from accumulated other comprehensive income	—	(1,320)	462	(858)
Net current period other comprehensive income (loss)	104	204	(69)	239
Balance as of October 2, 2016	$40	$ 247	$ (45)	$242

NETGEAR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables provide details about significant amounts reclassified out of each component of AOCI for the three and nine months ended October 1, 2017 and October 2, 2016:

Details about Accumulated Other Comprehensive Income Components	Three Months Ended October 1, 2017		Nine Months Ended October 1, 2017	
	Amount Reclassified from AOCI (In thousands)	Affected Line Item in the Statements of Operations	Amount Reclassified from AOCI (In thousands)	Affected Line Item in the Statement of Operations
Gains (losses) on cash flow hedge:				
Foreign currency forward contracts	$(4,401)	Net revenue	$(3,374)	Net revenue
Foreign currency forward contracts	19	Cost of revenue	5	Cost of revenue
Foreign currency forward contracts	822	Operating expenses	457	Operating expenses
	(3,560)	Total before tax	(2,912)	Total before tax
	1,246	Tax impact	1,019	Tax impact
	$(2,314)	Total, net of tax	$(1,893)	Total, net of tax

Details about Accumulated Other Comprehensive Income Components	Three Months Ended October 2, 2016		Nine Months Ended October 2, 2016	
	Amount Reclassified from AOCI (In thousands)	Affected Line Item in the Statements of Operations	Amount Reclassified from AOCI (In thousands)	Affected Line Item in the Statement of Operations
Gains (losses) on cash flow hedge:				
Foreign currency forward contracts	$(824)	Net revenue	$(1,543)	Net revenue
Foreign currency forward contracts	4	Cost of revenue	4	Cost of revenue
Foreign currency forward contracts	163	Operating expenses	219	Operating expenses
	(657)	Total before tax	(1,320)	Total before tax
	230	Tax impact	462	Tax impact
	$(427)	Total, net of tax	$(858)	Total, net of tax

Note 10. Employee Benefit Plans

The Company grants options and RSUs under the 2016 Incentive Plan (the "2016 Plan"), under which awards may be granted to all employees. Award vesting periods for this plan are generally four years. As of October 1, 2017, approximately 2.0 million shares were reserved for future grants under the 2016 Plan.

Additionally, the Company sponsors 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. The terms of the plan include a look-back feature that enables employees to purchase stock semi-annually at a price equal to 85% of the lesser of the fair market value at the beginning of the offering period or the purchase date. As of October 1, 2017, approximately 0.9 million shares were available for issuance under the ESPP.

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Option Activity

Stock option activity during the nine months ended October 1, 2017 was as follows:

	Number of shares	Weighted Average Exercise Price Per Share
	(In thousands)	(In dollars)
Outstanding as of December 31, 2016	1,884	$ 31.14
Granted	328	42.70
Exercised	(230)	27.83
Cancelled	—	—
Expired	(1)	31.70
Outstanding as of October 1, 2017	1,981	$ 33.44

RSU Activity

RSU activity during the nine months ended October 1, 2017 was as follows:

	Number of shares	Weighted Average Grant Date Fair Value Per Share
	(In thousands)	(In dollars)
Outstanding as of December 31, 2016	996	$ 36.22
Granted	553	49.50
Vested	(382)	35.13
Cancelled	(54)	43.87
Outstanding as of October 1, 2017	1,113	$ 42.83

Valuation and Expense Information

The fair value of each option award and share granted under the ESPP commencing February 16, 2016 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 for options and ESPP shares 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 for options and ESPP shares is based on historical volatility over the most recent period commensurate with the estimated expected term. Upon the adoption of ASU 2016-09, the Company elected to account for forfeitures as they occur, rather than estimating expected forfeitures. Refer to recently adopted accounting pronouncement under Note 2, Summary of Significant Accounting Policies, for a further discussion of the impact from the adoption of ASU 2016-09.

The table below sets forth the weighted average assumptions used to estimate the fair value of option grants and purchase rights granted under the ESPP during the three and nine months ended October 1, 2017 and October 2, 2016.

	Three Months Ended				Nine Months Ended			
	Stock Options		ESPP		Stock Options		ESPP	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Expected life (in years)	NA	NA	0.5	0.5	4.4	4.4	0.5	0.5
Risk-free interest rate	NA	NA	1.12 %	0.45 %	1.65 %	1.28 %	0.93 %	0.43 %
Expected volatility	NA	NA	31.3 %	28.6 %	31.6 %	35.4 %	29.7 %	38.3 %
Dividend yield	NA	NA	—	—	—	—	—	—

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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:

	Three Months Ended		Nine Months Ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
	(In thousands)			
Cost of revenue	$499	$ 426	$1,477	$ 1,316
Research and development	1,056	1,087	3,748	3,071
Sales and marketing	1,654	1,300	4,339	3,835
General and administrative	2,374	2,057	6,848	6,078
Total stock-based compensation	$5,583	$ 4,870	$16,412	$ 14,300

As of October 1, 2017, $8.0 million of unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.7 years. $39.2 million of unrecognized compensation cost related to unvested RSUs is expected to be recognized over a weighted-average period of 2.6 years.

Note 11. Segment Information

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 has identified its CEO as the CODM.

In the first quarter of fiscal 2017, the Company's CODM requested changes to the information that he regularly reviews for purposes of allocating resources and assessing performance. The Company reorganized its operating segment structure, resulting in a change to its reportable segments. The former Service Provider segment was integrated into the current segments which are organized by product groups. Beginning fiscal 2017, the Company operates and reports in three segments: Arlo, Connected Home, and Small and Medium Business ("SMB"):

- Arlo: Focused on intelligent internet-connected products for consumers and business that provide security and safety;

- Connected Home: Focused on consumers and consists of high-performance, dependable and easy-to-use LTE and WiFi internet networking solutions; and

- SMB: Focused on small and medium-sized businesses and consists of business networking, storage and security solutions that bring enterprise-class functionality to small and medium-sized businesses at an affordable price.

The Company believes that this structure reflects its current operational and financial management, and provides the best structure for the Company to focus on growth opportunities while maintaining financial discipline. Each segment contains leadership focused on the product development efforts, both from a product marketing and engineering standpoint, to service the unique needs of their customers.

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 revenue, research and development and sales and marketing expenses. Contribution income is used, in part, to evaluate the performance of, and allocate resources to, each of the segments. The CODM does not evaluate operating segments using discrete asset information. Certain operating expenses are not allocated to segments because they are separately managed at the corporate level. These unallocated indirect costs include corporate expenses, such as corporate research and development, corporate marketing expense and general and administrative expense, amortization of intangibles, stock-based compensation expense, restructuring and other charges, litigation reserves, net, interest income and other income (expense), net.

Financial information for each reportable segment and a reconciliation of segment contribution income to income before income taxes is as follows:

	Three Months Ended		Nine Months Ended	
	October 1, 2017	October 2, 2016*	October 1, 2017	October 2, 2016*
	(In thousands, except percentage data)			
Net revenue:				
Arlo	$110,460	$48,642	$249,904	$111,492
Connected Home	183,099	215,116	563,365	629,880
SMB	61,924	74,700	196,594	218,997
Total net revenue	$355,483	$338,458	$1,009,863	$960,369
Contribution income (loss):				
Arlo	$15,230	$(771)	$18,723	$(4,212)
Arlo contribution margin	13.8 %	(1.6)%	7.5 %	(3.8)%
Connected Home	$24,546	$36,330	$81,382	$111,587
Connected Home contribution margin	13.4 %	16.9 %	14.4 %	17.7 %
SMB	$12,583	$20,747	$47,839	$54,988
SMB contribution margin	20.3 %	27.8 %	24.3 %	25.1 %
Total segment contribution income	$52,359	$56,306	$147,944	$162,363
Corporate and unallocated costs	(18,740)	(17,532)	(53,974)	(50,666)
Amortization of intangibles [1]	(2,608)	(4,165)	(10,136)	(12,496)
Stock-based compensation expense	(5,583)	(4,870)	(16,412)	(14,300)
Restructuring and other charges	(19)	130	(78)	(3,859)
Litigation reserves, net	(15)	(13)	(68)	(58)
Interest income	501	291	1,388	804
Other income (expense), net	666	116	1,384	(582)
Income before income taxes	$26,561	$30,263	$70,048	$81,206

(1) Amount excludes amortization expense related to patents within purchased intangibles in cost of revenue.
* Prior year financial information for each reportable segment has been recast to conform to the current reportable segment structure effective on January 1, 2017.

The following table shows net revenue from service provider customers within each of the reportable segments for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
	(In thousands)			
Arlo	$5,794	$3,513	$15,743	$14,730
Connected Home	44,631	66,042	146,309	204,250
SMB	1,114	1,295	2,492	3,489
Total service provider net revenue	$51,539	$70,850	$164,544	$222,469

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

The Company conducts business across three geographic regions: Americas, Europe, Middle-East and Africa (“EMEA”) and Asia Pacific ("APAC"). Net revenue consists of gross product shipments, less allowances for estimated sales returns for stock rotation and warranty, price protection, end-user customer rebates and other channel sales incentives deemed to be a reduction of net revenue per the authoritative guidance for revenue recognition, and net changes in deferred revenue. 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:

	Three Months Ended		Nine Months Ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
	(In thousands)			
United States (U.S.)	$235,584	$217,631	$663,096	$610,505
Americas (excluding U.S.)	8,804	7,604	19,870	19,488
EMEA	62,161	60,034	175,810	176,192
APAC	48,934	53,189	151,087	154,184
Total net revenue	$355,483	$338,458	$1,009,863	$960,369

Long-lived assets include purchased intangibles, goodwill and property and equipment. The Company's property and equipment are located in the following geographic locations:

	As of	
	October 1, 2017	December 31, 2016
	(In thousands)	
United States	$9,278	$ 9,542
Canada	1,832	2,745
EMEA	172	210
China	6,390	5,219
APAC (excluding China)	2,556	1,757
Total property and equipment, net	$20,228	$ 19,473

Note 12. Fair Value Measurements

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of October 1, 2017:

	As of October 1, 2017			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In thousands)			
Assets:				
Cash equivalents: money-market funds	$15,105	$ 15,105	$ —	$ —
Available-for-sale securities: U.S. treasuries [(1)]	124,087	124,087	—	—
Available-for-sale securities: certificates of deposit [(1)]	162	162	—	—
Trading securities: mutual funds [(1)]	1,964	1,964	—	—
Foreign currency forward contracts [(2)]	2,540	—	2,540	—
Total assets measured at fair value	$143,858	$ 141,318	$ 2,540	$ —

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

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	As of October 1, 2017			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In thousands)			
Liabilities:				
Foreign currency forward contracts [3]	$11,749	$ —	$ 11,749	$ —
Total liabilities measured at fair value	$11,749	$ —	$ 11,749	$ —

[3] Included in other accrued liabilities on the Company's unaudited condensed consolidated balance sheets.

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	As of December 31, 2016			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In thousands)			
Assets:				
Cash equivalents: money-market funds	$17,027	$ 17,027	$ —	$ —
Available-for-sale securities: U.S. treasuries [1]	123,838	123,838	—	—
Available-for-sale securities: certificates of deposit [1]	148	148	—	—
Trading securities: mutual funds [1]	1,528	1,528	—	—
Foreign currency forward contracts [2]	8,763	—	8,763	—
Total assets measured at fair value	$151,304	$ 142,541	$ 8,763	$ —

[1] Included in short-term investments on the Company's unaudited condensed consolidated balance sheets.
[2] Included in prepaid expenses and other current assets on the Company's unaudited condensed consolidated balance sheets.

	As of December 31, 2016			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In thousands)			
Liabilities:				
Foreign currency forward contracts [3]	$1,705	$ —	$ 1,705	$ —
Total liabilities measured at fair value	$1,705	$ —	$ 1,705	$ —

[3] Included in other accrued liabilities on the Company's unaudited condensed consolidated balance sheets.

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. As of October 1, 2017 and December 31, 2016, the adjustment for non-performance risk did not have a material impact on the

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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 13. 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 $2.4 million and $6.9 million for the three and nine months ended October 1, 2017, respectively, and $2.2 million and $7.0 million for the three and nine months ended October 2, 2016, respectively.

Note 14. Restructuring and Other Charges

The Company accounts for its restructuring plans under the authoritative guidance for exit or disposal activities. The Company presents expenses related to restructuring and other charges as a separate line item in the unaudited condensed consolidated statements of operations. Accrued restructuring and other charges are classified within other accrued liabilities in the unaudited condensed consolidated balance sheets.

No significant restructuring and other charges were recognized during the three and nine months ended October 1, 2017. Restructuring and other charges recognized in the three and nine months ended October 2, 2016 was primarily related to severance, other one-time termination benefits and other associated costs. 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 October 1, 2017:

	Accrued Restructuring and Other Charges at December 31, 2016	Additions	Cash Payments	Adjustments	Accrued Restructuring and Other Charges at October 1, 2017
	(In thousands)				
Restructuring					
Employee termination charges	$6	$ —	$ —	$ —	$ 6
Lease contract termination and other charges	1,402	78	(302)	—	1,178
Total Restructuring and other charges	$1,408	$ 78	$ (302)	$ —	$ 1,184

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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, Section 21E of the Securities Exchange Act of 1934, as amended and the Private Securities Litigation Reform Act of 1995. 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 expression 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 company that delivers innovative networking and Internet connected products to consumers and growing businesses. 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 devices that create and extend wired and wireless networks as well as devices that provide a special function and attach to the network, such as IP security cameras and home automation devices and services. These products are available in multiple configurations to address the changing needs of our customers in each geographic region in which our products are sold.

In the first quarter of fiscal 2017, our Chief Operating Decision Maker requested changes to the information that he regularly reviews for purposes of allocating resources and assessing performance. By consequence, we reorganized our operating segment structure, resulting in a change to our reportable segments. The former Service Provider segment was integrated into the current segments which are organized by product groups. Beginning fiscal 2017, we operate and report in three segments: Arlo, Connected Home, and Small and Medium Business ("SMB"). For additional information on the changes in the reportable segments, refer to Note 11, Segment Information, in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

We believe that this structure reflects our current operational and financial management, and provides the best structure for us to focus on growth opportunities while maintaining financial discipline. Each segment contains leadership focused on the product development efforts, both from a product marketing and engineering standpoint, to service the unique needs of their customers. The Arlo segment is focused on intelligent internet-connected products for consumers and business that provide security and safety. The Connected Home segment is focused on consumers and consists of high-performance, dependable and easy-to-use LTE and WiFi internet networking solutions. The SMB segment is focused on small and medium-sized businesses and consists of business networking, storage and security solutions that bring enterprise-class functionality to small and medium-sized businesses at an affordable price. We conduct business across three geographic regions: Americas; Europe, Middle-East and Africa ("EMEA") and Asia Pacific ("APAC").

The markets in which all of our segments operate are intensely competitive and subject to rapid technological change. We believe that the principal competitive factors in the consumer and small and medium-sized businesses 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, security, 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. Among these investments is an enhanced focus on cybersecurity relating to our products and systems, as the threat of cyber-attacks and exploitation of potential security vulnerabilities in our industry is on the rise and is increasingly a significant consumer concern.

We sell our 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

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channel includes traditional retail locations domestically and internationally, such as Best Buy, Costco, Fry's Electronics, Staples, Target, Wal-Mart, Argos (U.K.), PC World (U.K.), MediaMarkt (Europe), Darty (France), JB HiFi (Australia), Elkjop (Norway) and Sunning and Guomei (China). Online retailers include Amazon.com worldwide, Newegg.com (US), JD.com and Alibaba (China), as well as NBB.com (Germany) and Coolblue.com (Netherlands). 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"), xDSL, 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 fiscal 2017, we experienced a 5.0% increase in net revenue while income from operations fell 14.9% compared to the third quarter of fiscal 2016. The increase in net revenue was attributable to the performance of our Arlo segment which saw net revenue increase by 127.1%, partially offset by declines in both the Connected Home and SMB of 14.9% and 17.1%, respectively. The increase in Arlo segment net revenue was mainly driven by our Arlo smart camera product line which continues to experience strong end user demand within a high growth market. The decrease in Connected Home segment net revenue was primarily due to lower gross shipments of broadband modem and gateway and powerline products. SMB segment experienced a decline in net revenue across all product categories mainly due to a fall in gross shipment of switches compared to the prior year period. Income from operations fell $4.5 million as increased contribution profit generated by the Arlo segment was offset by declines in both Connected Home and SMB segments. The increase in Arlo contribution income was due to the significant growth in net revenue not being met with proportionate increases in operating expenditures. Contribution income declines in Connected Home and SMB were as a result of lower gross profit attainment, due in part to higher investment in channel promotional activities as well as increased sales returns.

On a geographic basis, net revenue during the third quarter of fiscal 2017 increased in the Americas and EMEA and declined in APAC compared to the third quarter of fiscal 2016. The increase in Americas net revenue was primarily driven by higher gross shipments of our Arlo smart cameras, partially offset by declines in gross shipments of broadband modem and gateway products and switches. The increase in EMEA was primarily driven by increased gross shipments of our Arlo smart cameras, partially offset by a reduction in gross shipments of broadband modem and gateway and powerline products. APAC net revenue decreased due to a decline in gross shipments of our broadband modem and gateway products, partially offset by increased gross shipments of mobile products and Arlo smart cameras.

Looking forward, we expect strong growth in our Arlo segment driven by increasing demand for our Arlo smart camera products as well as through the introductions of new product categories and services. We also expect growth in our SMB segment driven by sales of our 10Gig, PoE, web-managed and app-managed switches and rackmount storage products. We expect our Connected Home segment net revenue to be flat compared with the same period of the prior year as we expect service provider net revenue to transition to other segments. In addition, we expect a shift in consumer preference away from single point WiFi routers to whole Home WiFi Systems which may require increased marketing and promotional expenditure to achieve similar levels of market share as we have experienced in the WiFi router category. We expect net revenue from service provider customers to be approximately $55 million for the fourth quarter of fiscal 2017.

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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 October 1, 2017, with the comparable reporting period in the preceding year.

	Three Months Ended				Nine Months Ended			
	October 1, 2017		October 2, 2016		October 1, 2017		October 2, 2016	
	(In thousands, except percentage data)							
Net revenue	$355,483	100.0 %	$338,458	100.0 %	$1,009,863	100.0 %	$960,369	100.0 %
Cost of revenue	252,388	71.0 %	235,336	69.5 %	717,900	71.1 %	658,894	68.6 %
Gross profit	103,095	29.0 %	103,122	30.5 %	291,963	28.9 %	301,475	31.4 %
Operating expenses:								
Research and development	23,127	6.5 %	21,935	6.5 %	69,167	6.8 %	65,876	6.9 %
Sales and marketing	40,311	11.4 %	37,337	11.0 %	115,001	11.4 %	110,703	11.5 %
General and administrative	14,229	4.0 %	14,111	4.2 %	40,373	4.0 %	39,995	4.2 %
Restructuring and other charges	19	0.0 %	(130)	(0.0)%	78	0.0 %	3,859	0.4 %
Litigation reserves, net	15	0.0 %	13	0.0 %	68	0.0 %	58	0.0 %
Total operating expenses	77,701	21.9 %	73,266	21.7 %	224,687	22.2 %	220,491	23.0 %
Income from operations	25,394	7.1 %	29,856	8.8 %	67,276	6.7 %	80,984	8.4 %
Interest income	501	0.2 %	291	0.1 %	1,388	0.1 %	804	0.2 %
Other income (expense), net	666	0.2 %	116	0.0 %	1,384	0.1 %	(582)	(0.1)%
Income before income taxes	26,561	7.5 %	30,263	8.9 %	70,048	6.9 %	81,206	8.5 %
Provision for income taxes	5,767	1.7 %	9,144	2.7 %	18,678	1.8 %	27,464	2.9 %
Net income	$20,794	5.8 %	$21,119	6.2 %	$51,370	5.1 %	$53,742	5.6 %

Net Revenue by Geographic Region

Our net revenue consists of gross product shipments, less allowances for estimated sales returns for stock rotation and warranty, price protection, end-user customer rebates and other channel 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		
	October 1, 2017	% Change	October 2, 2016	October 1, 2017	% Change	October 2, 2016
	(In thousands, except percentage data)					
Americas	$244,388	8.5 %	$225,235	$682,966	8.4 %	$629,993
Percentage of net revenue	68.7 %		66.6 %	67.6 %		65.6 %
EMEA	$62,161	3.5 %	$60,034	$175,810	(0.2)%	$176,192
Percentage of net revenue	17.5 %		17.7 %	17.4 %		18.3 %
APAC	$48,934	(8.0)%	$53,189	$151,087	(2.0)%	$154,184
Percentage of net revenue	13.8 %		15.7 %	15.0 %		16.1 %
Total net revenue	$355,483	5.0 %	$338,458	$1,009,863	5.2 %	$960,369

Americas

The increase in Americas net revenue for the three and nine months ended October 1, 2017 was due to higher gross shipments of our Arlo smart cameras, partially offset by declines in gross shipments of broadband modem and gateway products and switches. Net revenue was further impacted by sales returns and channel promotion activities deemed to be a reduction of revenue increasing proportionately compared to the prior year periods. Arlo segment net revenue experienced year over year growth of 129% for both the three and nine months ended October 1, 2017. We continue to experience robust end user demand

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for our Arlo product portfolio. In the three and nine months ended October 1, 2017, Connected Home net revenue fell by 15% and 10%, respectively, compared to the prior year periods, primarily due to significant declines in service provider net revenue. The fall in service provider net revenue is as a result of decisions taken by management in fiscal 2015 and 2016 to reduce focus on sales to certain service provider customers. SMB net revenue fell 23% and 15% in the three and nine months ended October 1, 2017. The decline in SMB net revenue in both periods was as a result of lower gross shipments of switches aligned with higher proportionate sales returns and channel promotion activities deemed to be a reduction of revenue.

EMEA

EMEA net revenue increased in the three months ended October 1, 2017, compared to the prior year period, driven by increased gross shipments of our Arlo smart cameras. The increase was partially offset by falls in gross shipments of our broadband modem and gateway and powerline products. EMEA net revenue slightly decreased for the nine months ended October 1, 2017, compared to the prior year period, as a result of a decline in gross shipments of our broadband modem and gateway and powerline products, partially offset by increased gross shipments of our Arlo smart cameras and home wireless products. In the nine months ended October 1, 2017, net revenue from service providers declined 35%, while net revenue from non-service provider customers increased 5%, as compared to the prior year period. The reduction in net revenue from service provider customers was as a result of decisions taken by management in fiscal 2015 and fiscal 2016 to reduce focus on sales to certain service provider customers. Further, during the nine months ended October 2, 2016, EMEA net revenue was positively impacted by the reversal of a $3.3 million charge established in the period ended June 28, 2015 against net revenue relating to an anticipated credit to a service provider customer to resolve a disputed quality issue.

APAC

APAC net revenue decreased in the three and nine months ended October 1, 2017, compared to the prior year periods. The decrease was primarily attributable to lower gross shipments of our broadband modem and gateway products, partially offset by higher gross shipments of our mobile products and Arlo smart cameras.

Cost of Revenue and Gross Margin

Cost of revenue consists primarily of the following: the cost of finished products from our third party 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.

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 channel sales incentives, and changes in our cost of goods sold due to fluctuations in prices paid for components, net of vendor rebates, warranty and overhead costs, inbound freight and duty, conversion costs, charges for excess or obsolete inventory and amortization of acquired intangibles. The following table presents costs of revenue and gross margin, for the periods indicated:

	Three Months Ended			Nine Months Ended		
	October 1, 2017	% Change	October 2, 2016	October 1, 2017	% Change	October 2, 2016
	(In thousands, except percentage data)					
Cost of revenue	$252,388	7.2 %	$235,336	$717,900	9.0 %	$658,894
Gross margin	29.0 %		30.5 %	28.9 %		31.4 %

Cost of revenue increased for the three and nine months ended October 1, 2017, compared to the prior year periods, primarily due to increased net revenue.

Gross margin decreased for the three and nine months ended October 1, 2017 compared to the prior year periods. Gross margin was impacted by a number of factors including segment net revenue mix, increased investment in channel promotion activities deemed to be contra-revenue under the authoritative guidance for revenue recognition and higher provision for sales return and warranty expense.

We expect gross margin percentage for the fourth quarter of fiscal 2017 to be flat to slightly down compared with the first nine months of fiscal 2017 performance, as we increase our marketing spending to drive market share gains for both Arlo and

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Orbi product lines. 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, duty 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 expense consists 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		
	October 1, 2017	% Change	October 2, 2016	October 1, 2017	% Change	October 2, 2016
	(In thousands, except percentage data)					
Research and development expense	$23,127	5.4 %	$ 21,935	$69,167	5.0 %	$ 65,876

Research and development expense increased for the three months ended October 1, 2017, compared to the prior year period, due to increased spending of $1.8 million in engineering projects and outside professional services, $0.4 million in IT and facility allocations, and $0.3 million in personnel-related expenditures, partially offset by a reduction in variable compensation of $1.3 million. Research and development expense increased for the nine months ended October 1, 2017, compared to the prior year period, due to increased spending of $4.7 million in engineering projects and outside professional services, $1.5 million in personnel-related expenditures, and $0.8 million in IT and facility allocations, partially offset by a reduction in variable compensation of $3.7 million. The increased expenditures on engineering projects and outside professional services are a result of continuous investment in strategic focus areas. Research and development headcount increased from 335 as of October 2, 2016 to 347 as of October 1, 2017. The increase in research and development headcount was attributable to the Arlo segment and shared service engineering, offset by declines to both SMB and Connected Home segments headcount.
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 Arlo product offerings and services, grow our cloud platform capabilities, and connected home products portfolio including services, expand our 10Gig, PoE, web-managed and app-managed switches, and develop innovative WiFi and LTE Advanced coverage solutions. For the fourth quarter of fiscal 2017, we expect research and development expenses to grow in absolute dollars as we continue to allocate resources to areas that we expect will drive future growth and profitability. 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.

Sales and Marketing

Sales and marketing expense consists primarily of advertising, trade shows, corporate communications and other marketing expenses, product marketing expenses, outbound freight costs, amortization of certain intangibles, 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		
	October 1, 2017	% Change	October 2, 2016	October 1, 2017	% Change	October 2, 2016
	(In thousands, except percentage data)					
Sales and marketing expense	$40,311	8.0 %	$ 37,337	$115,001	3.9 %	$ 110,703

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Sales and marketing expense increased for the three months ended October 1, 2017 compared to the prior year period, due to an increase in marketing expenditures of $1.9 million and personnel-related expenditures of $1.4 million, partially offset by a reduction in variable compensation of $0.4 million. Sales and marketing expense increased for the nine months ended October 1, 2017 compared to the prior year period, primarily attributable to an increase in marketing expenditures of $8.5 million, partially offset by a reduction of $1.8 million in variable compensation, lower outside professional services of $1.4 million and IT and facility allocations of $0.5 million. The increased marketing spend was incurred to support new product introductions and brand marketing campaigns.

We expect our sales and marketing expense to be flat as a percentage of net revenue in the fourth quarter of fiscal 2017. We expect to continue to invest in brand marketing to strengthen our competitive position in fast growing product categories. 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.

General and Administrative

General and administrative expense consists of salaries and related expenses for executives, finance and accounting, human resources, information technology, professional fees, including legal costs associated with defending claims against us, 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		
	October 1, 2017	% Change	October 2, 2016	October 1, 2017	% Change	October 2, 2016
	(In thousands, except percentage data)					
General and administrative expense	$14,229	0.8 %	$ 14,111	$40,373	0.9 %	$ 39,995

General and administrative expense increased slightly for the three months ended October 1, 2017, compared to the prior year period, mainly due to higher legal and professional services of $0.6 million and personnel-related expenditures of $0.6 million, substantially offset by lower variable compensation of $1.0 million. General and administrative expense increased slightly for the nine months ended October 1, 2017, compared to the prior year period, mainly due to increases in legal and professional services of $1.6 million, personnel-related expenditures of $1.5 million, substantially offset by a reduction in variable compensation costs of $3.0 million. Headcount increased to 169 employees as of October 1, 2017 from 160 employees as of October 2, 2016.

We expect our general and administrative expenses to be flat as a percentage of net revenue in the fourth quarter of fiscal 2017, but they could fluctuate depending on a number of factors, including the level and timing of expenditures associated with litigation defense costs in connection with the litigation described in Note 8, Commitments and Contingencies, in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q. 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		
October 1, 2017	% Change	October 2, 2016	October 1, 2017	% Change	October 2, 2016
(In thousands, except percentage data)					

Restructuring and other charges	$19	**	$ (130)	$78	(98.0)%	$ 3,859

**Percentage change not meaningful.

No significant restructuring and other charges were recognized during the three and nine months ended October 1, 2017, and the three months ended October 2, 2016. Restructuring and other charges recognized in the nine months ended October 2, 2016 were primarily related to severance, other one-time termination benefits and other associated costs.

Restructuring actions are subject to significant risks, including delays in implementing expense control programs or

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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. For further discussion of restructuring and other charges, refer to Note 14, Restructuring and Other Charges, in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Litigation Reserves, Net

	Three Months Ended			Nine Months Ended		
	October 1, 2017	% Change	October 2, 2016	October 1, 2017	% Change	October 2, 2016
	(In thousands, except percentage data)					
Litigation reserves, net	$15	15.4 %	$ 13	$68	17.2 %	$ 58

No significant litigation reserves or benefits were recognized during the three and nine months ended October 1, 2017 and October 2, 2016. For a detailed discussion of our litigation matters, refer to Note 8, Commitments and Contingencies, in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

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		
	October 1, 2017	% Change	October 2, 2016	October 1, 2017	% Change	October 2, 2016
	(In thousands, except percentage data)					
Interest income	$501	72.2 %	$ 291	$1,388	72.6 %	$ 804
Other income (expense), net	666	**	116	1,384	**	(582)
Total	$1,167	**	$ 407	$2,772	**	$ 222

**Percentage change not meaningful.

Interest income increased for the three and nine months ended October 1, 2017 compared to the prior year periods due to increased yields on short term investments.

Other income (expense), net increased for the three and nine months ended October 1, 2017, compared to the prior year periods, due primarily to higher foreign currency transaction gains, partially offset by losses recognized relating to foreign currency forward contracts. Our foreign currency hedging program effectively reduced volatility associated with hedged currency exchange rate movements during the three and nine months ended October 1, 2017. For a detailed discussion of our hedging program and related foreign currency contracts, refer to Note 5, Derivative Financial Instruments, in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Provision for Income Taxes

Three Months Ended			Nine Months Ended		
October 1, 2017	% Change	October 2, 2016	October 1, 2017	% Change	October 2, 2016
(In thousands, except percentage data)					

Provision for income taxes	$5,767	(36.9)%	$9,144	$18,678	(32.0)%	$27,464
Effective tax rate	21.7 %		30.2 %	26.7 %		33.8 %

The decrease in the effective tax rate and the income tax provision for the three and nine months ended October 1, 2017, compared to the three and nine months ended October 2, 2016, resulted from the reversal of uncertain tax positions and related interest of $2.1 million from the completion of tax audits and the lapsing of statutes of limitation. We adopted ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" on January 1, 2017, which requires excess tax benefits or deficiencies to be reflected in the unaudited condensed consolidated statements of operations as a component of the provision for income taxes whereas they previously were recorded in equity. Total excess tax benefits recognized in the three and nine

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months ended October 1, 2017 was $0.3 million and $2.1 million, respectively. The decrease in the effective tax rate and income tax provision for the three and nine months ended October 1, 2017, compared to the three and nine months ended October 2, 2016, was partially offset by a $1.8 million non-recurring tax benefit related to a change in estimate during the three months ended October 2, 2016.

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.

Segment Information

Beginning fiscal 2017, we operate and report in three segments: Arlo, Connected Home, and SMB. Additional information on the changes to the reportable segments, 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 11, Segment Information, in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Arlo

	Three Months Ended			Nine Months Ended		
	October 1, 2017	% Change	October 2, 2016*	October 1, 2017	% Change	October 2, 2016*
	(in thousands, except percentage data)					
Net revenue	$110,460	127.1 %	$48,642	$249,904	124.1 %	$111,492
Percentage of total net revenue	31.1 %		14.4 %	24.7 %		11.6 %
Contribution income	$15,230	**	$(771)	$18,723	**	$(4,212)
Contribution margin	13.8 %		(1.6)%	7.5 %		(3.8)%

* Prior year financial results have been recast to conform to the reportable segment structure effective on January 1, 2017.
** Percentage change not meaningful.

Arlo segment net revenue increased significantly for the three and nine months ended October 1, 2017, compared to the prior year periods. The rapid expansion of the smart camera market combined with the introduction of our Arlo Pro and recently launched Arlo Pro 2 smart camera was mainly responsible for the year over year increases. We continue to experience strong end user demand across all regions for our Arlo product line and we expect demand within the smart camera market to continue to be robust.

Contribution income increased significantly for the three and nine months ended October 1, 2017 compared with contribution loss in the prior year periods. The improved profitability was mainly as a result of higher net revenue. In addition, the growth in net revenue was not met with proportionate increases in operating expenditures, further assisting profitability. We do expect that the contribution margin will come down in the fourth quarter as we look to expand our engineering resources as well as increase investments in brand marketing spending.

Connected Home

	Three Months Ended			Nine Months Ended		
	October 1, 2017	% Change	October 2, 2016*	October 1, 2017	% Change	October 2, 2016*
	(in thousands, except percentage data)					
Net revenue	$183,099	(14.9)%	$215,116	$563,365	(10.6)%	$629,880
Percentage of total net revenue	51.5 %		63.5 %	55.8 %		65.6 %

Contribution income	$24,546	(32.4)%	$36,330	$81,382	(27.1)%	$111,587
Contribution margin	13.4 %		16.9 %	14.4 %		17.7 %

* Prior year financial results have been recast to conform to the reportable segment structure effective on January 1, 2017.

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Connected Home segment net revenue decreased for the three and nine months ended October 1, 2017, compared to the prior year periods. The decrease in Connected Home net revenue was primarily due to lower gross shipments of broadband modem and gateway and powerline products to both service provider and non-service provider customers. The decrease was partially offset by increased gross shipments of mobile products to service provider customers and home wireless products to non-service provider customers. Geographically, in the three and nine months ended October 1, 2017, net revenue fell across all regions. Declines in service provider net revenue of $21.4 million and $57.9 million, respectively, for the three and nine months ended October 1, 2017, adversely impacted geographic performance.

Contribution income decreased in the three and nine months ended October 1, 2017, compared to the prior year periods, primarily due to lower net revenue and gross margin attainment. Increased sales returns and increased expenditure on channel promotion activities deemed to be contra-revenue under the authoritative guidance for revenue recognition and increased warranty expense adversely impacted gross margin performance.

SMB

	Three Months Ended			Nine Months Ended		
	October 1, 2017	% Change	October 2, 2016*	October 1, 2017	% Change	October 2, 2016*
	(in thousands, except percentage data)					
Net revenue	$61,924	(17.1)%	$74,700	$196,594	(10.2)%	$218,997
Percentage of total net revenue	17.4 %		22.1 %	19.5 %		22.8 %
Contribution income	$12,583	(39.4)%	$20,747	$47,839	(13.0)%	$54,988
Contribution margin	20.3 %		27.8 %	24.3 %		25.1 %

* Prior year financial results have been recast to conform to the reportable segment structure effective on January 1, 2017.

SMB segment net revenue decreased for the three and nine months ended October 1, 2017 compared to the prior year periods. SMB experienced a decline in net revenue across all product categories led by switches. Contribution income decreased for the three and nine months ended October 1, 2017, compared to the prior year periods, primarily due to lower net revenue and gross margin attainment. Increased channel promotion activities and sales returns deemed to be a reduction of net revenue were contributing factors in the decline of net revenue and gross margin attainment compared to the prior year periods.

Liquidity and Capital Resources

Our cash and cash equivalents balance increased from $240.5 million as of December 31, 2016 to $246.6 million as of October 1, 2017. Our short-term investments, which represent the investment of funds available for current operations, increased from $125.5 million as of December 31, 2016 to $126.2 million as of October 1, 2017 due to more purchases of treasuries. Operating activities during the nine months ended October 1, 2017 provided cash of $101.4 million falling from $133.3 million in the nine months ended October 2, 2016, as a result of unfavorable working capital activities coupled with decreased net income. Cash used in investing activities during the nine months ended October 1, 2017 decreased mainly due to lower net spending on purchase of short-term investments, partially offset by an increase in cost method investments and higher capital expenditures. Cash used in financing activities increased by $79.6 million, primarily due to increased repurchase of common stock, coupled with less proceeds from the issuance of common stock upon exercise of stock options. Additionally, we adopted ASU 2016-09 in the first quarter of fiscal 2017 on a retrospective basis and reflected any adjustments of $2.3 million to both operating and financing activities for the nine months ended October 2, 2016. For a detailed discussion of the impacts on our cash flows statements upon the adoption, refer to Note 2, Summary of Significant Accounting Policies, in the Notes to Unaudited Condensed

Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.
Our days sales outstanding ("DSO") was 76 days as of October 1, 2017, which slightly decreased from 77 days as of December 31, 2016.
Our accounts payable decreased from $112.4 million as of December 31, 2016 to $92.9 million as of October 1, 2017. The decrease was primarily attributable to timing of payments.

Inventory increased from $247.9 million as of December 31, 2016 to $249.1 million as of October 1, 2017. In the three months ended October 1, 2017, we experienced annualized ending inventory turns of approximately 4.1, slightly down from 4.2 turns in the three months ended December 31, 2016.

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We enter into foreign currency forward-exchange contracts, which typically mature in less than eleven 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 sheets 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 sheets. 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, our Board of Directors has authorized programs under which we may repurchase shares of our 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. On April 25, 2017, our Board of Directors authorized the repurchase of up to 3.0 million shares of our outstanding common stock which, at the time of authorization, were incremental to the remaining shares under the Company's previous share repurchase program. As of October 1, 2017, 2.5 million shares remained authorized for repurchase under the repurchase program. All shares authorized under previously approved programs were fully utilized. During the nine months ended October 1, 2017, we repurchased and retired, reported based on trade date, approximately 1.8 million shares of common stock at a cost of $86.6 million. During the nine months ended October 2, 2016, we repurchased and retired, reported based on trade date, 0.6 million shares of common stock at a cost of $23.3 million.

We repurchased, as reported based on trade date, approximately 127,000 shares of common stock at a cost of $6.0 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 October 1, 2017. Similarly, during the nine months ended October 2, 2016, we repurchased, as reported based on trade date, approximately 99,000 shares of our common stock at a cost of $4.4 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 October 1, 2017 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, 2016.

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. As of October 1, 2017, we had approximately $143.7 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.

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As of October 1, 2017, we had $14.6 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 $0.9 million, excluding the interest, penalties and the effect of any related deferred tax assets or liabilities.

Off-Balance Sheet Arrangements

As of October 1, 2017, 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, 2016. There have been no changes to our critical accounting policies and estimates during the nine months ended October 1, 2017.

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 October 1, 2017, 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, 2016.

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 8, Commitments and Contingencies, in the Notes to Unaudited Condensed Consolidated Financial Statements 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 24, 2017.

*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;
- slow or negative growth in the networking product, personal computer, Internet infrastructure, smart home, home electronics and related technology markets, as well as decreased demand for Internet access;
- introductions of new technologies and changes in consumer preferences that result in either unanticipated or unexpectedly rapid product category shifts;
- seasonal shifts in end market demand for our products, particularly in our Connected Home and Arlo business segments;
- delays in the introduction of new products by us or market acceptance of these products;
- unanticipated decreases or delays in purchases of our products by our significant traditional and online retail customers;
- component supply constraints from our vendors;

- foreign currency exchange rate fluctuations in the jurisdictions where we transact sales and expenditures in local currency;

- shift in overall product mix sales from higher to lower margin products, or from one business segment to another, that would adversely impact our margins;

- unanticipated increase in costs, including air freight, associated with shipping and delivery of our products;

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- the inability to maintain stable operations by our suppliers and other parties with which we have commercial relationships;
- discovery of security vulnerabilities in our products, services or systems, leading to negative publicity, decreased demand or potential liability;
- unfavorable level of inventory and turns;
- 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;
- delay or failure of our service provider customers to purchase at the volumes that they forecast;
- changes in tax rates or adverse changes in tax laws that expose us to additional income tax liabilities;
- changes in international trade policy and potential U.S. tax overhaul that adversely affect customs, tax or duty rates, including consequences of the "Brexit" process in the United Kingdom;
- operational disruptions, such as transportation delays or failure of our order processing system, particularly if they occur at the end of a fiscal quarter;
- disruptions or delays related to our financial and enterprise resource planning systems;
- our inability to accurately forecast product demand, resulting in increased inventory exposure;
- allowance for bad debts exposure with our existing customers and new customers, particularly as we expand into new international markets;
- geopolitical disruption, including sudden changes in immigration policies, leading to disruption in our workforce or delay or even stoppage of our operations in manufacturing, transportation, technical support and research and development;
- terms of our contracts with customers or suppliers that cause us to incur additional expenses or assume additional liabilities;
- 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;
- any changes in accounting rules, including the potential impact of our adoption of new revenue recognition standards;
- 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;

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- labor unrest at facilities managed by our third-party manufacturers;
- unanticipated shift or decline in profit by geographical region that would adversely impact our tax rate; and
- our failure to implement and maintain the appropriate internal controls over financial reporting which may result in restatements of our financial statements.

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;
- 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;
- actual or anticipated changes in governmental regulation, including taxation and tariff policies;
- interest rate or currency exchange rate fluctuations;
- our ability to forecast or report accurate financial results; 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 consumer, commercial and service provider markets, and to 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 have committed a substantial amount of resources to the development, manufacture, marketing and sale of our Nighthawk home networking products, Arlo security cameras and Orbi WiFi system, and to introducing additional and improved models in these lines. If these products do not continue to maintain or 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. Also, as the mix of our business increasingly includes new products and services that require additional investment, this shift may adversely impact our margins, at least in the near-term. Successfully predicting demand trends is difficult, and it is very difficult to predict the effect that 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.

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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 2013, we acquired the AirCard product line from Sierra Wireless. Similarly, we acquired certain technology and intellectual property in connection with our acquisition of AVAAK, Inc. in 2012 that was key to the development of our Arlo security 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 our Connected Home and Arlo business segments. 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.

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, or if we are unable to improve the margins on our previously introduced and rapidly growing product lines, our net revenue and overall gross margin would likely decline.

*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 or 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 home market for networking and smart home devices include Amazon.com, Apple, Arris, ASUS, Belkin/Linksys, Devolo, D-Link, Eero, Google, Logitech, Luma, Nest Labs (owned by Google), Ring, Samsung, Swann, Synology, Symantec, TP-Link and Western Digital. Our principal competitors in the commercial business market include Allied Telesys, Barracuda, Buffalo, Cisco Systems, Dell, D-Link, Fortinet, Hewlett-Packard Enterprise, Huawei, QNAP Systems, Seagate Technology, SonicWall, Synology, TP-Link, Ubiquiti, WatchGuard and Western Digital. Our principal competitors in the broadband service provider market include Actiontec, Arcadyan, ARRIS, AVM, Compal Broadband, D-Link, Hitron, Huawei, Novatel Wireless (owned by TCL Corporation of China), Sagem, Scientific Atlanta (a Cisco Systems company), Sercomm, SMC Networks, TechniColor, TP-Link, Ubee, ZTE and ZyXEL. Other competitors include numerous local vendors such as Xiaomi in China, and Buffalo in Japan. 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, 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.

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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 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. 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.

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, such as 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, concentration and 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. 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. If consolidation among our customer base becomes more prevalent, our operating results may be harmed.

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.

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Any shortage or delay in the supply of key product components would harm our ability to meet scheduled product deliveries. Many of the semiconductors used in our products are specifically designed for use in our products and are obtained from sole source suppliers on a purchase order basis. In addition, some components that are used in all our products are obtained from limited sources. These components include connector jacks, plastic casings and physical layer transceivers. We also obtain switching fabric semiconductors, which are used in our Ethernet switches and Internet gateway products, and wireless local area network chipsets, which are used in all of our wireless products, from a limited number of suppliers. Semiconductor suppliers have experienced and continue to experience component shortages themselves, such as with substrates used in manufacturing chipsets, which in turn adversely impact our ability to procure semiconductors from them. Our third-party manufacturers generally purchase these components on our behalf on a purchase order basis, and we do not have any contractual commitments or guaranteed supply arrangements with our suppliers. If demand for a specific component increases, we may not be able to obtain an adequate number of that component in a timely manner. In addition, if worldwide demand for the components increases significantly, the availability of these components could be limited. Further, our suppliers may experience financial or other difficulties as a result of uncertain and weak worldwide economic conditions. Other factors which may affect our suppliers' ability or willingness 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, or industry consolidation and divestitures, which may result in changed business and product priorities among certain suppliers. 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. 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. At times we have elected to use more expensive transportation methods, such as air freight, to make up for manufacturing delays caused by component shortages, which reduces our margins. 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.

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.

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 certain of our Arlo smart security 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 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. 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.

*Product security vulnerabilities, data protection breaches and cyber-attacks could disrupt our products or services, and any such disruption could increase our expenses, damage our reputation, harm our business and adversely affect our stock price.

Our products and services may contain unknown security vulnerabilities. For example, the firmware, software and open source 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 management service paired with our Arlo security cameras. If malicious actors 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 or stability of the associated systems. Our management has spent increasing amounts of time, effort and expense in this area, and in the event of the discovery of a significant product security vulnerability, we would incur additional substantial expenses and our business would be harmed. 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, or if these third-party systems failed for other reasons, it could result in litigation and potential liability for us, damage our brand and reputation, or otherwise harm our business.

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

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

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

*System security risks, data protection breaches and cyber-attacks could disrupt our internal operations or information technology systems, 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. Malicious actors may develop and deploy viruses and other advanced persistent threats that are designed to attack our systems, including our internal network, or those of our vendors or customers. Additionally, outside parties may attempt to fraudulently induce our employees 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 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 considerable internal and external resources to network security, data encryption and other security measures to protect our systems and customer data, but these security measures cannot provide absolute security. In addition, many jurisdictions strictly regulate data privacy and protection and may impose significant penalties for failure to comply with these requirements. For example, the European Union's General Data Protection Regulation ("GDPR"), scheduled to take effect in May 2018, has required us to expend significant time and resources to prepare for compliance. 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, social engineering 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, subject us to significant governmental fines, 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.

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 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.

*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 significant number of products through broadband service providers worldwide. However, the service provider sales channel is challenging and exceptionally competitive. 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 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, and we may choose to forgo lower-margin business opportunities. 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. 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.

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.

*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.

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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 organization into three business segments with separate leadership teams, 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 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.

Global economic conditions could 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 and smart home 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. In addition, current economic challenges in China, including any global economic ramifications of these challenges, may continue to put negative pressure on global economic conditions. If conditions in the global economy, including Europe, China, Australia and the United States, or other key vertical or geographic markets remain uncertain or deteriorate further, such conditions could have a material adverse impact on our business, operating results and financial condition. 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.

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, have 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. In addition, the potential consequences of the "Brexit" process in the United Kingdom have led to significant uncertainty in the region. Should the European Union monetary policy measures be insufficient to restore confidence and stability to the financial markets, or should the United Kingdom's "Brexit" decision lead to additional economic or political instability, 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. 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.

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 approximately 34% of overall net revenue in the third quarter of 2017 and approximately 36% of overall net revenue in fiscal 2016. 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:

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- 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;

- potential consequences of, and uncertainty related to, the "Brexit" process in the United Kingdom, which could lead to additional expense and complexity in doing business there;

- increased difficulty in managing inventory;

- delayed revenue recognition;

- less effective protection of intellectual property;

- stringent consumer protection and product compliance regulations, including but not limited to the Restriction of Hazardous Substances directive, the Waste Electrical and Electronic Equipment directive and the 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 and customs duty 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, they may cease to order our products and our revenue would be harmed.

*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. Foreign jurisdictions have increased the volume of tax audits of multinational corporations. Further, many countries, have either changed or are considering changes to their tax laws. These changes are largely punitive to U.S. multinational corporations. Additionally, the Trump Administration along with the U.S. Congress recently announced proposed changes to U.S. tax laws. These proposals are in the preliminary stage and there is no detail as to how such changes might be implemented. Changes in tax laws could affect the distribution of our earnings, result in double taxation and adversely affect our results.

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We have been audited 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 2012 years. If we are unsuccessful in defending our tax positions, our profitability will be reduced.

The United Kingdom HMRC (Her Majesty's Revenue and Customs) began an inquiry regarding the application of UK Diverted Profits Tax (DPT), a law which took effect as of April 1, 2015. In assessing the whether they believe the Company is subject to the DPT legislation, UK HMRC has expanded its review to include overall transfer pricing for 2014 through 2016. If we are unsuccessful in defending our positions, our profitability will be reduced.

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 must comply with indirect tax laws in multiple jurisdictions, as well as complex customs duty regimes worldwide. Audits of our compliance with these rules may result in additional liabilities for taxes, duties, interest and penalties related to our international operations which would reduce our profitability.

Our 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). In addition, the distribution of our products subjects us to numerous complex customs regulations, which frequently change over time. Failure to comply with these systems and regulations can result in the assessment of additional taxes, duties, interest and penalties. While we believe we are in compliance with local laws, there is no assurance that tax and customs authorities agree with our reporting positions and upon audit may assess us additional taxes, duties, interest and penalties. If this occurs and we cannot successfully defend our position, our profitability will be reduced.

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-

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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.

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.

*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

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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. For example, as described above in Note 8, Commitments and Contingencies, in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q ("Note 8"), on June 30, 2017, in our U.S. International Trade Commission (“ITC”) proceedings with Tessera, the ITC Administrative Law Judge released an initial determination finding a violation of section 337 of the Tariff Act of 1930, as amended, with respect to one patent, and such a finding, if upheld through a currently pending ITC review process or not otherwise resolved, e.g., via settlement, ahead of a final determination by the ITC on December 1, 2017, could result in the Company (along with the other respondents to the matter) being enjoined from importing Broadcom-based products into the U.S. beginning as early as December 1, 2017. 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 8. If we do not resolve these claims on a favorable basis, our business, operating results and financial condition could be significantly harmed.

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, on November 30, 2016 we acquired Placemeter, Inc., a leader in computer vision analytics, to enhance our Arlo product and service offerings. Additionally in April 2013, we closed the acquisition of the AirCard business of Sierra Wireless, Inc., which was 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
- 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

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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 increase the pace or size of acquisitions, 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's “conflict minerals” 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 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

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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. Recently, a number of jurisdictions have adopted public disclosure requirements on related topics, including labor practices and policies within companies' supply chains. 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.

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 sheets. 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.

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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.

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.

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. 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 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. filed for Chapter 11 bankruptcy protection in 2015. Although losses resulting from customer bankruptcies have not been material to date, any future bankruptcies 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.

Expansion of our operations and infrastructure 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. This expansion has required enhancements to our existing management information systems, and operational and financial controls. In addition, if we continue to grow, our expenditures would 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.

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.

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

We rely on third parties to obtain non-exclusive patented hardware and software license rights in technologies that are incorporated into and necessary for the operation and functionality of most of our products. In these cases, because the intellectual property we license is available from third parties, barriers to entry 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.

Political events, war, terrorism, public health issues, natural disasters, sudden changes in trade and immigration policies, 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.

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In addition, war, terrorism, geopolitical uncertainties, public health issues, sudden changes in trade and immigration policies, 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 have led to workers going on strike, and labor unrest could materially affect our third-party manufacturers' abilities to manufacture our products.

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.

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 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.

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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
July 3, 2017 - July 30, 2017	681,582	$ 44.02	681,582	2,512,724
July 31, 2017 - August 27, 2017	3,331	$ 47.88	—	2,512,724
August 28, 2017 - October 1, 2017	4,366	$ 47.72	—	2,512,724
Total	689,279	$ 44.06	681,582	

(1) From time to time, our Board of Directors has authorized programs under which we may repurchase shares of our 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 our common stock. During the three months ended October 1, 2017, we repurchased and retired, reported based on trade date, approximately 0.7 million shares of common stock at a cost of $30.0 million under this authorization.

(2) During the three months ended October 1, 2017, we repurchased, as reported based on trade date, approximately 8,000 shares of common stock at a cost of $0.4 million to help administratively facilitate the withholding and subsequent remittance of personal income and payroll taxes for individuals receiving RSUs.

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

Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of the registrant	10-Q	8/4/2017	3.1	
3.2	Amended and Restated Bylaws of the registrant	10-Q	8/4/2017	3.2	
4.1	Form of registrant's common stock certificate	S-1/A	7/14/2003	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.

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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: November 3, 2017