

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

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the quarterly period ended October 1, 2023
or

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

Commission file number: 000-50350

NETGEAR, Inc.
(Exact name of registrant as specified in its charter)

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

350 East Plumeria Drive,
San Jose, California
(Address of principal executive offices)

77-0419172
*(IRS Employer
Identification No.)*

95134
(Zip Code)

(408) 907-8000

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s):	Name of each exchange on which registered
Common Stock, \$0.001 par value	NTGR	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ 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	☐	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 Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of outstanding shares of the registrant's Common Stock, \$0.001 par value, was 29,608,455 as of October 27, 2023.

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

Item 1.	Financial Statements	3
	Unaudited Condensed Consolidated Balance Sheets	3
	Unaudited Condensed Consolidated Statements of Operations	4
	Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)	5
	Unaudited Condensed Consolidated Statements of Stockholders' Equity	6
	Unaudited Condensed Consolidated Statements of Cash Flows	8
	Notes to Unaudited Condensed Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	37
Item 4.	Controls and Procedures	37

PART II: OTHER INFORMATION

Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 2.	Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities	67
Item 3.	Defaults Upon Senior Securities	67
Item 4.	Mine Safety Disclosures	67
Item 5.	Other Information	68
Item 6.	Exhibits	69
	Signatures	70

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

NETGEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands)

	October 1, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 131,459	\$ 146,500
Short-term investments	96,586	80,925
Accounts receivable, net of allowance for doubtful accounts of \$396 and \$397 as of October 1, 2023 and December 31, 2022, respectively	200,900	277,485
Inventories	280,918	299,614
Prepaid expenses and other current assets	30,713	29,767
Total current assets	740,576	834,291
Property and equipment, net	8,274	9,225
Operating lease right-of-use assets	39,773	40,868
Intangibles, net	—	1,329
Goodwill	36,279	36,279
Other non-current assets	17,563	97,793
Total assets	\$ 842,465	\$ 1,019,785
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 47,133	\$ 85,550
Accrued employee compensation	19,179	24,132
Other accrued liabilities	167,713	213,476
Deferred revenue	25,090	21,128
Income taxes payable	767	1,685
Total current liabilities	259,882	345,971
Non-current income taxes payable	12,760	14,972
Non-current operating lease liabilities	32,330	34,085
Other non-current liabilities	4,706	3,902
Total liabilities	309,678	398,930
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock	30	29
Additional paid-in capital	963,350	946,123
Accumulated other comprehensive income (loss)	9	(535)
Accumulated deficit	(430,602)	(324,762)
Total stockholders' equity	532,787	620,855
Total liabilities and stockholders' equity	\$ 842,465	\$ 1,019,785

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

NETGEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net revenue	\$ 197,845	\$ 249,587	\$ 552,166	\$ 683,369
Cost of revenue	128,911	181,058	368,550	494,516
Gross profit	68,934	68,529	183,616	188,853
Operating expenses:				
Research and development	20,738	22,167	63,703	68,193
Sales and marketing	30,865	34,203	97,226	104,335
General and administrative	16,364	13,949	49,136	41,698
Goodwill impairment	—	—	—	44,442
Intangibles impairment	1,071	—	1,071	—
Other operating expenses, net	544	361	2,881	931
Total operating expenses	69,582	70,680	214,017	259,599
Loss from operations	(648)	(2,151)	(30,401)	(70,746)
Other income (expenses), net	2,280	638	11,685	(1,164)
Income (loss) before income taxes	1,632	(1,513)	(18,716)	(71,910)
Provision for (benefit from) income taxes	86,431	(4,314)	84,382	(8,967)
Net income (loss)	\$ (84,799)	\$ 2,801	\$ (103,098)	\$ (62,943)
Net income (loss) per share				
Basic	\$ (2.87)	\$ 0.10	\$ (3.52)	\$ (2.17)
Diluted	\$ (2.87)	\$ 0.10	\$ (3.52)	\$ (2.17)
Weighted average shares used to compute net income (loss) per share:				
Basic	29,524	28,891	29,266	29,023
Diluted	29,524	29,029	29,266	29,023

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

NETGEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Three Months Ended		Nine Months Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net income (loss)	\$ (84,799)	\$ 2,801	\$ (103,098)	\$ (62,943)
Other comprehensive income (loss), before tax:				
Change in unrealized gains and losses on derivatives	(168)	192	406	86
Change in unrealized gains and losses on available-for-sale investments	58	(471)	249	(459)
Other comprehensive income (loss), before tax	(110)	(279)	655	(373)
Tax benefit (provision) related to derivatives	21	(23)	(50)	(6)
Tax benefit (provision) related to available-for-sale investments	(14)	118	(61)	115
Other comprehensive income (loss), net of tax	(103)	(184)	544	(264)
Comprehensive income (loss)	<u>\$ (84,902)</u>	<u>\$ 2,617</u>	<u>\$ (102,554)</u>	<u>\$ (63,207)</u>

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

NETGEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholder's Equity
	Shares	Amount				
Balance as of December 31, 2022	28,908	\$ 29	\$ 946,123	\$ (535)	\$ (324,762)	\$ 620,855
Change in unrealized gains and losses on available-for-sale investments, net of tax	—	—	—	182	—	182
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	406	—	406
Net loss	—	—	—	—	(9,712)	(9,712)
Stock-based compensation	—	—	4,665	—	—	4,665
Restricted stock unit withholdings	(6)	—	—	—	(120)	(120)
Issuance of common stock under stock-based compensation plans	154	—	2,286	—	—	2,286
Balance as of April 2, 2023	29,056	29	953,074	53	(334,594)	618,562
Change in unrealized gains and losses on available-for-sale investments, net of tax	—	—	—	(38)	—	(38)
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	97	—	97
Net loss	—	—	—	—	(8,587)	(8,587)
Stock-based compensation	—	—	4,687	—	—	4,687
Restricted stock unit withholdings	(141)	—	—	—	(1,985)	(1,985)
Issuance of common stock under stock-based compensation plans	485	—	—	—	—	—
Balance as of July 2, 2023	29,400	29	957,761	112	(345,166)	612,736
Change in unrealized gains and losses on available-for-sale investments, net of tax	—	—	—	44	—	44
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	(147)	—	(147)
Net loss	—	—	—	—	(84,799)	(84,799)
Stock-based compensation	—	—	4,285	—	—	4,285
Restricted stock unit withholdings	(48)	—	—	—	(637)	(637)
Issuance of common stock under stock-based compensation plans	256	1	1,304	—	—	1,305
Balance as of October 1, 2023	29,608	\$ 30	\$ 963,350	\$ 9	\$ (430,602)	\$ 532,787

[Table of Contents](#)

	Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholder's Equity
Balance as of December 31, 2021	29,286	\$ 29	\$ 923,228	\$ 149	\$ (226,591)	\$ 696,815
Change in unrealized gains and losses on available-for-sale investments, net of tax	—	—	—	(37)	—	(37)
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	44	—	44
Net loss	—	—	—	—	(57,210)	(57,210)
Stock-based compensation	—	—	4,697	—	—	4,697
Repurchase of common stock	(354)	—	—	—	(9,377)	(9,377)
Restricted stock unit withholdings	(46)	—	—	—	(1,262)	(1,262)
Issuance of common stock under stock-based compensation plans	275	—	3,351	—	—	3,351
Balance as of April 3, 2022	29,161	29	931,276	156	(294,440)	637,021
Change in unrealized gains and losses on available-for-sale investments, net of tax	—	—	—	46	—	46
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	(133)	—	(133)
Net loss	—	—	—	—	(8,534)	(8,534)
Stock-based compensation	—	—	5,129	—	—	5,129
Repurchase of common stock	(678)	—	—	—	(15,000)	(15,000)
Restricted stock unit withholdings	(107)	—	—	—	(2,319)	(2,319)
Issuance of common stock under stock-based compensation plans	356	—	19	—	—	19
Balance as of July 3, 2022	28,732	29	936,424	69	(320,293)	616,229
Change in unrealized gains and losses on available-for-sale investments, net of tax	—	—	—	(353)	—	(353)
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	169	—	169
Net income	—	—	—	—	2,801	2,801
Stock-based compensation	—	—	3,440	—	—	3,440
Restricted stock unit withholdings	(45)	—	—	—	(1,150)	(1,150)
Issuance of common stock under stock-based compensation plans	212	—	1,791	—	—	1,791
Balance as of October 2, 2022	28,899	\$ 29	\$ 941,655	\$ (115)	\$ (318,642)	\$ 622,927

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

NETGEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended	
	October 1, 2023	October 2, 2022
Cash flows from operating activities:		
Net loss	\$ (103,098)	\$ (62,943)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,491	7,845
Stock-based compensation	13,637	13,266
(Gain) Loss on investments, net	(2,301)	342
Goodwill impairment	—	44,442
Intangibles impairment	1,071	—
Deferred income taxes	82,205	(13,895)
Provision for excess and obsolete inventory	2,705	3,005
Changes in assets and liabilities:		
Accounts receivable, net	76,585	1,250
Inventories	15,990	14,572
Prepaid expenses and other assets	(3,020)	(2,858)
Accounts payable	(38,443)	13,432
Accrued employee compensation	(4,952)	(4,329)
Other accrued liabilities	(46,929)	(23,504)
Deferred revenue	4,771	3,268
Income taxes payable	(3,130)	(2,692)
Net cash provided by (used in) operating activities	582	(8,799)
Cash flows from investing activities:		
Purchases of short-term investments	(97,291)	(143,933)
Proceeds from maturities of short-term investments	85,006	50,418
Purchases of property and equipment	(3,601)	(4,133)
Purchases of long-term investments	(585)	(450)
Net cash used in investing activities	(16,471)	(98,098)
Cash flows from financing activities:		
Repurchases of common stock	—	(24,377)
Restricted stock unit withholdings	(2,742)	(4,731)
Proceeds from exercise of stock options	—	743
Proceeds from issuance of common stock under employee stock purchase plan	3,590	4,418
Net cash provided by (used in) financing activities	848	(23,947)
Net decrease in cash and cash equivalents	(15,041)	(130,844)
Cash and cash equivalents, at beginning of period	146,500	263,772
Cash and cash equivalents, at end of period	\$ 131,459	\$ 132,928
Supplemental Cash Flow Information:		
Unpaid property and equipment	\$ 1,055	\$ 735

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

NETGEAR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company and Basis of Presentation

NETGEAR, Inc. ("NETGEAR" or the "Company") is a global company, incorporated in Delaware in January 1996. The Company turns ideas into innovative, high-performance and premium networking products that connect people, homes, and power businesses and service providers. The Company's products are designed to simplify and improve people's lives. The Company is dedicated to delivering innovative and differentiated high performance connected solutions ranging from easy-to-use premium WiFi solutions, security and support services to protect and enhance home networks, to switching and wireless solutions to augment business networks and audio and video over Ethernet for Pro AV applications. The Company's products and services are built on a variety of technologies such as wireless (WiFi and 4G/5G mobile), Ethernet and powerline, with a focus on reliability and ease-of-use. Additionally, the Company continually invests in research and development to create new technologies and services and to capitalize on technological inflection points and trends, such as WiFi 7, audio and video over Ethernet, non-fungible token ("NFT") artwork, and future technologies. Its product line consists of devices that create and extend wired and wireless networks, devices that attach to the network, such as smart digital canvasses as well as services that complement and enhance the Company's product line offerings. These products are available in multiple configurations to address the changing needs of the Company's customers in each geographic region.

The Company sells networking products through multiple sales channels worldwide, including traditional retailers, online retailers, wholesale distributors, direct market resellers ("DMRs"), value-added resellers ("VARs"), broadband service providers and its direct online store at www.netgear.com.

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 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, 2022, has been derived from audited financial statements at such date. 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 normal recurring adjustments considered necessary to fairly state the Company's financial position, results of operations, comprehensive income (loss), stockholder's equity 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, 2022 (the "Annual Report").

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 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. The Company bases these estimates on historical and anticipated results, trends and various other assumptions that it believes are reasonable under the circumstances. As of the date of issuance of these condensed consolidated financial statements, the Company is not aware of any specific event or circumstance that would require it to update its estimates, judgments or revise the carrying value of its assets or liabilities. These estimates may change, as new events occur and additional information is obtained, and are recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ materially from those estimates and operating results for the three and nine months ended October 1, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023, or any future period.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies

No material changes have been made to the Company's significant accounting policies disclosed in Note 1, *The Company and Summary of Significant Accounting Policies*, in its Annual Report.

Recent Accounting Pronouncements

The Company has considered all recent accounting pronouncements issued, but not yet effective, and does not expect any to have a material effect on the Company's unaudited condensed consolidated financial statements.

Note 3. Revenue

Revenue from contracts with customers is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Transaction Price Allocated to the Remaining Performance Obligations

Remaining performance obligations represent the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied, which are primarily from hardware and, to a lesser extent, subscription and support services, as of the end of the reporting period. Unsatisfied and partially unsatisfied performance obligations consist of contract liabilities, in-transit orders with destination terms, and non-cancellable backlog. Non-cancellable backlog includes goods for which customer purchase orders have been accepted that are scheduled or in the process of being scheduled for shipment, and that are not yet invoiced. This disclosure includes estimates of variable consideration.

The following table summarizes estimated revenue expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) as of October 1, 2023:

(In thousands)	Less than 1 year	1 to 2 years	Beyond 2 years	Total
Performance obligations	\$ 86,773	\$ 2,431	\$ 2,368	\$ 91,572

Contract Balances

The Company records accounts receivable when it has an unconditional right to consideration. Contract liabilities are recorded when cash payments are received or due in advance of performance. Contract liabilities consist of advance payments and deferred revenue, where the Company has unsatisfied performance obligations. Contract liabilities are mainly classified as Deferred revenue on the unaudited condensed consolidated balance sheets.

Payment terms vary by customer. The time between invoicing and when payment is due is not significant. For certain products or services and customer types, payment is required before the products or services are delivered to the customer.

The following table reflects the contract balances:

(In thousands)	Balance Sheet Location	October 1, 2023	December 31, 2022
Accounts receivable, net	Accounts receivable, net	\$ 200,900	\$ 277,485
Contract liabilities - current	Deferred revenue	\$ 25,090	\$ 21,128
Contract liabilities - non-current	Other non-current liabilities	\$ 4,706	\$ 3,897

The difference in the balances of the Company's contract assets and liabilities as of October 1, 2023 and December 31, 2022, primarily results from the timing difference between the Company's performance and the customer's payment.

During the nine months ended October 1, 2023, \$34.9 million of revenue was deferred primarily due to unsatisfied performance obligations for service contracts, \$30.1 million of revenue was recognized for the satisfaction of performance

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

obligations and \$19.1 million of this recognized revenue was included in the contract liability balance at the beginning of the period.

There were no significant changes in estimates during the period that would affect the contract balances.

Disaggregation of Revenue

In the following tables, net revenue is disaggregated by geographic region and sales channel. The Company conducts business across three geographic regions: Americas; Europe, Middle East and Africa (“EMEA”); and Asia Pacific (“APAC”). The tables also include reconciliations of the disaggregated revenue by reportable segment. The Company operates and reports in two segments: Connected Home, and Small and Medium Business (“SMB”). Sales and usage-based taxes are excluded from net revenue.

Three Months Ended						
(In thousands)	October 1, 2023			October 2, 2022		
	Connected Home	SMB	Total	Connected Home	SMB	Total
Geographic regions ⁽¹⁾ :						
Americas	\$ 104,695	\$ 36,323	\$ 141,018	\$ 120,168	\$ 49,192	\$ 169,360
EMEA	10,898	24,786	35,684	12,545	32,282	44,827
APAC	11,742	9,401	21,143	17,868	17,532	35,400
Total	<u>\$ 127,335</u>	<u>\$ 70,510</u>	<u>\$ 197,845</u>	<u>\$ 150,581</u>	<u>\$ 99,006</u>	<u>\$ 249,587</u>
Sales channels:						
Service provider	\$ 32,403	\$ 219	\$ 32,622	\$ 40,448	\$ 1,171	\$ 41,619
Non-service provider	94,932	70,291	165,223	110,133	97,835	207,968
Total	<u>\$ 127,335</u>	<u>\$ 70,510</u>	<u>\$ 197,845</u>	<u>\$ 150,581</u>	<u>\$ 99,006</u>	<u>\$ 249,587</u>

Nine Months Ended						
(In thousands)	October 1, 2023			October 2, 2022		
	Connected Home	SMB	Total	Connected Home	SMB	Total
Geographic regions ⁽¹⁾ :						
Americas	\$ 266,379	\$ 113,172	\$ 379,551	\$ 327,372	\$ 130,664	\$ 458,036
EMEA	34,279	76,744	111,023	34,230	92,413	126,643
APAC	27,829	33,763	61,592	48,185	50,505	98,690
Total	<u>\$ 328,487</u>	<u>\$ 223,679</u>	<u>\$ 552,166</u>	<u>\$ 409,787</u>	<u>\$ 273,582</u>	<u>\$ 683,369</u>
Sales channels:						
Service provider	\$ 71,346	\$ 427	\$ 71,773	\$ 92,544	\$ 3,515	\$ 96,059
Non-service provider	257,141	223,252	480,393	317,243	270,067	587,310
Total	<u>\$ 328,487</u>	<u>\$ 223,679</u>	<u>\$ 552,166</u>	<u>\$ 409,787</u>	<u>\$ 273,582</u>	<u>\$ 683,369</u>

⁽¹⁾ No individual foreign country represented more than 10% of the Company's total net revenue in the periods presented.

Note 4. Balance Sheet Components

Available-for-sale investments

Amortized cost and estimated fair market value of investments classified as available-for-sale, excluding cash equivalents, as of October 1, 2023, and December 31, 2022, were as follows:

(In thousands)	October 1, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. treasury securities	\$ 88,764	\$ —	\$ (71)	\$ 88,693
Convertible debt ⁽¹⁾	173	—	—	173
Total	<u>\$ 88,937</u>	<u>\$ —</u>	<u>\$ (71)</u>	<u>\$ 88,866</u>

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(In thousands)	December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. treasury securities	\$ 74,120	\$ —	\$ (320)	\$ 73,800
Convertible debt ⁽¹⁾	346	—	—	346
Certificates of deposit	6	—	—	6
Total	\$ 74,472	\$ —	\$ (320)	\$ 74,152

⁽¹⁾ On the Company's unaudited condensed consolidated balance sheets, \$173,000 included in Short-term investments as of October 1, 2023, and December 31, 2022, respectively, and \$173,000 included in Other non-current assets as of December 31, 2022.

The contractual maturities on the U.S. treasury securities as of October 1, 2023, are all due within one year. Accrued interest receivable as of October 1, 2023, was \$0.3 million and was recorded within Prepaid expenses and other current assets on the unaudited condensed consolidated balance sheet.

The following table summarizes investments classified as available-for-sale in a continuous unrealized loss position for which an allowance for credit losses was not recorded as of October 1, 2023, and December 31, 2022:

(In thousands)	October 1, 2023					
	Less Than 12 Months		12 Months or Longer		Total	
	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses
U.S. treasury securities	\$ 88,693	\$ (71)	\$ —	\$ —	\$ 88,693	\$ (71)
Total	\$ 88,693	\$ (71)	\$ —	\$ —	\$ 88,693	\$ (71)

(In thousands)	December 31, 2022					
	Less Than 12 Months		12 Months or Longer		Total	
	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses
U.S. treasury securities	\$ 73,800	\$ (320)	\$ —	\$ —	\$ 73,800	\$ (320)
Total	\$ 73,800	\$ (320)	\$ —	\$ —	\$ 73,800	\$ (320)

In the three and nine months ended October 1, 2023, and October 2, 2022, no unrealized losses on available-for-sale securities were recognized in income. The Company does not intend to sell, and it is unlikely that it will be required to sell the investments in an unrealized loss position prior to their anticipated recovery. The investments are high-quality U.S. treasury securities and the decline in fair value is largely due to changes in interest rates and other market conditions with the fair value expected to recover as they reach maturity. There were no other-than-temporary impairments for these securities during the

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

three and nine months ended October 1, 2023, and October 2, 2022. Refer to Note 12, *Fair Value Measurements*, for detailed disclosures regarding fair value measurements.

Inventories

(In thousands)	October 1, 2023	December 31, 2022
Raw materials	\$ 10,466	\$ 4,549
Finished goods	270,452	295,065
Total	<u>\$ 280,918</u>	<u>\$ 299,614</u>

The Company records provisions for excess and obsolete inventory based on assumptions about future demand and market conditions and the amounts incurred were \$1.2 million and \$2.7 million for the three and nine months ended October 1, 2023, respectively, and \$0.4 million and \$3.0 million for the three and nine months ended October 2, 2022, respectively. 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

(In thousands)	October 1, 2023	December 31, 2022
Computer equipment	\$ 8,001	\$ 9,648
Furniture, fixtures, and leasehold improvements	18,041	18,642
Software	28,377	30,610
Machinery and equipment	65,665	76,806
Total property and equipment, gross	120,084	135,706
Accumulated depreciation	(111,810)	(126,481)
Total	<u>\$ 8,274</u>	<u>\$ 9,225</u>

Intangibles, net

	October 1, 2023				December 31, 2022		
(In thousands)	Gross	Accumulated Amortization	Impairment	Net	Gross	Accumulated Amortization	Net
Technology	\$ 59,799	\$ (58,906)	\$ (893)	\$ —	\$ 59,799	\$ (58,692)	\$ 1,107
Other	10,345	(10,167)	(178)	—	10,345	(10,123)	222
Total	\$ 70,144	\$ (69,073)	\$ (1,071)	\$ —	\$ 70,144	\$ (68,815)	\$ 1,329

Amortization of purchased intangibles was \$0.3 million for the nine months ended October 1, 2023, and \$0.1 million and \$0.4 million for the three and nine months ended October 2, 2022, respectively.

During the three months ended October 1, 2023, the Company identified a triggering event indicating that the carrying amount of the intangibles may be impaired (Refer to below “Goodwill” for details of the triggering event). The Company performed a recoverability test of its intangible assets based on estimated future net undiscounted cash flows expected to be generated from the use of the long-lived asset group and determined that the carrying amount of such asset group was not recoverable. Therefore, in the third fiscal quarter of 2023, the Company recognized an intangible asset impairment charge of \$1.1 million for its Connected Home reporting unit.

Goodwill

Each year on the first day of the fourth fiscal quarter, the Company assesses its goodwill for potential impairment. This impairment testing is applied more frequently than once a year if the Company is aware of changed conditions or circumstances since the last impairment testing that might call into question whether the current balances are fairly recorded. During the three months ended October 1, 2023, the Company reassessed the valuation allowance for the deferred tax assets and determined to establish a full valuation allowance on its U.S. deferred tax assets (refer to Note 7, *Income Taxes* for detailed disclosures regarding the valuation allowance on deferred tax assets). Additionally, the Company experienced a reduction in its market capitalization. Due to these factors, the Company determined that a triggering event had occurred, and an interim goodwill impairment assessment was performed. Prior to performing a goodwill impairment test, the Company assessed its long-lived assets and concluded the carrying amount of the intangible assets for its Connected Home reporting unit was not recoverable.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

as noted above. No other impairments of long-lived assets were identified. The Company elected to bypass the qualitative goodwill impairment assessment and proceeded directly to the quantitative test, measured as of October 1, 2023.

The fair values of the reporting units, namely Connected Home and SMB, were determined using an income and market approach. Under the income approach, the Company calculated the fair values of its reporting units based on the present value of estimated future cash flows. Cash flow projections were based on management's estimates of revenue growth rates and net operating income margins, taking into consideration market and industry conditions. The discount rate used was based on the weighted-average cost of capital adjusted for the risk, size premium, and business-specific characteristics related to the business's ability to execute on the projected cash flows. Under the market approach, the Company evaluated the fair value based on forward-looking earnings multiples derived from comparable publicly traded companies with similar market position and size as the reporting unit. The underlying unobservable inputs used to measure the fair value included projected revenue growth rates, the weighted average cost of capital, the normalized working capital level, capital expenditures assumptions, profitability projections, control premium, the determination of appropriate market comparison companies and terminal growth rates. The two approaches generated similar results and indicated that the fair value of the SMB reporting unit substantially exceeded its carrying amount, including goodwill, thus no goodwill impairment was recognized.

Other non-current assets

(In thousands)	October 1, 2023	December 31, 2022
Non-current deferred income taxes	\$ 3,450	\$ 85,704
Long-term investments	8,240	7,879
Other	5,873	4,210
Total	<u>\$ 17,563</u>	<u>\$ 97,793</u>

Long-term equity investments

The Company's long-term investments are comprised of equity investments without readily determinable fair values, investments in convertible debt securities and investments in limited partnership funds. The changes in the carrying value of equity investments without readily determinable fair values were as follows:

(In thousands)	Nine months ended	
	October 1, 2023	October 2, 2022
Carrying value as of the beginning of the period ⁽¹⁾	\$ 6,053	\$ 6,303
Impairment	—	(250)
Carrying value as of the end of the period ⁽¹⁾	<u>\$ 6,053</u>	<u>\$ 6,053</u>

⁽¹⁾ The balances excluded an investment in limited partnership funds of \$2.2 million as of October 1, 2023, \$1.5 million as of October 2, 2022, \$1.7 million as of December 31, 2022, and \$0.9 million as of December 31, 2021. Additionally, the balance excluded an investment in convertible debt securities of \$0.2 million as of October 2, 2022, and December 31, 2022, respectively, and \$0.3 million as of December 31, 2021.

For such equity investments without readily determinable fair values still held at October 1, 2023, there were no cumulative downward adjustments for price changes and impairment and the cumulative upward adjustments for price changes was \$0.3 million.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Other accrued liabilities

(In thousands)	October 1, 2023	December 31, 2022
Current operating lease liabilities	\$ 11,379	\$ 11,012
Sales and marketing	74,813	98,690
Warranty obligations	7,038	6,320
Sales returns ⁽¹⁾	36,751	44,944
Freight and duty	2,478	7,243
Other	35,254	45,267
Total	\$ 167,713	\$ 213,476

⁽¹⁾ Inventory expected to be received from future sales returns amounted to \$17.6 million and \$21.8 million as of October 1, 2023, and December 31, 2022, respectively. Provisions to write down expected returned inventory to net realizable value amounted to \$10.7 million and \$11.8 million as of October 1, 2023, and December 31, 2022, respectively.

Note 5. Derivative Financial Instruments

The Company's subsidiaries have material future cash flows related to revenue and expenses denominated in currencies other than the U.S. dollar, the Company's functional currency worldwide. The Company executes currency forward contracts that typically mature in less than 6 months to mitigate its currency risk, in currencies including Australian dollars, British pounds, euros, Canadian dollars, and Japanese yen. 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 enters into derivative contracts with high-quality financial institutions and limits the amount of credit exposure to any individual counterparty.

The Company typically executes ten cash flow hedges per quarter with maturities under six months and with an average USD notional amount of approximately \$5.5 million that are designated as cash flow hedges.

The Company enters into non-designated hedges that 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. The Company adjusts its non-designated hedges monthly and typically executes about eight non-designated forwards per quarter with maturities less than three months and an average USD notional amount of approximately \$2.5 million.

Fair Value of Derivative Instruments

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 were summarized as follows:

(In thousands)	Balance Sheet			Balance Sheet		
	Location	October 1, 2023	December 31, 2022	Location	October 1, 2023	December 31, 2022
Derivatives not designated as hedging instruments	Prepaid expenses and other current assets	\$ 1,802	\$ 636	Other accrued liabilities	\$ 527	\$ 3,871
Derivatives designated as hedging instruments	Prepaid expenses and other current assets	71	16	Other accrued liabilities	27	212
Total		\$ 1,873	\$ 652		\$ 554	\$ 4,083

Refer to Note 12, *Fair Value Measurements* for detailed disclosures regarding fair value measurements. Refer to Note 9, *Stockholders' Equity*, for details on the accumulated other comprehensive income (loss) activity related to derivatives and refer to Note 11, *Segment Information*, for details on gain/(loss), net pertaining to derivatives not designated as hedging instruments that were recognized in Other income (expenses), net.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 6. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. Potentially dilutive common shares include common shares issuable upon exercise of stock options, vesting of Restricted Stock Units ("RSUs") and performance shares, and issuances of shares under the Employee Stock Purchase Plan (the "ESPP"), which are reflected in diluted net income (loss) per share by application of the treasury stock method. Potentially dilutive common shares are excluded from the computation of diluted net income (loss) per share when their effect is anti-dilutive.

Net income (loss) per share consisted of the following:

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Numerator:				
Net income (loss)	\$ (84,799)	\$ 2,801	\$ (103,098)	\$ (62,943)
Denominator:				
Weighted average common shares - basic	29,524	28,891	29,266	29,023
Potentially dilutive common share equivalent	—	138	—	—
Weighted average common shares - dilutive	29,524	29,029	29,266	29,023
Basic net income (loss) per share	\$ (2.87)	\$ 0.10	\$ (3.52)	\$ (2.17)
Diluted net income (loss) per share	\$ (2.87)	\$ 0.10	\$ (3.52)	\$ (2.17)
Anti-dilutive employee stock-based awards, excluded	2,563	1,539	2,358	1,582

Note 7. Income Taxes

The income tax provision for the three and nine months ended October 1, 2023 was \$86.4 million and \$84.4 million, respectively. The income tax benefit for the three and nine months ended October 2, 2022 was \$4.3 million and \$9.0 million, respectively. The changes in taxes for the three and nine months ended October 1, 2023, compared to the prior year periods, were primarily due to the recognition of a valuation allowance of \$81.5 million on deferred tax assets for U.S. federal and state purposes during the three month period. In evaluating the current results, coupled with expectation for the remainder of the year, the Company reassessed its position and determined that it was not more likely than not that the deferred tax assets would be realized, and accordingly recorded a full valuation allowance on the net deferred tax assets in the U.S. In the three and nine months ended October 2, 2022, the forecasted annual loss was significantly higher (in relative terms) as compared to the forecasted earnings for 2023 due to the impairment of goodwill in the first fiscal quarter of 2022. The tax benefits on the three and nine months ended October 2, 2022 were partially offset by the tax impact of non-tax-deductible goodwill impairment which substantially reduced the effective tax rate for that period. Tax benefits on current year losses for the three and nine months ended October 1, 2023 were offset by the valuation allowance.

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 in multiple jurisdictions in the next twelve months is approximately \$0.4 million excluding the interest, penalties and the effect of any related deferred tax assets or liabilities. The Company is currently under examination in various U.S. and foreign jurisdictions.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company accounts for income taxes under an asset and liability approach. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences resulting from different treatment for tax versus accounting for certain items, such as accruals and allowances not currently deductible for tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of these differences, which will either be taxable or deductible when assets and liabilities are recovered or settled, as well as operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheets. The Company must then assess the likelihood that the Company's deferred tax assets will be recovered from future taxable income and to the extent the Company believes that recovery is not more likely than not, the Company must establish a valuation allowance. The Company's assessment considers the recognition of deferred tax assets on a jurisdictional basis. Accordingly, in assessing its future taxable income on a jurisdictional basis, the Company considers the effect of its transfer pricing policies on that income. During the three months ended October 1, 2023, the Company determined that recovery of its U.S. federal and state deferred tax assets was no longer more likely than not and established a full valuation allowance on those net assets, based on evaluation of all available evidence, including actual and anticipated business results. Accordingly, the balance sheet net deferred tax assets from the U.S. federal and state jurisdictions reported in "Other Non-current Assets" were reduced after the effect of establishing the valuation allowance.

Note 8. Commitments and Contingencies**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. As of October 1, 2023, the Company had approximately \$68.5 million, as compared to \$105.1 million as of December 31, 2022, in short-term non-cancelable purchase commitments with suppliers or where the suppliers had procured unique materials and components upon receipts of the Company's purchase orders. During the height of COVID-19 pandemic, the Company saw an elongation of the time from order placement to production. In response, the Company issued purchase orders to supply chain partners beyond contractual termination periods. As of October 1, 2023, \$367.1 million of purchase orders beyond contractual termination periods remained outstanding. Consequently, the Company may incur expenses for materials and components, such as chipsets purchased by the supplier to fulfill the purchase order if the purchase order is cancelled. Expenses incurred in respect of cancelled purchase orders have historically not been significant relative to the original order value. For those orders not governed by master purchase agreements, the commitments are governed by the commercial terms on the Company's purchase orders subject to acknowledgment from its suppliers. The Company establishes a loss liability for all products it does not expect to sell or orders it anticipates cancelling for which it has committed purchases from suppliers. Such loss liability is included in Other accrued liabilities on the Company's unaudited condensed consolidated balance sheets. Losses incurred in relation to purchase commitments, including unique materials and components, amounted to \$0.6 million and \$2.0 million for the three and nine months ended October 1, 2023, respectively, and \$1.6 million and \$4.6 million for the three and nine months ended October 2, 2022, respectively.

Non-Trade Commitments

As of October 1, 2023, the Company had non-cancellable purchase commitments of \$13.1 million pertaining to non-trade activities.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Warranty Obligations

Changes in the Company's warranty obligations, which is included in Other accrued liabilities on the unaudited condensed consolidated balance sheets, were as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Balance as of beginning of the period	\$ 6,217	\$ 6,523	\$ 6,320	\$ 6,861
Provision for warranty liability made	2,185	1,052	4,862	3,706
Settlements made	(1,364)	(1,431)	(4,144)	(4,423)
Balance as of the end of the period	<u>\$ 7,038</u>	<u>\$ 6,144</u>	<u>\$ 7,038</u>	<u>\$ 6,144</u>

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.

Huawei v. NETGEAR Inc., NETGEAR Deutschland GmbH, and Exertis-Connect GmbH

On or around March of 2022, Huawei filed two patent infringement lawsuits at the District Court of Dusseldorf, Germany, against NETGEAR Inc., NETGEAR Deutschland GmbH, and Exertis-Connect GmbH, a third-party webstore selling NETGEAR products in Germany. Huawei asserts one EU patent in each suit, EP 3 337 077 B1 (the '077 Patent) in case no. 08/22 and EP 3 143 741 B1 (the '741 Patent) in case no. 09/22. In its complaints, Huawei alleges that the Company's WiFi 6 products infringe the two patents, which Huawei further claims are standard-essential patents.

On or around May 10, 2022, the Company was served with two suits that Huawei filed before the Jinan Intermediate People's Court of China asserting Patent Nos. ZL 201811536087.9 (case no 407) and ZL 201810757332.2 (case no. 408) against the Company's WiFi 6 products. The Company's challenge of the Jinan Court's jurisdiction in both cases was denied by the Supreme Court of China.

In the German cases, on or around February 9, 2023, the Federal Patent Court issued preliminary opinions finding both asserted patents invalid. The invalidity proceedings are ongoing. The Company attended an oral hearing for both infringement cases on March 21, 2023 before the Dusseldorf District Court and the Court rendered its decisions on May 11, 2023. The Court dismissed case no. 09/22 for the '741 Patent and stayed case no. 8/22 for the '077 Patent. Huawei has filed a notice of appeal for the dismissal of case no. 09/22. The parties are preparing their appellate briefs.

In the Chinese cases, the parties attended an evidentiary hearing for cases on July 3, 2023. Licensing and technical hearings followed on July 24, 2023 and July 25, 2023. After the July 25th hearing, the Court indicated it will confer internally and advise the parties of further action.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Huawei v. NETGEAR Inc., NETGEAR Deutschland GmbH, and NETGEAR International Limited

On or around July 3, 2023, the Company learned that Huawei filed a new infringement suit, asserting patent EP 3 611 989 (the '989 Patent), against NETGEAR Inc., NETGEAR Deutschland GmbH, and NETGEAR International Limited at the recently established Unified Patent Court (UPC) in Munich, Germany. The Company's statement of defense is due November 7, 2023.

The Company, at this time, is not able to reasonably estimate any financial impact to the Company resulting from these litigation matters.

The Company does not believe that it is reasonably possible that a material loss has been incurred for any of the matters disclosed above, and consequently has not established any loss provisions.

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. 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. The Company did not repurchase any shares of common stock during the nine months ended October 1, 2023. During the nine months ended October 2, 2022, the Company repurchased, reported based on trade date, approximately 1.0 million shares of common stock at a cost of approximately \$24.4 million under the repurchase authorizations. As of October 1, 2023, 2.5 million shares remained authorized for repurchase under the repurchase program.

The Company repurchased, reported based on trade date, approximately 194,000 and 198,000 shares of common stock, at a cost of approximately \$2.7 million and \$4.7 million, during the nine months ended October 1, 2023, and October 2, 2022, respectively, to administratively facilitate the withholding and subsequent remittance of personal income and payroll taxes for individuals receiving RSUs.

These shares were retired upon repurchase. 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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Accumulated Other Comprehensive Income (Loss)

The following tables set forth the changes in accumulated other comprehensive income (loss) ("AOCI") by component:

(In thousands)	Unrealized gains (losses) on available -for-sale investments	Unrealized gains (losses) on derivatives	Estimated tax benefit (provision)	Total
Balance as of December 31, 2022	\$ (322)	\$ (338)	\$ 125	\$ (535)
Other comprehensive income (loss) before reclassifications	249	2,584	(568)	2,265
Less: Amount reclassified from accumulated other comprehensive income (loss)	—	2,178	(457)	1,721
Net current period other comprehensive income (loss)	249	406	(111)	544
Balance as of October 1, 2023	\$ (73)	\$ 68	\$ 14	\$ 9

(In thousands)	Unrealized gains (losses) on available -for-sale investments	Unrealized gains (losses) on derivatives	Estimated tax benefit (provision)	Total
Balance as of December 31, 2021	\$ (2)	\$ 173	\$ (22)	\$ 149
Other comprehensive income (loss) before reclassifications	(459)	1,340	(154)	727
Less: Amount reclassified from accumulated other comprehensive income (loss)	—	1,254	(263)	991
Net current period other comprehensive income (loss)	(459)	86	109	(264)
Balance as of October 2, 2022	\$ (461)	\$ 259	\$ 87	\$ (115)

The following table provides details about significant amounts reclassified out of each component of AOCI:

(In thousands)	Three Months Ended		Nine Months Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Amount Reclassified from AOCI				
Gains (losses) on cash flow hedge:				
Foreign currency forward contracts				
Affected line item in the statement of operations				
Net revenue	\$ 1,059	\$ 683	\$ 2,510	\$ 1,395
Cost of revenue	(2)	—	(4)	—
Research and development	—	(3)	(26)	(18)
Sales and marketing	(100)	(64)	(242)	(97)
General and administrative	(41)	(22)	(60)	(26)
Total before tax	916	594	2,178	1,254
Tax impact	(192)	(124)	(457)	(263)
Total, net of tax	\$ 724	\$ 470	\$ 1,721	\$ 991

Note 10. Employee Benefit Plans

The Company grants options, RSUs and performance shares under the 2016 Incentive Plan (the "2016 Plan"), under which awards may be granted to all employees. Vesting periods under this plan are generally four years for options and RSUs and three years for performance shares. In June 2023, the stockholders of the Company approved an amendment to the 2016 Plan which increased the number of shares of the Company's common stock that may be issued under the 2016 plan by an additional 2.0 million shares. As of October 1, 2023, approximately 2.4 million shares were reserved for future grants under the 2016 Plan.

Additionally, the Company sponsors an Employee Stock Purchase Plan (the "ESPP"), pursuant to which eligible employees may contribute up to 10% of compensation, subject to certain income limits, to purchase shares of the Company's

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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. The duration of each offering period is generally six months. As of October 1, 2023, approximately 0.8 million shares were available for issuance under the ESPP.

Option Activity

Stock option activity was as follows:

(In thousands, except per share amounts)	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding as of December 31, 2022	872	\$ 30.64
Expired	(6)	\$ 21.86
Outstanding as of October 1, 2023	866	\$ 30.70

RSU Activity

RSU activity was as follows:

(In thousands, except per share amounts)	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding as of December 31, 2022	1,546	\$ 27.82
Granted	752	\$ 17.49
Vested	(638)	\$ 27.32
Cancelled	(84)	\$ 25.52
Outstanding as of October 1, 2023	1,576	\$ 23.01

Performance Shares Activity

In July 2020, July 2021, April 2022 and July 2023, the Company's executive officers were granted performance shares with vesting occurring at the end of a three-year period if performance conditions are met. The number of performance shares earned and eligible to vest are determined based on achievement of the pre-determined performance conditions and the recipients' continued service with the Company. The number of performance shares to vest could range from 0% to 150% of the target shares granted. At the end of each reporting period, the Company evaluates the probability of achieving the performance conditions and records the related stock-based compensation expense based on performance to date over the service period.

Performance shares activity was as follows:

(In thousands, except per share amounts)	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding as of December 31, 2022	430	\$ 29.38
Granted	145	\$ 14.44
Vested	—	—
Cancelled	(158)	\$ 27.85
Outstanding as of October 1, 2023	417	\$ 24.76

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Valuation and Expense Information

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

(In thousands)	Three Months Ended		Nine Months Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Cost of revenue	\$ 354	\$ 283	\$ 1,047	\$ 1,027
Research and development	841	968	3,050	3,150
Sales and marketing	1,271	1,249	4,099	4,275
General and administrative	1,819	940	5,441	4,814
Total	\$ 4,285	\$ 3,440	\$ 13,637	\$ 13,266

As of October 1, 2023, \$32.0 million of unrecognized compensation cost related to unvested RSUs and performance shares was expected to be recognized over a weighted-average period of 2.4 years.

Note 11. Segment Information

Operating segments are components of an enterprise about which separate financial information is available and is evaluated quarterly 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. The Company operates and reports in two segments: Connected Home and SMB:

- **Connected Home:** Focuses on consumers and provides high-performance, dependable and easy-to-use premium WiFi internet networking solutions such as recently released WiFi 7, WiFi 6 and WiFi 6E Tri-band and Quad-band mesh systems, and routers, 4G/5G mobile products, smart devices such as Meural digital canvasses, and subscription services that provide consumers a range of value-added services focused on security, performance, privacy, and premium support; and
- **SMB:** Focuses on small and medium sized businesses and provides solutions for business networking, wireless local area network (“LAN”), audio and video over Ethernet for Pro AV applications, security and remote management providing enterprise-class functionality at an affordable price.

The Company believes that this structure reflects its current operational and financial management, and that it provides the best structure for the Company to focus on growth opportunities while maintaining financial discipline. The leadership team of each segment is focused on product and service 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 (loss). Segment contribution income (loss) includes all product line segment revenues less the related cost of sales, research and development and sales and marketing costs. Contribution income (loss) is used, in part, to evaluate the performance of, and allocate resources to, each of the segments. Certain operating expenses are not allocated to segments because they are separately managed at the corporate level. These unallocated indirect costs include corporate costs, such as corporate research and development, corporate marketing expense and general and administrative costs, amortization of intangibles, stock-based compensation expense, goodwill impairment, intangibles impairment, restructuring and other charges, litigation reserves, net, and other income (expenses), net.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(In thousands)	Three Months Ended		Nine Months Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net Revenue:				
Connected Home	\$ 127,335	\$ 150,581	\$ 328,487	\$ 409,787
SMB	70,510	99,006	223,679	273,582
Total net revenue	<u>\$ 197,845</u>	<u>\$ 249,587</u>	<u>\$ 552,166</u>	<u>\$ 683,369</u>
Contribution Income (loss):				
Connected Home	\$ 11,885	\$ (512)	\$ 9,558	\$ (3,033)
Contribution margin	9.3 %	(0.3) %	2.9 %	(0.7) %
SMB	\$ 14,913	\$ 23,683	\$ 43,382	\$ 53,844
Contribution margin	21.2 %	23.9 %	19.4 %	19.7 %
Total segment contribution income	\$ 26,798	\$ 23,171	\$ 52,940	\$ 50,811
Corporate and unallocated costs	(21,546)	(21,392)	(65,495)	(62,532)
Amortization of intangibles ⁽¹⁾	—	(129)	(257)	(386)
Stock-based compensation expense	(4,285)	(3,440)	(13,637)	(13,266)
Goodwill impairment	—	—	—	(44,442)
Intangibles impairment	(1,071)	—	(1,071)	—
Restructuring and other charges	(366)	(361)	(2,703)	(911)
Litigation reserves, net	(178)	—	(178)	(20)
Other income (expenses), net ⁽²⁾	2,280	638	11,685	(1,164)
Income (loss) before income taxes	<u>\$ 1,632</u>	<u>\$ (1,513)</u>	<u>\$ (18,716)</u>	<u>\$ (71,910)</u>

⁽¹⁾ Amounts exclude amortization expense related to patents within purchased intangibles in cost of revenue.

⁽²⁾ Amounts included gain/(loss), net from litigation settlements of \$6.0 million for the nine months ended October 1, 2023, and gain/(loss), net from derivatives not designated as hedging instruments of \$1.3 million and \$2.2 million, for the three and nine months ended October 1, 2023, respectively, and \$3.4 million and \$6.9 million for the three and nine months ended October 2, 2022, respectively.

The CODM does not evaluate operating segments using discrete asset information.

Operations by Geographic Region

For reporting purposes, revenue is generally attributed to each geographic region based on the location of the customer.

The following table shows net revenue by geography:

(In thousands)	Three Months Ended		Nine Months Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
United States (U.S.)	\$ 138,013	\$ 164,890	\$ 368,772	\$ 445,170
Americas (excluding U.S.)	3,005	4,470	10,779	12,866
EMEA ⁽¹⁾	35,684	44,827	111,023	126,643
APAC ⁽¹⁾	21,143	35,400	61,592	98,690
Total net revenue	<u>\$ 197,845</u>	<u>\$ 249,587</u>	<u>\$ 552,166</u>	<u>\$ 683,369</u>

⁽¹⁾ No individual foreign country represented more than 10% of the Company's total net revenue in the periods presented.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Long-lived assets by Geographic Region

The following table presents the Company's long-lived assets located in geographic areas, which consist of property and equipment, net, and operating lease right-of-use assets:

(In thousands)	October 1, 2023	December 31, 2022
United States (U.S.)	\$ 26,640	\$ 32,142
Americas (excluding U.S.)	4,805	2,367
EMEA	3,897	3,564
Singapore	6,364	4,032
APAC (excluding Singapore) ⁽¹⁾	6,341	7,988
Total	<u>\$ 48,047</u>	<u>\$ 50,093</u>

⁽¹⁾ No individual country represented more than 10% of the Company's total long-lived assets in the periods presented.

Note 12. Fair Value Measurements

The following tables summarize assets and liabilities measured at fair value on a recurring basis:

(In thousands)	October 1, 2023		
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)
Assets:			
Cash equivalents: money-market funds	\$ 24,110	\$ 24,110	\$ —
Available-for-sale investments: U.S. treasury securities ⁽¹⁾	88,693	—	88,693
Trading securities: mutual funds ⁽¹⁾	7,720	7,720	—
Available-for-sale investments: convertible debt securities ⁽²⁾	173	—	173
Foreign currency forward contracts ⁽³⁾	1,873	—	1,873
Total assets measured at fair value	<u>\$ 122,569</u>	<u>\$ 31,830</u>	<u>\$ 90,739</u>
Liabilities:			
Foreign currency forward contracts ⁽⁴⁾	\$ 554	\$ —	\$ 554
Total liabilities measured at fair value	<u>\$ 554</u>	<u>\$ —</u>	<u>\$ 554</u>

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(In thousands)	December 31, 2022		
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)
Assets:			
Cash equivalents: money-market funds	\$ 25,744	\$ 25,744	\$ —
Available-for-sale investments: U.S. treasury securities ⁽¹⁾	73,800	—	73,800
Trading securities: mutual funds ⁽¹⁾	6,946	6,946	—
Available-for-sale investments: certificates of deposit ⁽¹⁾	6	—	6
Available-for-sale investments: convertible debt securities ⁽²⁾	346	—	346
Foreign currency forward contracts ⁽³⁾	652	—	652
Total assets measured at fair value	\$ 107,494	\$ 32,690	\$ 74,804
Liabilities:			
Foreign currency forward contracts ⁽⁴⁾	\$ 4,083	\$ —	\$ 4,083
Total liabilities measured at fair value	\$ 4,083	\$ —	\$ 4,083

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

(2) On the Company's unaudited condensed consolidated balance sheets, \$173,000 included in Short-term investments as of October 1, 2023, and \$173,000 included in Short-term investments and the remaining included in Other non-current assets as of December 31, 2022.

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

(4) Included in Other accrued liabilities on the Company's unaudited condensed consolidated balance sheets.

The Company's investments in money-market funds and mutual funds are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company's investments in U.S. treasury securities are classified within Level 2 of the fair value hierarchy because they are valued based on readily available pricing sources for comparable or identical instruments in less active markets. The Company's investments in convertible debt securities issued by a publicly held company and certificates of deposits are classified within Level 2 of the fair value hierarchy as the fair value for the instrument approximates its cost based on the contractual terms of the arrangement. 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 consider 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. The Company enters into foreign currency forward contracts with only those counterparties that have long-term credit ratings of A-/A3 or higher. 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. Restructuring and Other Charges

The Company accounts for its restructuring plans under the authoritative guidance for exit or disposal activities. The Company includes expenses related to restructuring and other charges in Other operating expenses (income), net in the condensed consolidated statements of operations. Accrued restructuring and other charges are classified within Accrued employee compensation and Other accrued liabilities on the condensed consolidated balance sheets.

Restructuring and other charges recognized in the nine months ended October 1, 2023 and October 2, 2022, respectively, were primarily for severance, and other costs in relation to the reorganization of our business to better align the cost structure of the business with projected revenue levels. The liabilities as of October 1, 2023 are expected to be settled in 2023.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table provides a summary of the activity related to accrued restructuring and other charges:

(In thousands)	Accrued Restructuring and Other Charges at December 31, 2022	Additions	Cash Payments	Adjustments	Accrued Restructuring and Other Charges at October 1, 2023
Restructuring					
Employee termination charges	\$ 1,912	\$ 2,650	\$ (4,138)	\$ (80)	\$ 344
Lease contract termination and other charges	—	395	(367)	—	28
Total Restructuring and other charges	<u>\$ 1,912</u>	<u>\$ 3,045</u>	<u>\$ (4,505)</u>	<u>\$ (80)</u>	<u>\$ 372</u>
(In thousands)	Accrued Restructuring and Other Charges at December 31, 2021	Additions	Cash Payments	Adjustments	Accrued Restructuring and Other Charges at October 2, 2022
Restructuring					
Employee termination charges	\$ —	\$ 950	\$ (851)	\$ (18)	\$ 81
Lease contract termination and other charges	23	1	(1)	(23)	—
Total Restructuring and other charges	<u>\$ 23</u>	<u>\$ 951</u>	<u>\$ (852)</u>	<u>\$ (41)</u>	<u>\$ 81</u>

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 expressions are intended to identify forward-looking statements. The forward-looking statements represent NETGEAR, Inc.'s expectations or beliefs concerning future events based on information available at the time such statements were made and include statements regarding: NETGEAR's future operating performance and financial condition, including expectations regarding growth, revenue, expenses, operating margin, gross margin, continued profitability and cash generation; NETGEAR's strategic shift to focusing on the premium, higher-margin segments of the market and growing service revenue; NETGEAR's investments in developing new products and subscription services, enhancing current products and expanding channels and direct-to-consumer capabilities; NETGEAR's outsourcing strategy and its impact to products cost and gross margin; expectations regarding product mix and market demand for NETGEAR's products and services, including SMB and premium Connected Home products and subscription services and NETGEAR's ability to respond to this demand; expectations regarding the timing, distribution, sales momentum and market acceptance of recent and anticipated new product and services introductions that position NETGEAR for growth and market share gain; expectations regarding competition, competitive factors, consumer price sensitivity and demand for NETGEAR's products and services; expectations regarding sales channels, direct online store and in-app offerings; expectations regarding macroeconomic conditions and impacts to NETGEAR's operational and financial performance and business strategies; expectations regarding the consumer retail networking market; expectations regarding existing cash, cash equivalents and short-term investments and anticipated cash requirements; expectations regarding inventory management and inventory costs; expectations regarding transportation costs; expectations regarding research and development expenses, sales and marketing expenses and general and administration expenses; expectations regarding expected tax rates or tax expenses; and expectations regarding NETGEAR's subscription services, paid subscriber base growth, service revenue and gross margin. These statements are based on management's current expectations and are subject to a number of risks and uncertainties, including but not limited to those described in "Part II—Item 1A—Risk Factors" and "Liquidity and Capital Resources" below and in our other SEC filings, including our Annual Report. Further, certain forward-looking statements are based on assumptions as to future events that may not prove to be accurate. Therefore, our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. 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 except as required by law. 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 its subsidiaries.

Business and Executive Overview

We are a global company that turns ideas into innovative, high-performance, and premium networking products. Our products connect people, homes, and power businesses and service providers. Our products are designed to simplify and improve people's lives. Our core long-term strategy is to create and grow the premium higher-margin segments of the consumer networking market, where we believe competition is less intense and consumers are less price sensitive and offers greater potential to sell our subscription services. A key element of our premium strategy is the curated online experience we deliver to guide our customers through the shopping experience. This approach has helped grow NETGEAR.com as a channel and, with expansion to more countries, we have a great opportunity to accelerate traction in the premium segment of the market. Our goal is to enable people to collaborate and connect to a world of information and entertainment in or outside of the home. We are dedicated to delivering innovative and differentiated high performance connected solutions ranging from easy-to-use premium WiFi solutions, security and support services to protect and enhance home networks, to switching and wireless solutions to augment business networks and audio and video over Ethernet for Pro AV applications. Our products and services are built on a variety of technologies such as wireless (WiFi and 4G/5G mobile), Ethernet and powerline, with a focus on reliability and ease-of-use. Additionally, we continually invest in research and development to create new technologies and services and to capitalize on technological inflection points and trends, such as WiFi 7, audio and video over Ethernet, non-fungible token ("NFT") artwork, and future technologies. Our product line consists of devices that create and extend wired and wireless networks, devices that attach to the network, such as smart digital canvasses as well as services that complement and

enhance our product line offerings. These products are available in multiple configurations to address the changing needs of our customers in each geographic region.

We operate and report in two segments: Connected Home, and Small and Medium Business (“SMB”). We believe that this structure reflects our current operational and financial management, and that it provides the best structure for us to focus on growth opportunities while maintaining financial discipline. The leadership team of each segment is focused on serving customer needs through product and service development efforts, both from a product marketing and engineering standpoint. The Connected Home segment focuses on consumers and provides high-performance, dependable, and easy-to-use premium WiFi internet networking solutions such as WiFi 6/6E and recently released WiFi 7 Tri-band and Quad-band mesh systems, and routers, 4G/5G mobile products, smart devices such as Meural digital canvasses, and subscription services that provide consumers a range of value-added services focused on security, performance, privacy, and premium support. The SMB segment focuses on small and medium sized businesses and provides solutions for business networking, wireless local area network (“LAN”), audio and video over Ethernet for Pro AV applications, security and remote management providing enterprise-class functionality at an affordable price. We conduct business across three geographic regions: Americas; Europe, Middle East, and Africa (“EMEA”); and Asia Pacific (“APAC”).

Business Overview

The markets in which our segments operate are intensely competitive and subject to rapid technological evolution. We believe that the principal competitive factors in the consumer and small and medium-sized business markets for networking products include product breadth, price points, size and scope of the sales channel, brand recognition, timeliness of new product introductions, product availability, performance, features, functionality, reliability, ease-of-installation, maintenance and use, security, as well as customer service and support. To remain competitive, we believe we must continue to aggressively invest resources to develop new products and subscription services, enhance our current products, and expand our channels and direct-to-consumer capabilities, while increasing engagement and maintaining satisfaction with our customers. Our investments reflect our steadfast focus on cybersecurity of our products and systems, as the rising threat of cyber-attacks and exploitation of security vulnerabilities in our industry is a significant consumer concern.

We sell our products through multiple sales channels worldwide, including traditional and online retailers, wholesale distributors, direct market resellers (“DMRs”), value-added resellers (“VARs”), broadband service providers, and through our direct online store at www.netgear.com. Our retail channel includes traditional retail locations domestically and internationally, such as Best Buy, Wal-Mart, Costco, Staples, Office Depot, Target, Electra (Sweden), Fnac Darty (Europe), JB HiFi (Australia), Elkjop (Norway), and Boulanger (France). Online retailers include Amazon.com (worldwide). Our DMRs include CDW Corporation, Insight Corporation, and PC Connection in domestic markets. Our main wholesale distributors include Ingram Micro, TD Synnex, and D&H Distribution Company. In addition, we also sell our products through broadband service providers, such as multiple system operators, xDSL, mobile, 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 is derived from a limited number of wholesale distributors, service providers and retailers. While we expect these channels to continue to be a significant part of our sales strategy, increasingly, customers are choosing to purchase products and services directly from us. We expect revenue through our direct online store or in-app offerings to continue to increase as a percentage of overall revenue for the foreseeable future.

Financial Overview

During the three months ended October 1, 2023, our net revenue decreased by \$51.7 million, compared to the prior year period, mainly driven by decreases of \$28.5 million in our SMB segment, and \$23.2 million in our Connected Home segment. The year-over-year decrease in SMB net revenue was primarily due to a reduction in inventory carrying levels across our channel partners driven by the continued pressure of the uncertain macroeconomic environment. The year-over-year decrease in Connected Home net revenue was primarily due to a contraction of the U.S. retail market and higher inventory carrying levels at our channel partners in the prior year period. Despite the year-over-year decline in net revenue during the three months ended October 1, 2023, demand for our premium WiFi mesh systems and 5G mobile hotspots, continued to grow, bolstered by the addition of our recently released WiFi 7 mesh systems and routers. We also experienced continued strong demand for the Pro AV product line of managed switches, and growth in our services revenue. Our gross margin percentage increased 730 basis points for the three months ended October 1, 2023, compared to the prior year period, in part due to a more favorable mix of our premium Connected Home products, combined with continued growth of our services business. Additionally, we incurred lower sea freight costs when the inventory was purchased in the second half of 2022, and less reliance on higher cost air freight due to an improved supply picture. Loss from operations decreased by \$1.5 million for the three months ended October 1, 2023, compared to the prior year period, primarily driven by reduced operating expenses and higher gross profit in spite of lower net revenue in the current period.

Geographically, net revenue from Connected Home and SMB decreased across all three regions during the three months ended October 1, 2023, compared to the prior year period.

Global Events Affecting our Business and Operations

In 2022, we saw a positive downward trend on the cost per container to move goods via sea, with rates returning to near pre-pandemic levels by the end of 2022. In 2023, we began to realize the gross margin benefits from the inventory we obtained with lower sea freight rates. Additionally, we also decreased our use of higher cost air freight in 2023 due to an improved supply picture.

Recent macroeconomic trends have led to uncertainty in the global economic environment. These include conditions such as the potential for a recession, high inflation, rising interest rates, and the related negative impact on the global economy, foreign exchange rate fluctuations, particularly changes of the U.S. dollar, and ongoing worldwide tensions, including the Russia-Ukraine and Israel-Hamas conflicts. The extent of impacts from these macroeconomic and geopolitical trends on our ongoing operational and financial performance, including our ability to execute our business strategies in the expected time frame, will depend on future developments. The broader implications of the macroeconomic uncertainty and any related disruptions to channel partners are unpredictable. Refer to Item 1A, Risk Factors of Part II of this Quarterly Report on Form 10-Q for various risks and uncertainties associated with the macroeconomic trends and uncertainty.

Looking forward, in spite of the on-going broad-based inflationary pressures and the uncertain macroeconomic environment, we expect to continue to experience strong underlying demand in the premium portion of our Connected Home product portfolio powered by our premium WiFi mesh systems and 5G mobile hotspots. We are starting to see indicators that the broader consumer retail networking market is stabilizing and our retail channel partners are now maintaining rather than depleting their inventories. However, we will continue to work with our SMB channel partners to optimize their inventory carrying levels. Accordingly, for the fourth quarter of 2023, we expect the Connected Home net revenue to be relatively flat sequentially, in line with market seasonality, and SMB to be down sequentially. We aim to execute on our strategy of capitalizing on the technological inflection points of the recent release of WiFi 7, WiFi 6E, WiFi 6, 5G, audio and video over Ethernet, to develop and expand the premium WiFi market through new product introductions and to develop and roll out service offerings that build recurring service revenue streams.

Critical Accounting Estimates

In preparing our condensed consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, operating income, and net income, as well as on the value of certain assets and liabilities on our condensed consolidated balance sheets. We base these estimates on historical and anticipated results, trends and various other assumptions that we believe are reasonable under the circumstances. As of the date of issuance of these condensed consolidated financial statements, we are not aware of any specific event or circumstance that would require us to update our estimates, judgments or revise the carrying value of our assets or liabilities. These estimates may change, as new events occur and additional information is obtained, and are recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ materially from those estimates under different assumptions and conditions.

For a complete description of what we believe to be the critical accounting estimates used in the preparation of our Unaudited Condensed Consolidated Financial Statements, refer to our Annual Report.

Results of Operations

The following table sets forth the unaudited condensed consolidated statements of operations for the periods presented.

(In thousands, except percentage data)	Three Months Ended				Nine Months Ended			
	October 1, 2023		October 2, 2022		October 1, 2023		October 2, 2022	
Net revenue	\$197,845	100.0 %	\$249,587	100.0 %	\$552,166	100.0%	\$683,369	100.0%
Cost of revenue	128,911	65.2 %	181,058	72.5 %	368,550	66.7%	494,516	72.4%
Gross profit	68,934	34.8 %	68,529	27.5 %	183,616	33.3%	188,853	27.6%
Operating expenses:								
Research and development	20,738	10.5 %	22,167	8.9 %	63,703	11.5%	68,193	10.0%
Sales and marketing	30,865	15.4 %	34,203	13.8 %	97,226	17.7%	104,335	15.3%
General and administrative	16,364	8.3 %	13,949	5.6 %	49,136	8.9%	41,698	6.1%
Goodwill impairment	—	—%	—	—%	—	—%	44,442	6.5 %
Intangibles impairment	1,071	0.5 %	—	—%	1,071	0.2%	—	—%
Other operating expenses, net	544	0.3 %	361	0.1 %	2,881	0.5 %	931	0.1%
Total operating expenses	69,582	35.1 %	70,680	28.4 %	214,017	38.8%	259,599	38.0%
Loss from operations	(648)	(0.3)%	(2,151)	(0.9)%	(30,401)	(5.5)%	(70,746)	(10.4)%
Other income (expenses), net	2,280	1.1 %	638	0.3 %	11,685	2.1 %	(1,164)	(0.1)%
Income (loss) before income taxes	1,632	0.8 %	(1,513)	(0.6)%	(18,716)	(3.4)%	(71,910)	(10.5)%
Provision for (benefit from) income taxes	86,431	43.7 %	(4,314)	(1.7)%	84,382	15.3 %	(8,967)	(1.3)%
Net income (loss)	<u><u>\$ (84,799)</u></u>	<u><u>(42.9)%</u></u>	<u><u>\$ 2,801</u></u>	<u><u>1.1 %</u></u>	<u><u>\$ (103,098)</u></u>	<u><u>(18.7)%</u></u>	<u><u>\$ (62,943)</u></u>	<u><u>(9.2)%</u></u>

Net Revenue by Geographic Region

Our net revenue consists of gross product shipments and service revenue, less allowances for estimated sales returns, price protection, end-user customer rebates and other channel sales incentives deemed to be a reduction of revenue per the authoritative guidance for revenue recognition, and net changes in deferred revenue.

For reporting purposes, revenue is generally attributed to each geographic region based upon the location of the customer.

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
Americas	\$ 141,018	(16.7)%	\$ 169,360	\$ 379,551	(17.1)%	\$ 458,036
Percentage of net revenue	71.3 %		67.8 %	68.7 %		67.1 %
EMEA	\$ 35,684	(20.4)%	\$ 44,827	\$ 111,023	(12.3)%	\$ 126,643
Percentage of net revenue	18.0 %		18.0 %	20.1 %		18.5 %
APAC	\$ 21,143	(40.3)%	\$ 35,400	\$ 61,592	(37.6)%	\$ 98,690
Percentage of net revenue	10.7 %		14.2 %	11.2 %		14.4 %
Total net revenue	<u><u>\$ 197,845</u></u>	<u><u>(20.7)%</u></u>	<u><u>\$ 249,587</u></u>	<u><u>\$ 552,166</u></u>	<u><u>(19.2)%</u></u>	<u><u>\$ 683,369</u></u>

Americas

Net revenue in Americas decreased in the three and nine months ended October 1, 2023, driven by declines in Connected Home net revenue of 12.9% and 18.6%, respectively, and declines in SMB net revenue of 26.2% and 13.4%, respectively, compared to the prior year periods. The declines in Connected Home net revenue were primarily due to a contraction of the U.S. retail market, along with higher inventory carrying levels at our channel partners in the prior year periods. The declines in SMB net revenue were primarily due to higher inventory carrying levels at our channel partners in the prior year periods.

EMEA

Net revenue in EMEA decreased in the three and nine months ended October 1, 2023, primarily due to the performance of our SMB segment, which experienced declines in net revenue of 23.2% and 17.0%, respectively, compared to the prior year periods, mainly driven by meaningful reductions in our channel partner inventory carrying levels, stemming from the continued pressure of the uncertain macro environment. Net revenue for our Connected Home segment in the nine months ended October 1, 2023 remained relatively flat, while the three months ended October 1, 2023 experienced a decline in net revenue of 13.1%, driven by macroeconomic environment headwinds weighing on the market, compared to the prior year periods.

APAC

Net revenue in APAC decreased in the three and nine months ended October 1, 2023, compared to the prior year periods, driven by declines of 34.3% and 42.2%, respectively, in our Connected Home segment and declines of 46.4% and 33.1%, respectively, in our SMB segment. The declines in SMB net revenue were mainly due to meaningful reductions in our channel partner inventory carrying levels, driven by the uncertain macro environment. The declines in Connected Home net revenue were primarily driven by the macroeconomic environment headwinds.

For further discussions specific to our Connected Home and SMB business, refer to the "*Segment Information*" section below.

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; import duties/tariffs; warranty costs associated with returned goods; write-downs for excess and obsolete inventory; amortization of certain acquired intangibles and software development costs; and costs attributable to the provision of service offerings.

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, changes in our cost of goods sold due to fluctuations and increases in prices paid for components, net of vendor rebates, royalty and licensing fees, warranty and overhead costs, inbound freight and duty/tariffs, conversion costs, charges for excess or obsolete inventory, amortization of acquired intangibles and capitalized software development costs. The following table presents costs of revenue and gross margin, for the periods indicated:

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
Cost of revenue	\$128,911	(28.8)%	\$181,058	\$368,550	(25.5)%	\$494,516
Gross margin percentage	34.8%		27.5%	33.3%		27.6%

Our gross margin percentages increased for the three and nine months ended October 1, 2023, compared to the prior year periods, primarily due to a more favorable mix of premium Connected Home products which carry higher gross margins. Additionally, we incurred lower sea freight costs when the inventory was purchased in the second half of 2022, and less reliance on higher cost air freight due to an improved supply picture.

We believe that a combination of improved product mix with increased sales of premium Connected Home products, higher subscription services and stabilized transportation costs, including less reliance on higher-cost air freight, will help to deliver improvement to margin performance from fiscal 2022 levels in the remainder of 2023. Over the past couple of years, we incurred meaningful and continuously elevated cost of materials and components for our products, as well as freight transportation costs. Starting in the second quarter of 2022, we saw a positive downward trend for sea freight transportation costs. In the first half of 2023, sea freight rates stabilized slightly above pre-pandemic levels at which time we began to realize the gross margin benefits from the lower sea freight rates.

Forecasting 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 revenue as a percentage of net revenue can vary significantly based upon factors such as: uncertainties surrounding revenue levels, broad-based inflationary pressures and the uncertain macroeconomic environment, future pricing and/or potential discounts as a result of the economy or in response to the strengthening of the U.S.

[Table of Contents](#)

dollar in our international markets, competition, the timing of sales, and related production level variances; import customs duties and imposed tariffs; changes in technology; changes in product mix; expenses associated with writing off excessive or obsolete inventory; variability of stock-based compensation costs; royalties to third parties; fluctuations in freight costs; manufacturing and purchase price variances; changes in prices on commodity components; and warranty costs. We expect that revenue derived from paid subscription service plans will continue to increase in the future, which may have a positive impact on our gross margin. However, we will continue to experience fluctuations in our gross margin due to the factors discussed above.

Operating Expenses

Research and Development

Research and development expenses consist primarily of personnel expenses, payments to suppliers for design services, safety and regulatory testing, product certification expenditures to qualify our products for sale into specific markets, prototypes, IT and facility allocations, and other consulting fees. Research and development expenses are recognized as they are incurred. Our research and development organization is focused on enhancing our ability to introduce innovative and easy-to-use products and services. The following table presents research and development expenses, for the periods indicated:

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
Research and development	\$ 20,738	(6.4)%	\$ 22,167	\$ 63,703	(6.6)%	\$ 68,193

Research and development expenses decreased for the three and nine months ended October 1, 2023, primarily driven by a decrease in personnel-related expenditures of \$1.3 million and \$4.1 million, respectively, compared to the prior year periods, mainly due to decreased 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, products and services. We expect research and development expenses for the fourth fiscal quarter of 2023 to be in line or slightly lower in absolute dollars than in the first three quarters of 2023. We continue to invest in research and development to grow our cloud platform capabilities, our services and mobile applications and to create and expand our hardware product offerings focused on premium WiFi 7, and WiFi 6/6E, Advanced 4G/5G mobile and 5G coverage solutions, audio and video over Ethernet, web-managed, AV over IP managed switches and SMB wireless products. Research and development expenses may fluctuate depending on the timing and number of development activities and could vary significantly as a percentage of net revenue, depending on actual revenues achieved in any given quarter.

Sales and Marketing

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

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
Sales and marketing	\$ 30,865	(9.8)%	\$ 34,203	\$ 97,226	(6.8)%	\$ 104,335

The declines in sales and marketing expenses for the three and nine months ended October 1, 2023, compared to the prior year periods, were primarily attributable to decreases in outbound freight costs for product deliveries to our customers of \$1.7 million and \$5.2 million, respectively, personnel-related expenditures of \$0.9 million and \$2.1 million, respectively, mainly due to lower performance-based compensation expenses and decreased headcount, and lower outside service expenditures of \$1.0 million and \$2.0 million, respectively, mainly attributable to lower call center support costs. The declines were partially offset by increases in brand-marketing related expenditures for the nine months ended October 1, 2023 of \$2.5 million, compared to the prior year period.

We expect sales and marketing expenses for the fourth fiscal quarter of 2023 to be lower in absolute dollars than in the first three quarters of 2023. 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 is highly dependent

[Table of Contents](#)

on expected revenue levels and could vary significantly depending on actual revenue achieved in any given quarter. Marketing expenses may also fluctuate depending upon the timing, extent and nature of marketing programs. Marketing expenditure committed with a customer is generally recorded as a reduction of revenue per authoritative guidance.

General and Administrative

General and administrative expenses consist 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, IT and facility allocations, and other general corporate expenses. The following table presents general and administrative expenses, for the periods indicated:

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
General and administrative	\$ 16,364	17.3 %	\$ 13,949	\$ 49,136	17.8 %	\$ 41,698

The increases in general and administrative expenses for the three and nine months ended October 1, 2023, were primarily driven by increases in legal and professional services fees of \$1.6 million and \$5.1 million, respectively, mainly associated with litigation matters, which included fees incurred while reaching the favorable litigation settlement mentioned below in "Other income (expenses), net", as well as increases in personnel-related expenditures of \$0.6 million and \$1.5 million, respectively, compared to the prior year periods.

We expect general and administration expenses for the fourth fiscal quarter of 2023 to be in line in absolute dollars with the first three quarters of 2023. General and administrative expenses 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 matters described in *Note 8, Commitments and Contingencies*, in Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q. 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.

Goodwill and Intangibles Impairment

The following table presents goodwill impairment charge for the periods indicated:

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
Goodwill impairment charge	\$ —	**	\$ —	\$ —	**	\$ 44,442
Intangibles impairment charge	\$ 1,071	**	\$ —	\$ 1,071	**	\$ —

** Percentage change not meaningful.

There was no goodwill impairment for the three and nine months ended October 1, 2023, as compared to the prior year period charge of \$44.4 million for the Connected Home segment resulting from an interim goodwill impairment assessment performed in the first fiscal quarter of 2022.

In the third quarter of fiscal 2023, we recognized a \$1.1 million intangibles impairment charge for the Connected Home segment resulting from an interim impairment assessment performed in the quarter. For a detailed discussion on the interim intangible impairment assessment, refer to Note 4, Balance Sheet Components, in Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Other Operating Expenses (Income), Net

Other operating expenses (income), net consists of restructuring and other charges, litigation reserves, net, and change in fair value of contingent consideration. The following table presents Other operating expenses (income), net for the periods indicated:

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
Other operating expenses, net	\$ 544	50.7%	\$ 361	\$ 2,881	**	\$ 931

** Percentage change not meaningful.

For the three and nine months ended October 1, 2023, we incurred restructuring and other charges of \$0.4 million and \$2.7 million, respectively, associated with our reorganization to better align the cost structure of the business with projected revenue levels. For a detailed discussion of restructuring and other charges, refer to Note 13, Restructuring and Other Charges, in Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Other Income (Expenses), Net

Other income (expenses), net consists of interest income, which represents amounts earned and incurred on our cash, cash equivalents and short-term investments, and other income and expenses, which primarily represents gains and losses on transactions denominated in foreign currencies, gains and losses on investments, and other non-operating income and expenses, including gain on litigation settlements. The following table presents other income (expenses), net for the periods indicated:

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
Other income (expenses), net	\$ 2,280	**	\$ 638	\$ 11,685	**	\$ (1,164)

** Percentage change not meaningful.

The changes in other income (expenses), net for the three and nine months ended October 1, 2023, compared to the prior year periods, were primarily due to higher interest earned on our short-term investment in U.S. treasuries. The increase in other income (expenses), net for the nine months ended October 1, 2023, was also attributable to \$6.0 million cash received relating to a favorable litigation settlement during the second quarter of 2023.

Provision for (Benefit from) Income Taxes

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
Provision for (benefit from) income taxes	\$86,431	**	\$(4,314)	\$84,382	**	\$(8,967)
Effective tax rate	**		**	**		12.5%

** Percentage change not meaningful.

The changes in taxes for the three and nine months ended October 1, 2023, compared to the prior year periods, were primarily due to the recognition of a valuation allowance of \$81.5 million on deferred tax assets for U.S. federal and state purposes during the current quarter. In evaluating the current results, coupled with expectation for the remainder of the year, we reassessed our position and determined that it was not more likely than not that the deferred tax assets would be realized, and accordingly recorded a full valuation allowance on the net deferred tax assets in the U.S. In the three and nine months ended October 2, 2022, the forecasted annual loss was significantly higher (in relative terms) as compared to the forecasted loss for 2023 due to the impairment of goodwill during the first fiscal quarter of 2022. The tax benefits on the three and nine months ended October 2, 2022 were partially offset by the tax impact of non-tax-deductible goodwill impairment which substantially reduced the effective tax rate for that period. Tax benefits on current year losses for the three and nine month period ended October 1, 2023 were offset by the valuation allowance.

[Table of Contents](#)

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

A description of our products and services, as well as segment financial data, for each segment and a reconciliation of segment contribution income (loss) to income (loss) before income taxes can be found in *Note 11. Segment Information*, and information on net revenue by sales channels can be found in *Disaggregation of Revenue in Note 3. Revenue*, in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Connected Home Segment

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
Net revenue	\$127,335	(15.4)%	\$150,581	\$328,487	(19.8)%	\$409,787
Percentage of net revenue	64.4%		60.3%	59.5%		60.0%
Contribution income (loss)	\$11,885	**	\$(512)	\$9,558	**	\$(3,033)
Contribution margin	9.3%		(0.3)%	2.9%		(0.7)%

** Percentage change not meaningful.

Connected Home net revenue decreased in both the retail and service provider channels in the three and nine months ended October 1, 2023, compared to the prior year periods, primarily due to a contraction of the U.S. retail market and higher inventory carrying levels at our channel partners in the prior year periods. Despite a decline in the overall consumer networking market during the three and nine months ended October 1, 2023, our premium WiFi 6 mesh systems and 5G mobile hotspots continued to grow, bolstered by the addition of our recently released WiFi 7 mesh systems and routers, and we saw growth in our services revenue as compared to the prior year periods. Geographically, during the three months ended October 1, 2023, net revenue in all regions decreased, and during the nine months ended October 1, 2023, net revenue in EMEA remained relatively flat and net revenue in Americas and APAC decreased, compared to the prior year periods.

Connected Home contribution income increased in the three and nine months ended October 1, 2023, compared to the prior year periods, primarily due higher gross margin achievement through strong demand for higher-margin premium products, decreased operating expenses and freight transportation costs, partially offset by decreases in net revenue.

SMB Segment

(In thousands, except percentage data)	Three Months Ended			Nine Months Ended		
	October 1, 2023	% Change	October 2, 2022	October 1, 2023	% Change	October 2, 2022
Net revenue	\$70,510	(28.8)%	\$99,006	\$223,679	(18.2)%	\$273,582
Percentage of net revenue	35.6%		39.7%	40.5%		40.0%
Contribution income	\$14,913	(37.0)%	\$23,683	\$43,382	(19.4)%	\$53,844
Contribution margin	21.2%		23.9%	19.4%		19.7%

SMB net revenue decreased for the three and nine months ended October 1, 2023, compared to the prior year periods, primarily due to a reduction in inventory carrying levels across our channel partners driven by the continued pressure of the uncertain macroeconomic environment, particularly in Asia and Europe. The decreases in products for the traditional SMB market were partially offset by the continued strong demand for the Pro AV product line of managed switches. Geographically, SMB net revenue decreased across all regions in the three and nine months ended October 1, 2023, compared to the prior year periods.

SMB contribution income decreased in the three and nine months ended October 1, 2023, compared to the prior year periods, primarily due to lower net revenue, partially offset by decreased transportation costs.

Liquidity and Capital Resources

Our principal sources of liquidity are cash, cash equivalents, short-term investments and cash generated from operations. As of October 1, 2023, we had cash, cash equivalents and short-term investment of \$228.0 million, an increase of \$0.6 million from December 31, 2022.

As of October 1, 2023, approximately 25% of our cash and cash equivalents and short-term investments were outside of the U.S., which are subject to fluctuation based on the settlement of intercompany balances. As we repatriate these funds in accordance with our designation of funds not permanently reinvested outside of the U.S., we will be required to pay income taxes in certain U.S. states and applicable foreign withholding taxes during the period when such repatriation occurs. We have recorded deferred taxes for the tax effect of repatriating the funds to the U.S.

Cash Flows

The following table presents our cash flows for the periods presented.

(In thousands)	Nine Months Ended	
	October 1, 2023	October 2, 2022
Cash provided by (used in) operating activities	\$ 582	\$ (8,799)
Cash used in investing activities	(16,471)	(98,098)
Cash provided by (used in) financing activities	848	(23,947)
Net cash decrease	<u>\$ (15,041)</u>	<u>\$ (130,844)</u>

Operating activities

Net cash provided by operating activities was \$0.6 million, compared to net cash used of \$8.8 million in the prior year period, primarily due to favorable working capital movements. Our accounts payable (excluding payables related to property and equipment) decreased from \$85.3 million as of December 31, 2022, to \$46.1 million as of October 1, 2023, primarily due to the reduction and timing of inventory receipts and supplier payments. Accounts receivable decreased from \$277.5 million as of December 31, 2022, to \$200.9 million as of October 1, 2023, primarily due to the timing of cash collections and lower revenue. Inventory decreased from \$299.6 million as of December 31, 2022, to \$280.9 million as of October 1, 2023, as we work to optimize our inventory carrying value. We expect to continue generating positive cash flows from operating activities in the remainder of fiscal 2023 as we make further progress in reducing our inventory.

Investing activities

Net cash used in investing activities decreased by \$81.6 million in the nine months ended October 1, 2023, compared to the prior year period, mainly driven by lower net purchases of short-term investments.

Financing activities

Net cash provided by financing activities was \$0.9 million in the nine months ended October 1, 2023, compared to net cash used of \$23.9 million in the prior year period, primarily due to lower purchases of our common stock and lower tax withholdings pertaining to restricted stock unit releases.

Based on our current plans and market conditions, we believe that our existing cash, cash equivalents and short-term investments, together with cash generated from operations, will be sufficient to satisfy our anticipated cash requirements in the short-term and long-term. 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.

Stock Repurchase Program

From time to time, our Board of Directors has authorized programs under which we may repurchase shares of our common stock. 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. We did not repurchase any shares of common stock during the nine months ended October 1, 2023. During the nine months ended October 2, 2022, we repurchased and retired, reported based on trade date, approximately 1.0 million shares of common stock at a cost of approximately \$24.4 million under the repurchase authorizations. As of October 1, 2023, approximately 2.5 million shares remained authorized for repurchase under the repurchase program. We also repurchased and retired, reported based on trade date, approximately 194,000 and 198,000 shares of common stock, respectively, at a cost of approximately \$2.7 million and \$4.7 million during the nine months ended October 1, 2023, and October 2, 2022, respectively, to administratively facilitate the withholding and subsequent remittance of personal income and payroll taxes for individuals receiving Restricted Stock Units. For a detailed discussion of our common stock repurchases, refer to *Note 9. Stockholders' Equity*, in Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q. We remain confident in our ability to generate meaningful levels of cash, and plan to continue to opportunistically repurchase shares in future periods.

Contractual and Other Obligations

Except as follows, there were no material changes outside of the ordinary course of business in our contractual obligations as of October 1, 2023, from those as of December 31, 2022, disclosed in Part II, Item 7, of our Annual Report.

As of October 1, 2023, we had \$68.5 million of purchase obligations which represented non-cancellable inventory-related purchase agreements with suppliers, down from \$105.1 million as of December 31, 2022, as we align our procurement with anticipated demand for our products. During the height of COVID-19 pandemic, we saw an elongation of the time from order placement to production. In response, we issued purchase orders to supply chain partners beyond contractual termination periods. As of October 1, 2023, \$367.1 million of purchase orders beyond contractual termination periods remained outstanding. These purchase orders may be cancelled by either party, however we may incur expenses for materials and components, such as chipsets purchased by the supplier to fulfill the purchase order, in the event of cancellation. Expenses incurred in respect of cancelled purchase orders have historically not been significant relative to the original order value. For a detailed discussion, refer to *Note 8, Commitments and Contingencies*, in Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

Information with respect to this item may be found in *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, which are hereby incorporated by reference.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the nine months ended October 1, 2023, 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.

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 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 our 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.

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*

Risk Factors Summary

The following is a summary of some of the risks and uncertainties as of the date of the filing of this Quarterly Report on Form 10-Q, some of which either have occurred or may occur in the future, that could materially adversely affect our business, financial condition and results of operations. You should read this summary together with the more detailed description of each risk factor contained below.

Risks Related to our Business, Industry and Operations

- Accurately managing our sales channel inventory and product mix within the current environment is challenging, and we have, and may in the future, incur costs associated with excess inventory, or lose sales from having too few products.
- To remain competitive and stimulate consumer demand, we must successfully manage new product introductions and transitions of products and services.
- Investment in new business strategies could disrupt our ongoing business, present risks not originally contemplated and materially adversely affect our business, reputation, results of operations and financial condition.
- 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, if there are unforeseen disruptions in their businesses, or if there is significant consolidation in our customer base that results in fewer customers for our products.
- We obtain several key components from limited or sole sources.
- 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.
- We depend on a limited number of third-party manufacturers for substantially all of our manufacturing needs.
- 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.
- Our sales and operations in international markets have exposed us to and may in the future expose us to operational, financial and regulatory risks.
- 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 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.
- 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 expect our operating results to fluctuate on a quarterly and annual basis, which could cause our stock price to fluctuate or decline.

[Table of Contents](#)

- Changes in trade policy in the United States and other countries, including the imposition of tariffs and the resulting consequences, may adversely impact our business, results of operations and financial condition.
- If disruptions in our transportation network continue to occur or our shipping costs substantially increase again in the future, we may be unable to sell or timely deliver our products, and our net revenue and gross margin could decrease.
- Expansion of our operations and infrastructure may strain our operations and increase our operating expenses.
- 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.
- We invest in companies primarily for strategic reasons but may not realize a return on our investments.

Risks Related to Our Products, Technology and Intellectual Property

- 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.
- Product security vulnerabilities, system security risks, data protection breaches, cyber-attacks and improper use of artificial intelligence ("AI") tools, could disrupt our products, services, internal operations or information technology systems, and any such disruption could increase our expenses, damage our reputation, harm our business and adversely affect our stock price.
- We make substantial investments in software research and development and unsuccessful investments could materially adversely affect our business, financial condition and results of operations.
- 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 user growth, engagement, and monetization of our subscription services on mobile devices depend upon effective operation with mobile operating systems, networks, technologies, products, and standards that we do not control.
- If we are unable to secure and protect our intellectual property rights, our ability to compete could be harmed.

Financial, Legal, Regulatory and Tax Compliance Risks, Including Recent Impairment Charges

- We are currently involved in numerous litigation matters and may in the future become involved in additional litigation.
- We have been exposed to and may in the future be exposed to adverse currency exchange rate fluctuations in jurisdictions where we transact in local currency, which could harm our financial results and cash flows.
- We are exposed to the credit risk of some of our customers and to credit exposures, including bank failures, in weakened markets.
- Changes in tax laws or exposure to additional income tax liabilities could affect our future profitability.
- We are subject to, and must remain in compliance with, numerous laws and governmental regulations.
- 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.
- We are exposed to credit risk and fluctuations in the market values of our investment portfolio.
- Governmental regulations of imports or exports affecting Internet security could affect our net revenue.
- If our goodwill and intangible assets become impaired, as occurred in 2022 and 2023, we may be required to record a significant charge to earnings.

General Risk Factors

- Global economic conditions could materially adversely affect our revenue and results of operations.
- 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.
- 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 stock price has experienced recent volatility and may be volatile in the future and your investment in our common stock could suffer a decline in value.
- 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.

Additional factors that could affect our businesses, results of operations and financial condition are discussed below. However, other factors not discussed below or elsewhere in this Quarterly Report on Form 10-Q could also adversely affect our businesses, results of operations and financial condition. Therefore, the risk factors below should not be considered a complete list of potential risks that we may face.

Any risk factor described in this Quarterly Report on Form 10-Q or in any of our other SEC filings could by itself, or together with other factors, materially adversely affect our liquidity, competitive position, business, reputation, results of operations, capital position or financial condition, including by materially increasing our expenses or decreasing our revenues, which could result in material losses.

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 17, 2023.*

Risks Related to our Business, Industry and Operations

**** Accurately managing our sales channel inventory and product mix within the current environment is challenging, and we have, and may in the future, incur costs associated with excess inventory, or lose sales from having too few products.***

If we are unable to properly monitor and manage our sales channel inventory and maintain an appropriate level and mix of products with our retail partners and wholesale distributors and within our sales channels, we may incur increased and unexpected costs associated with this inventory. In 2022 and the first half of 2023, many of our retail and service provider partners began significantly reducing their target inventory levels which adversely affected our results of operations. While we see signs of the retail networking market stabilizing, the uncertain macroeconomic environment and high interest rates are also putting pressure on our SMB channel partners, and we expect to continue to experience SMB channel inventory compression at least for the next two to three fiscal quarters. Low channel inventory levels increase the likelihood that our sales channel customers may not be able to fulfill end user demand, leading to delayed or lost sales, unhappy customers and potential impacts to our brand and reputation. Inadequate stock levels could also hinder our ability to fulfill large orders or take advantage of unexpected demand spikes, thereby limiting revenue growth opportunities. Moreover, reductions in target inventory levels put pressure on our ability to accurately forecast customer demand and inventory requirements and increases the likelihood that the accuracy of such forecasts would be lower. 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

[Table of Contents](#)

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 and channel inventory levels, 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. 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. If we improperly forecast demand for our products and channel inventory levels, 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 and suffering a corresponding decline in gross margins. For example, in 2022, demand for our Connected Home products turned out to be lower than we previously forecasted and resulted in our revenue for our Connected Home products to come in lower than expected, as our channel partners in the U.S. replenished inventory slower than they sold through to end users to right size their inventory carrying position based on the lower demand levels than were previously expected. In addition, 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 or decrease their purchases of our products in subsequent periods, which would adversely affect our revenue and results of operations.

**** To remain competitive and stimulate consumer demand, we must successfully manage new product introductions and transitions of products and services.***

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 and services, enhance existing products and services, effectively stimulate customer demand for new and upgraded products and services, and successfully manage the transition to these new and upgraded products and services. Our future success will depend in large part upon our ability to identify demand trends in the consumer, business and service provider markets, and to quickly develop or acquire, manufacture and market and sell products and services 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 and marketing and sales, including software development for our products and complementary services and applications. For example, we have made a strategic shift to focus on premium, higher margin products and have committed a substantial amount of resources to the development, manufacture, branding, marketing and sale of our Nighthawk mobile hotspot products, Orbi WiFi systems and ProAV managed switches, and to introducing additional and improved models and services in these lines. In the third quarter of 2023, we launched our first WiFi 7 products, namely the Orbi 97X mesh system and the Nighthawk RS700 router, and will continue to invest in a strong pipeline of WiFi 7 introductions in 2024 across all our major product lines. The success of new products and services depends on a number of factors, including timely and successful development either through rapid innovation or acquisition, market acceptance, our ability to manage the risks and costs, such as investment costs and marketing costs, associated with development and introduction of new products and services, the effective management of purchase commitments and channel inventory levels in line with anticipated product demand, availability of products in appropriate quantities and at expected costs to meet anticipated demand, the risk that new products and services may have delays, quality or other defects or deficiencies and our ability to effectively manage marketing and reviews of our products and services.

In addition, we have acquired companies and technologies in the past and as a result, have introduced new product lines in new markets. We may not be able to successfully manage integration of the new product lines with our existing products. Selling new product lines in new markets will require our management to learn different strategies in order to be successful. We may be unsuccessful in launching a newly acquired product line in new markets which requires management of new suppliers, potential new customers and new business models. Our management may not have the experience of selling in these new markets and we may not be able to grow our business as planned. For example, in August 2018, we acquired Meural Inc., a leader in digital platforms for visual art, to enhance our Connected Home product and service offerings. 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.

Accordingly, if we cannot properly drive customer demand, manage future introductions and transitions of products and services, this 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;

[Table of Contents](#)

- adverse reactions in our sales channels, such as reduced shelf space, reduced channel inventory levels, reduced online product visibility, or loss of sales channels; and
- increased levels of product returns.

In addition, if we are unable to successfully introduce or acquire new products with higher gross margins, or enhance and improve our services and subscription offerings for customer retention or service revenue growth, or if we are unable to improve the margins on our previously introduced and rapidly growing product and services lines, our net revenue and overall gross margin would likely decline.

**** Investment in new business strategies could disrupt our ongoing business, present risks not originally contemplated and materially adversely affect our business, reputation, results of operations and financial condition.***

We have invested, and in the future may invest, in new business strategies. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, greater-than-expected liabilities and expenses, economic, legal and regulatory challenges, inadequate return on capital, potential impairment of tangible and intangible assets, and significant write-offs. New business strategies are inherently risky and may not be successful. The failure of any significant investment could materially adversely affect our business, reputation, results of operations and financial condition. For example, as mentioned in the risk factor above *“To remain competitive and stimulate consumer demand, we must successfully manage new product introductions and transitions of products and services”*, we have made a strategic shift to focus on premium, higher margin products and services. We continue to hire in key areas and invest in these premium, higher margin products and services, such as ProAV managed switches, premium Orbi WiFi mesh systems, 5G mobile hotspots, and subscription services; however, such investments may not prove to be successful. If we fail to develop premium user experience, elevate marketing and branding for customer acquisition, expand our sales channels or otherwise successfully execute on our business strategies, our business, financial condition, results of operations and reputation could be materially adversely affected.

**** 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, if there are unforeseen disruptions in their businesses, or if there is significant consolidation in our customer base that 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 TD Synnex, 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. For example, as mentioned below in the risk factors *“If disruptions in our transportation network continue to occur or our shipping costs substantially increase again in the future, we may be unable to sell or timely deliver our products, and net revenue and our gross margin could decrease”* and *“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”*, we had previously experienced high freight costs and component costs and had issued price increases to our customers. 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.

Furthermore, some of our customers are also our competitors in certain product categories, which could negatively influence their purchasing decisions. For example, Amazon owns Eero, one of our competitors in the mesh WiFi systems product category. 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. Similarly, we sell products and services directly to consumers from our own e-commerce platforms and expect these revenues to grow proportionate to overall revenue. Some of our customers, such as Amazon and Best Buy, may consider this to be competitive with their own businesses, which could negatively influence their purchasing decisions with respect to our products. Also, during the COVID-19 pandemic, some

channel partners had prioritized the sale and delivery of other categories of products ahead of ours. Further, we believe the COVID-19 pandemic led to an acceleration of the shift to a greater percentage of products being bought and sold online. If we are unable to adjust to this shift, this may lead to lower market share and lower revenues for us, and our net revenue and operating results could be harmed.

In addition, adverse changes in economic conditions or unforeseen disruptions in the businesses of any of our key customers could adversely impact the sale of our products to end users and the quantity of products our customers decide to purchase from us. For example, as mentioned above in the risk factor *“Accurately managing our sales channel inventory and product mix within the current environment is challenging, and we have, and may in the future, incur costs associated with excess inventory, or lose sales from having too few products,”* many of our retail and service provider customers have and continue to reduce their target inventory levels. This shift may have a longer-term impact on the inventory levels our customers choose to carry.

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. 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.***

Any shortage or delay in the supply of key product components, or any sudden, unforeseen price increase for such components, would harm our ability to meet product deliveries as scheduled or as budgeted. Many of the semiconductors used in our products 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. We also obtain switching fabric semiconductors, which are used in our Ethernet switches and Internet gateway products, and WiFi chipsets, which are used in all of our wireless products, from a limited number of suppliers. We also use Cable Modem chipsets and Mobile chipsets in our cable and mobile products. Semiconductor suppliers have experienced and continue to experience component shortages themselves, such as with lead-frames and substrates used in manufacturing chipsets, which in turn adversely impact our ability to procure semiconductors from them in sufficient quantities and in a timely manner. For example, we had previously experienced certain chipset shortages for some of our switching products from two of our semiconductor suppliers who did not have enough wafer capacity to satisfy our demand, and this shortage continued for several quarters. Our third-party manufacturers generally purchase these components on our behalf on a purchase order basis, and we do not have any 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, and prices to obtain such components may increase. In addition, if worldwide demand for the components increases significantly, the availability of these components could be limited and prices for such components may increase. For example, as the demand for automobiles has increased significantly over the last three years, our supplier of micro controller units, which are used in both automobile production and our power over ethernet switches, has been forced to prioritize supply to the automobile industry, leaving us short of supply on these key components and affecting our ability to produce enough power over ethernet switches to meet our forecasted demand in a timely manner. This has resulted in our ODM partners re-designing our products to accept second source components which provide more flexibility but increases the overall cost. In addition, Taiwan Semiconductor Manufacturing Company has been periodically announcing price increases on its chips, which has led to some of our chip suppliers correspondingly increasing the cost of their chips to us. Further, dependence on a sole source for certain key components of our products may allow such sole source suppliers to command increased leverage in negotiating prices and other terms of sale, which could adversely affect our profitability. As a result, we may be left with little choice but to accept such higher prices or other fees for key components in order to ensure continuity of supply. This could affect our profitability or if we choose to push back against more onerous terms, could lead to inadequate supply, which could materially adversely affect our business. Our suppliers may also experience financial or other difficulties as a result of uncertain and weak worldwide economic, geopolitical conditions, trade disputes or public health issues. Other factors which may affect our suppliers' ability or willingness to supply components to us include internal management product allocation decisions 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. Also, many standardized components used broadly in electronic devices are manufactured in significant quantities in concentrated geographic regions, particularly in Greater China. As a result, protracted crises, such as the COVID-19 pandemic, geopolitical unrest and uncertain economic conditions, could lead to eventual shortages of necessary components sourced from impacted regions or increased component costs. Additionally, government intervention to curb the consumption of electricity in China could have a disruptive impact on component production and supply availability. 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 and purchase orders, 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 WiFi chipsets, switching fabric chips, physical layer transceivers, and logic, power, analog and RF chipsets. 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. Historically, 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, which could be material. For example, during the course of the COVID-19 pandemic, we experienced an elongation of the time from order placement to production primarily due to increased demand and the resulting component shortages and supply chain disruption. We have, at times, responded by extending our ordering horizon to as long as 18 months. When this occurs, our exposure to the foregoing risks is greater and our potential liability for losses is greater relative to our more typical ordering horizon of up to 6 to 9 months.

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 related to the COVID-19 induced lockdowns in Shenzhen, China and Shanghai, China previously had limited our ability to supply all the worldwide demand for our SMB switch products, and our revenue and profitability was affected. At times we have elected to purchase components on the spot market or to use more expensive transportation methods, such as air freight, to make up for manufacturing delays caused by component shortages, which reduces our margins.

**** 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 and may choose to reduce their inventory levels. 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 inventory levels or increased competition for such shelf space would require us to increase our marketing expenditures simply to maintain current levels of retail shelf space and inventory levels, which would harm our operating margin. In addition, reduction in inventory levels puts pressure on our ability to accurately forecast customer demand. A failure to accurately predict high demand for a product could result in lost sales or higher product costs if we meet demand by paying higher costs for materials, production and delivery. We could also frustrate our customers and lose further shelf space and market share. A failure to predict low demand for a product could result in excess inventory, further reductions in target inventory levels, lower cash flows and lower margins if we are required to reduce product prices in order to reduce inventories.

Our traditional retail customers have faced increased and significant competition from online retailers. Further, the COVID-19 pandemic accelerated the shift to a greater percentage of purchases taking place online versus traditional retail customers. If we cannot effectively manage our business and inventory requirements 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

[Table of Contents](#)

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 and services directly to consumers from our own e-commerce platforms. This requires material investment in capital, time and resources and carries the risk that it may not achieve the expected return on investment that we are expecting, and that it may adversely affect our relationships with our existing channel partners, which ultimately may materially and adversely affect our results of operations.

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, such as sales directly to consumers from our own e-commerce platforms, our business could be harmed.

**** 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 revenue 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, as well as their sub-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. 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 or are themselves competitors in certain product categories. Due to uncertain and changing economic and geopolitical conditions, the viability of some of these third-party manufacturers may be at risk. The loss of the services of any of our primary third-party manufacturers could cause a significant disruption in operations and delays in product shipments. Qualifying a new manufacturer and commencing volume production is expensive and time consuming. Ensuring that a manufacturer is qualified to manufacture our products to our standards is time consuming. In addition, there is no assurance that a manufacturer can scale its production of our products at the volumes and in the quality that we require. In addition, as we recently have transitioned a substantial portion of our manufacturing facilities to different regions, we are 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, including the cost of components purchased by third-party manufacturers on our behalf, which may be material;
- 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 conducting the tests that support our applications for most regulatory approvals for our products. If our third-party manufacturers fail to timely and accurately conduct these tests, we would be unable to obtain the necessary domestic or foreign regulatory approvals or certificates to sell our products in certain jurisdictions. As a result, 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 and assembly occurs in the Asia Pacific region, and any disruptions due to natural disasters, climate change, health epidemics and political, social and economic instability in the region would affect the ability of our third-party manufacturers to manufacture our products. For example, in late August 2021, heavy rains caused our manufacturer in Thailand to become flooded and created a one-month delay in manufacturing and required us to move some non-U.S. manufacturing back to China. Furthermore, if the cost of production charged by our third-party manufacturers increases, it may affect our margins and ability to lower prices for our products to stay competitive. Labor unrest in Southeast Asia, China or other locations where components and our products are manufactured 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 and assembling our products and our business would be significantly harmed.

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. If we needed to move to 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.

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 and revenue.

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 consumer market include ARRIS, ASUS, AVM, Devolo, D-Link, Eero (owned by Amazon), Linksys (owned by Foxconn), Minim (Motorola licensee), Google WiFi, Samsung, and TP-Link. Our principal competitors in the business market include Allied Telesys, Barracuda, Buffalo, Cisco Systems, Dell, D-Link, Extreme, Fortinet, Hewlett-Packard Enterprise, Palo Alto Networks, QNAP Systems, SonicWall, Snap AV, Synology, TP-Link, Ubiquiti and WatchGuard. Our principal competitors in the service provider market include Actiontec, Airties, Arcadyan, ARRIS, ASUS, AVM, Compal Broadband, D-Link, Eero (owned by Amazon), Franklin, Google, Hitron, Huawei, Inseego, Nokia, Plume, Sagem, Sercomm, SMC Networks, TechniColor, TP-Link, Ubee, ZTE and Zyxel. Other competitors include numerous local vendors such as Xiaomi in China, AVM in Germany 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 Apple, 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 were not the supplier of choice to those service providers. In the service provider space, we also face significant and increased competition from original design manufacturers, or ODMs, and contract manufacturers who sell and attempt to sell their products directly to service providers around the world.

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. Certain of our significant competitors also serve as key sales and marketing channels for our products, potentially giving these competitors a marketplace advantage based on their knowledge of our business activities and/or their ability to negatively influence our sales opportunities. For example, Amazon provides an important sales channel for our products, but it also competes with us in the mesh WiFi systems product category through its subsidiary Eero. 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, in the past certain network security companies such as Symantec have introduced security routers for the home consumer market to compete with us and we believe that other network security companies may also seek to do the same. Also, due to our recent success in the audio visual over IP market, some of our competitors may seek to enter this market as well. 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. Certain substantial competitors have business models that are more focused on customer acquisition and access to customer data rather than on financial return from product sales, and these competitors have the ability to provide sustained price competition to many of our products in the market. 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 acquire other companies in the market and leverage combined resources to gain market share. In some instances, our competitors may be acquired by larger companies with additional formidable resources, such as the purchase of ARRIS by CommScope, Eero by Amazon and Linksys by Foxconn. Additionally, in the case of Linksys, Foxconn is one of our main third-party manufacturing partners, which presents an additional risk if Foxconn decides to prioritize its interest in Linksys over its relationship with us. 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.

**** Our sales and operations in international markets have exposed us to and may in the future expose us to operational, financial and regulatory risks.***

International sales comprise a significant amount of our overall net revenue. International sales were approximately 30% of overall net revenue in the third fiscal quarter of 2023 and approximately 36% of overall net revenue in fiscal 2022. 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. For example, in fiscal 2022 we experienced the strengthening of the U.S. dollar, which had a meaningful negative impact on our international revenue and our profitability.

International operations are subject to a number of other risks, including:

- exchange rate fluctuations and inflation;
- geopolitical and economic tensions, such as between China/Taiwan, 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;
- changes in local tax and customs duty laws or changes in the enforcement, application or interpretation of such laws (including potential responses to the higher U.S. tariffs on certain imported products implemented by the U.S.);
- increased difficulty in managing inventory and reduced inventory level targets;
- delayed revenue recognition;
- unpredictable judicial systems, which may unfairly favor domestic plaintiffs over foreign corporations, or which may more easily impose harsher penalties such as import injunctions;
- 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; and
- business difficulties, including potential bankruptcy or liquidation, of any of our worldwide third-party logistics providers.

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.

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.

[Table of Contents](#)

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. This customer concentration increases the risk of quarterly fluctuations in our operating results and our sensitivity to any material, adverse developments experienced by our customers.

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.

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 scalable 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, inventory levels and production of our products for our service provider customers is a challenge and may be further exacerbated by current macroeconomic uncertainties and geopolitical instability. 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.

**** 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:

- operational disruptions, such as transportation delays or failure of our order processing system, particularly if they occur at the end of a fiscal quarter;
- component supply constraints, including specialized WiFi 6 chipsets, or sudden, unforeseen price increases from our manufacturers, suppliers and vendors;
- unanticipated increases in costs, including air and ocean freight, associated with shipping and delivery of our products;

[Table of Contents](#)

- the inability to maintain stable operations by our suppliers, distribution centers and other parties with which we have commercial relationships;
- seasonal shifts in end market demand for our products, particularly in our Connected Home business segment;
- our inability to accurately forecast product demand or optimal product mix such as the proportion of lower-priced products versus premium products resulting in increased inventory exposure and/or lost sales;
- unfavorable or compressed 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;
- unanticipated decreases, reduced inventory targets or delays in purchases of our products by our significant traditional and online retail customers;
- shift in overall product mix sales from higher to lower gross margin products, from lower-priced products to premium products, or from one business segment to another, that would adversely impact our revenue and gross margins;
- an increase in price protection claims, redemptions of marketing rebates, product warranty and stock rotation returns or allowance for doubtful accounts;
- delay or failure to fulfill orders for our products on a timely basis;
- changes in the pricing policies of or the introduction of new products by us or our competitors;
- unexpected challenges or delays in our ability to further develop services and applications that complement our products and result in meaningful subscriber growth and future recurring revenue;
- discovery or exploitation of security vulnerabilities in our products, services or systems, leading to negative publicity, decreased demand or potential liability, including potential breach of our customers' data privacy or disruption of the continuous operation of our cloud infrastructure and our products;
- introductions of new technologies and changes in consumer preferences that result in either unanticipated or unexpectedly rapid product category shifts;
- slow or negative growth in the networking product, personal computer, Internet infrastructure, smart home, home electronics and related technology markets;
- delays in the introduction of new products by us or market acceptance of these products;
- delays in regulatory approvals or consumer adoption of WiFi 6E technology in various regions;
- increases in expenses related to the development, introduction and marketing of new products that adversely impact our margins;
- increases in expenses related to the development and marketing related to the Company's direct online sales channels that adversely impact our margins;
- changes in tax rates or adverse changes in tax laws that expose us to additional income tax liabilities;
- changes in U.S. and international trade policy that adversely affect customs, tax or duty rates;
- foreign currency exchange rate fluctuations in the jurisdictions where we transact sales and expenditures in local currency;
- unanticipated increases in expenses related to periodic restructuring measures undertaken to achieve profitability and other business goals, including the reallocation or relocation of resources;
- delay or failure of our service provider customers to purchase at their historic volumes or at the volumes that they or we forecast;
- litigation involving alleged patent infringement, consumer class actions, securities class actions or other claims that could negatively impact our reputation, brand, business and financial condition;
- disruptions or delays related to our financial and enterprise resource planning systems;

- allowance for doubtful accounts exposure with our existing retailers, distributors and other channel partners and new retailers, distributors and other channel partners, particularly as we expand into new international markets;
- geopolitical disruption, including sudden changes in immigration policies and economic sanctions, 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;
- epidemic or widespread product failure, performance problems or unanticipated safety issues in one or more of our products that could negatively impact our reputation, brand and business;
- any changes in accounting rules;
- 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 our brand;
- our inability to monitor and ensure compliance with our code of ethics, our anti-corruption compliance program and domestic and international anti-corruption laws and regulations, whether in relation to our employees or with our suppliers or customers;
- labor unrest at facilities managed by our third-party manufacturers;
- workplace or human rights violations in certain countries in which our third-party manufacturers or suppliers operate, which may affect our brand and negatively affect our products' acceptance by consumers;
- overall performance of the equity markets and the economy as a whole;
- unanticipated shifts or declines 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.

Changes in trade policy in the United States and other countries, including the imposition of tariffs and the resulting consequences, may adversely impact our business, results of operations and financial condition.

International trade disputes, geopolitical tensions, and military conflicts have led, and continue to lead, to new and increasing export restrictions, trade barriers, tariffs, and other trade measures that can increase our manufacturing costs, limit our ability to sell to certain customers or markets, limit our ability to procure, or increase our costs for, components or raw materials, impede or slow the movement of our goods across borders, or otherwise restrict our ability to conduct operations. Increasing protectionism, economic nationalism, and national security concerns may also lead to further changes in trade policy. For example, when the U.S. government engaged in extended trade negotiations with China, which resulted in the implementation of tariffs on a significant number of products manufactured in China and imported into the United States, we worked closely with our manufacturing partners to implement ways to mitigate the impact of these tariffs on our supply chain as promptly and reasonably as practicable, including shifting production outside of China. We cannot predict what further actions may be taken with respect to export regulations, tariffs or other trade regulations between the United States and other countries, what products or companies may be subject to such actions, or what actions may be taken by other countries in retaliation. In addition, actions to mitigate the effect of these tariffs are disruptive on our operations, may not be completely successful and may result in higher long-term manufacturing costs. Moreover, there is no certainty that countries to which we have shifted our manufacturing operations will not be subject to similar tariffs in the future. As a result, we may be required to raise our prices on certain products, which could result in the loss of customers and harm to our revenue, market share, competitive position and operating performance.

Additionally, the imposition of tariffs is dependent upon the classification of items under the Harmonized Tariff System (“HTS”) and the country of origin of the item. Determination of the HTS and the origin of the item is a technical matter that

[Table of Contents](#)

can be subjective in nature. Accordingly, although we believe our classifications of both HTS and origin are appropriate, there is no certainty that the U.S. government will agree with us. If the U.S. government does not agree with our determinations, we could be required to pay additional amounts, including potential penalties, and our profitability would be adversely impacted.

**** If disruptions in our transportation network continue to occur or our shipping costs substantially increase again in the future, we may be unable to sell or timely deliver our products, and our net revenue and gross margin could decrease.***

The transportation network is subject to disruption or congestion from a variety of causes, including labor disputes or port strikes, acts of war, terrorism or other geopolitical conflicts, natural disasters, effects of climate change, pandemics like COVID-19 and congestion resulting from higher shipping volumes. 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. For example, at times during the COVID-19 pandemic, we experienced significant limitations on the availability of key transportation resources and significant increases to the cost of air and ocean freight. When these occur, it has negatively impacted our profitability as we seek to transport an increased number of products from manufacturing locations in Asia to other markets around the world as quickly as possible. Moreover, feeder vessels that move containers to key trans-Pacific terminal locations can be subject to similar impacts due to the timing of container transfers and vessel departure dates. In addition, the global effects of climate change can result in increased frequency and severity of natural disasters that could also disrupt our transportation network. For example, in late November 2020, a giant wave damaged a cargo vessel carrying eight containers of our products, causing a 4-month delay to our shipment which ultimately arrived in Southern California in late March 2021. Furthermore, labor disputes among freight carriers and at ports of entry are common. A port worker strike, work slow-down or other transportation disruption in the ports of Singapore, Rotterdam, Netherlands, Los Angeles or Long Beach, California, where we have significant distribution centers, could significantly disrupt our business. For example, at times, during the course of the COVID-19 pandemic, we had experienced disruptions at the ports, due to multiple factors, such as supply and demand imbalance, a shortage of warehouse workers, truck drivers, and transport equipment (tractors and trailers), and other causes, and had suffered from heightened congestion, bottleneck and gridlock, leading to abnormally high transportation delays. In addition, as mentioned above in the risk factor *"Accurately managing our sales channel inventory and product mix within the current environment is challenging, and we have, and may in the future, incur costs associated with excess inventory, or lose sales from having too few products,"* many of our retail and service provider customers have and continue to reduce their target inventory levels to more closely match with product demand. This further intensifies the need for our transportation systems to function effectively and without delay. Significant disruptions to the transportation network could lead to significant disruptions in our business, delays in shipments, and revenue and profitability shortfalls which could materially and adversely affect our business and financial results, especially if they were to take place within the last few weeks of any quarter.

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 would result in delayed or lost revenue as well as customer-imposed penalties. Similarly, transportation network disruptions such as those described in the preceding paragraph, may also lead to an increase in transportation costs. For example, the cost of shipping our products by ocean freight had previously increased to at least eight times historical levels and had a corresponding impact upon our profitability. 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. Just as ocean freight costs had previously increased due to the aforementioned supply chain and transportation disruptions, the cost of air freight had previously increased, as well, up to five times historical levels. While transportation costs have recently decreased, if the cost of ocean and air freight were to significantly increase again, it would severely disrupt our business and harm our operating results, and in particular, our profitability.

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.

[Table of Contents](#)

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.

As part of growing our business, we have made and expect to continue to make acquisitions. If we fail to successfully select, execute or integrate our acquisitions, then our business and operating results could be harmed and our stock price could decline.

From time to time, we will undertake acquisitions to add new product lines and technologies, gain new sales channels or enter into new sales territories. For example, in August 2018, we acquired Meural Inc., a leader in digital platforms for visual art, to enhance our Connected Home product and service offerings. 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 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 invest in companies primarily for strategic 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 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.

Risks Related to Our Products, Technology and Intellectual Property

**** 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 revenue, 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. For example, we license software from Bitdefender for our NETGEAR Armor cybersecurity services offering and we license software from Circle Media Labs, Inc., a wholly owned subsidiary of Aura, for our parental controls service offering. 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 fully 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 and services containing third-party software, such as our subscription service offerings related to network security and smart parental controls. If we are unable to license the necessary technology, we may be forced to acquire or develop alternative technology, which could be of lower quality or performance standards. The acquisition or development of alternative technology may limit

[Table of Contents](#)

and delay our ability to offer new or competitive products and services and increase our costs of production. As a result, our business, operating results and financial condition could be materially adversely affected.

**** Product security vulnerabilities, system security risks, data protection breaches, cyber-attacks and improper use of artificial intelligence ("AI") tools, could disrupt our products, services, internal operations or information technology systems, 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. We devote considerable time and resources to uncovering and remedying these vulnerabilities, using both internal and external resources, but the threats to network and data security are increasingly diverse and sophisticated and we continue to implement additional protections and increase our monitoring and threat intelligence. Despite our efforts and processes to prevent breaches, our devices are potentially vulnerable to cybersecurity risks, including cyber-attacks such as viruses and worms, vulnerabilities such as command injection, cross site scripting, authentication and session management, and stack-based buffer overflow, and other sophisticated attacks or exploits. It is also possible that an attacker could compromise our internal code repository or those of our partners and insert a ‘backdoor’ that would give them easy access to any of our devices using this code. This particular kind of attack is very sophisticated, relatively new, and hard to defend against. We may not be able to discover these vulnerabilities, and we may not be able to remedy these vulnerabilities in a timely manner, or at all, which may impact our brand and reputation and harm our business. These attacks could lead to interruptions, delays, loss of critical data, unauthorized access to user data, and loss of consumer confidence. If successful, these attacks could adversely affect our business, operating results, and financial condition, be expensive to remedy, and damage our reputation. In addition, any such breaches may result in negative publicity, adversely affect our brand, decrease demand for our products and services, and adversely affect our operating results and financial condition. Further, under certain circumstances, we may need to prioritize fixing these vulnerabilities over new product development, which may impact our revenues and adversely affect our business.

In addition, we offer a comprehensive online cloud management service paired with a number of our products. If malicious actors compromise this cloud service, or if customer confidential information is accessed without authorization, our business would 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. In addition, we make our products available for purchase directly by consumers through our website. We rely on third-party providers for a number of critical aspects of our cloud services, e-commerce site 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.

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 malware that is designed to manipulate our products and systems, including our internal network, or those of our vendors or customers. Additionally, outside parties may attempt to fraudulently induce our employees 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. As a result of the COVID-19 pandemic, most of our major offices worldwide are operating under hybrid work model, allowing employees the flexibility to work from home and at the workplace. Work from home arrangements present additional cybersecurity risks, including potential increases in malware and phishing attacks, greater challenges to secure home office data, and potential service degradation or disruption to key internal business applications and third-party services. Although we have taken measures to address these risks, they present challenges that could impact business operations and could cause recovery times to increase. If our computer systems and servers become unavailable 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, U.S. and foreign regulators have increased their focus on cybersecurity vulnerabilities and risks and many states, countries and jurisdictions strictly regulate data privacy and protection and may impose significant penalties for failure to comply with these

requirements. Compliance with laws and regulations concerning artificial intelligence, privacy, cybersecurity, data governance and data protection is a rigorous and time-intensive process, and we may be required to put in place additional mechanisms ensuring compliance with the laws and regulations and incur substantial expenditures. If we fail to comply with any such laws or regulations, we may face significant fines and penalties that could adversely affect our business, financial condition and results of operations. Furthermore, the laws are not consistent, and compliance in the event of a widespread data breach is costly.

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 improper use of AI tools, employee error or other employee actions, 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.

Our management has spent increasing amounts of time, effort and expense in this area, and in the event of the discovery of significant product or system security vulnerability, or improper use of AI tools or other cybersecurity incidents, we could incur additional substantial expenses and our business and reputation could be harmed. If we or our third-party providers are unable to successfully prevent breaches of security relating to our products, services, systems or customer private information, including 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.

**** We make substantial investments in software research and development and unsuccessful investments could materially adversely affect our business, financial condition and results of operations.***

We continue to evolve our historically hardware-centric business model towards a model that includes more sophisticated software offerings, including subscription services and applications that complement our products and are intended to drive subscriber growth and future recurring revenue. As such, we have evolved the focus of our organization towards the delivery of more integrated hardware and software solutions for our customers, as well as related services, and we have and will continue to expend additional resources in this area in the future, including key new hires. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations and insufficient revenue to offset expenses associated with this strategy. 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 and could materially adversely affect our financial condition and operating results.

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, services, applications, pricing and other factors are not sufficiently competitive, or if there is an adverse reaction to our product and services decisions, we may lose market share in certain areas, which could adversely affect our revenue, profitability 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 output from these investments will successfully result in meaningful customer demand and retention 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.

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.

[Table of Contents](#)

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. As also noted in the risk factor “*We make substantial investments in software research and development and unsuccessful investments could materially adversely affect our business, financial condition and results of operations*” above, we devote considerable time and resources on testing and quality control efforts to detect quality issues and defects, and any reallocation of resources to fix such quality issues and defects could lead to delays in product introductions, which could further harm our competitive position.

In addition, epidemic failure clauses are found in certain of our customer contracts, especially contracts with service providers. If invoked, these clauses may entitle the customer to return for replacement or obtain credits for products and inventory, as well as assess liquidated damage penalties and terminate an existing contract and cancel future or then current purchase orders. In such instances, we may also be obligated to cover significant costs incurred by the customer associated with the consequences of such epidemic failure, including freight and transportation required for product replacement and out-of-pocket costs for truck rolls to end user sites to collect the defective products. Costs or payments we make in connection with an epidemic failure may materially adversely affect our results of operations and financial condition. If our products contain defects or errors, or are found to be noncompliant with industry standards, we could experience decreased sales and increased product returns, loss of customers and market share, and increased service, warranty and insurance costs. In addition, defects in, or misuse of, certain of our products could cause safety concerns, including the risk of property damage or personal injury. If any of these events occurred, our reputation and brand could be damaged, and we could face product liability or other claims regarding our products, resulting in unexpected expenses and adversely impacting our operating results. For instance, if a third party were able to successfully overcome the security measures in our products, such a person or entity could misappropriate customer data, third party data stored by our customers and other information, including intellectual property. In addition, the operations of our end-user customers may be interrupted. If that happens, affected end-users or others may file actions against us alleging product liability, tort, or breach of warranty claims.

Our user growth, engagement, and monetization of our subscription services on mobile devices depend upon effective operation with mobile operating systems, networks, technologies, products, and standards that we do not control.

The substantial majority of our revenue from our subscription services is generated from use of such services on mobile devices. We are dependent on the interoperability of Armor and our parental controls services and our other products with popular mobile operating systems, networks, technologies, products, and standards that we do not control, such as the Android and iOS operating systems and mobile browsers. Any changes, bugs, or technical issues in such systems, or changes in our relationships with mobile operating system partners, handset manufacturers, browser developers, or mobile carriers, or in their terms of service or policies that degrade our products’ functionality, reduce or eliminate our ability to update or distribute our products, give preferential treatment to competitive products, or charge fees related to the distribution of our products could adversely affect the usage of our subscription services products or our other products on mobile devices. We may not be successful in maintaining or developing relationships with key participants in the mobile ecosystem or in developing products that operate effectively with these technologies, products, systems, networks, or standards. In the event that it is more difficult for our users to access and use our subscription services products or our other products on their mobile devices, or if our users choose not to access or use our subscription services products or our other products on their mobile devices, our user growth and user engagement and our business could be harmed.

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 and technology. 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. In addition, we manufacture and sell our products in many international jurisdictions that offer reduced levels of protection and recourse from intellectual property misuse or theft, as compared to the United States. Our inability to secure and protect our intellectual property rights could significantly harm our brand and business, operating results and financial condition.

Financial, Legal, Regulatory and Tax Compliance Risks, Including Recent Impairment Charges

****We are currently involved in numerous litigation matters in the ordinary course and may in the future become involved in additional litigation, including litigation regarding intellectual property rights, consumer class actions and securities class actions, any of 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 2022, a third-party initiated litigation against us in Germany, which carries with it the threat of an injunction on the importation of our products into Germany, as well as a significant increase in time and resources to defend against. In addition, several third-party non practicing entities have initiated litigation against us in China, which also raises novel and unique challenges for us. For example, thus far we have experienced that patent litigation in China proceeds along a faster timeline, is more costly than we anticipated, carries a greater risk of injunction, and suffers from a relative lack of judicial development relative to patent litigation in the United States. In addition, third parties, some of whom are potential competitors, have initiated and may continue to initiate litigation against our manufacturers, suppliers, members of our sales channels or our service provider customers or even end user customers, alleging infringement of their proprietary rights with respect to existing or future products. In the event successful claims of infringement are brought by third parties, and we are unable to obtain licenses or independently develop alternative technology on a timely basis, we may be subject to indemnification obligations, be unable to offer competitive products, or be subject to increased expenses. 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. Finally, we have been sued in securities class action lawsuits, and may in the future be named in other similar lawsuits. For additional information regarding certain of the lawsuits in which we are involved, see the information set forth in *Note 8. Commitments and Contingencies*, in Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q. If we do not resolve these claims on a favorable basis, our business, operating results and financial condition could be significantly harmed.

We have been exposed to and may in the future be 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. For example, the volatility and strengthening of the U.S. dollar in 2022 had a meaningful negative impact on our international revenue and our profitability. 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,

[Table of Contents](#)

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.

**** We are exposed to the credit risk of some of our customers and to credit exposures, including bank failures, 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. 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. In addition, recent banking sector troubles and liquidity concerns in the financial services industry have impacted certain of our suppliers. Although such impacts have not resulted in material losses to date, any future bank sector disruptions could harm our business and have a material adverse effect on our operating results and financial condition. Furthermore, 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.

**** 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 tax laws or 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 continue to consider changes in their tax laws by implementing new taxes such as the digital service tax and initiatives such as the Organization for Economic Co-operation and Development's (OECD) Pillar II global minimum tax. More than 140 countries agreed to enact the Pillar II global minimum tax. While the OECD issued a framework model, each country will enact its own laws to incorporate Pillar II. While Pillar II is a global model, the country by country enactment of different laws to incorporate the framework is complex and there is uncertainty as to how the enactment of these laws will impact the Company. These changes could increase our total tax burden in the future. In addition, the acceleration of employee mobility as a result of the pandemic potentially increases the jurisdictional tax risk of our workforce. Changes in tax laws could affect the distribution of our earnings, result in double taxation and adversely affect our results.

The Tax Cuts and Jobs Act of 2017 included provisions effective for the 2022 tax year that eliminate the option to deduct research and development expenditures immediately in the year incurred and requires taxpayers to amortize such expenditures over five years for domestic payments and 15 years for payments to foreign parties. These provisions have not been deferred, modified, or repealed by Congress as was previously anticipated might occur. These provisions have a material impact on our cash taxes which will continue in the future if these provisions are not modified, or repealed by Congress.

We have been audited by the 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.

[Table of Contents](#)

We are also subject to examination by 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.

Historically the computation of our tax provision assumes that we will have sufficient profitability in the respective jurisdictions to continue to record deferred tax assets without a valuation allowance. As of the period ended October 1, 2023, we determined that it was no longer more likely than not that we would have sufficient profitability to realize the U.S. federal and state deferred tax assets. Accordingly, we recorded a valuation allowance of \$81.5 million to impair U.S. federal and state deferred tax assets. Future benefit of these deferred tax assets will be realized in the period they are utilized.

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 environmental compliance. Management of environmental pollution, climate change and other ESG considerations 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 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, environmental concerns and other ESG considerations. 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 and other ESG considerations. We regularly audit our manufacturers; however, any deficiencies in compliance by our manufacturers may harm our business and our brand. In addition, we may not have the resources to maintain compliance with these customer requirements and failure to comply may result in decreased sales to these customers, which may have a material adverse effect on our business, financial condition and results of operations.

We 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 sales and/or use tax, 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, we cannot assure that tax and customs authorities would agree with our reporting positions and upon audit may assess us additional taxes, duties, interest and penalties.

Additionally, some of our products are subject to U.S. export controls, including the Export Administration Regulations and economic sanctions administered by the Office of Foreign Assets Control. We also incorporate encryption technology into certain of our solutions. These encryption solutions and underlying technology may be exported outside of the United States only with the required export authorizations or exceptions, including by license, a license exception, appropriate classification notification requirement and encryption authorization.

Furthermore, our activities are subject to U.S. economic sanctions laws and regulations that prohibit the shipment of certain products and services without the required export authorizations, including to countries, governments and persons targeted by U.S. embargoes or sanctions. Additionally, the current U.S. administration has been critical of existing trade agreements and may impose more stringent export and import controls. Obtaining the necessary export license or other authorization for a particular sale may be time consuming and may result in delay or loss of sales opportunities even if the export license ultimately is granted. While we take precautions to prevent our solutions from being exported in violation of these laws, including using authorizations or exceptions for our encryption products and implementing IP address blocking and screenings against U.S. government and international lists of restricted and prohibited persons and countries, we have not been able to guarantee, and cannot guarantee that the precautions we take will prevent all violations of export control and sanctions laws, including if purchasers of our products bring our products and services into sanctioned countries without our knowledge. Violations of U.S. sanctions or export control laws can result in significant fines or penalties and incarceration could be imposed on employees and managers for criminal violations of these laws.

Also, various countries, in addition to the United States, regulate the import and export of certain encryption and other technology, including import and export licensing requirements, and have enacted laws that could limit our ability to distribute our products and services or our end-users' ability to utilize our solutions in their countries. Changes in our products and services or changes in import and export regulations may create delays in the introduction of our products in international markets.

[Table of Contents](#)

Adverse action by any government agencies related to indirect tax laws could materially adversely affect our business, operating results and financial condition.

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.

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.

If our goodwill and intangible assets become impaired, as occurred in 2022 and 2023, we may be required to record a significant charge to earnings.

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 and 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. For example, in 2022 and 2023, the market price of our common stock and market capitalization declined and the U.S. WiFi market contracted, which had a significant negative impact on our Connected Home business. As a result, we recognized a goodwill impairment charge in the first quarter of 2022 and an intangible impairment charge in the third quarter of 2023 to our Connected Home reporting unit. We have not recognized any impairment charge on our SMB reporting unit. However, 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 be determined on our SMB reporting unit, resulting in an adverse impact on our results of operations.

General Risk Factors

**** 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. Adverse changes in economic conditions, including inflation, slower growth or recession, new or increased tariffs and other barriers to trade, changes to fiscal and monetary policy, tighter credit, higher interest rates, high unemployment and currency fluctuations could adversely impact the demand and sale of our products to end users and the quantity of products our customers decide to purchase from us (or change the mix of products demanded) and make it more challenging to forecast our operating results and make business decisions. For example, during the fourth quarter of 2022, our APAC sales were dampened by a sudden economic downturn in China due to sudden, widespread COVID-19 infections and illnesses.

The uncertainty in global and regional economic conditions have also affected the financial markets and financial institutions on which we rely and have resulted in a number of adverse effects including a low level of liquidity in many financial markets, banking sector disruptions, extreme volatility in credit, equity, currency and fixed income markets, instability in the stock market, high inflation and high unemployment. Macroeconomic weakness and uncertainty also make it more difficult for us to accurately forecast revenue, gross margin and expenses. If we are unable to successfully anticipate changing economic, geopolitical and financial conditions, we may be unable to effectively plan for and respond to those changes which could further disrupt our business or limit our ability to access certain assets and materially adversely affect our business and results of operations.

In addition, availability of our products from third-party manufacturers and our ability to distribute our products into the United States and non-U.S. jurisdictions may be impacted by factors such as an increase in duties, tariffs or other restrictions on trade; raw material shortages or price increases, work stoppages, strikes and political unrest; uncertain economic conditions; economic crises and international disputes or conflicts; changes in leadership and the political climate in countries from which we import products; and failure of the United States to maintain normal trade relations with China and other countries. Any of these occurrences could materially adversely affect our business, operating results and financial condition.

Furthermore, uncertainty about, or worsening of economic conditions could adversely affect consumer sentiment and demand for our products and services. Consumer confidence and spending could be adversely affected by financial market volatility, negative financial news, conditions in the real estate, mortgage and technology markets, declines in income or asset values, changes to fuel and other energy costs, labor reductions, labor and healthcare costs and other economic factors. This could also impact the quantity of products our customers decide to purchase from us and may have a longer-term impact on the inventory levels these customers choose to carry. Lower demands could also impact manufacturing capacity utilization and contribute to further increased component costs. These and other economic factors could materially and adversely affect our revenue and results of operations.

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

Our future success depends in large part upon the continued services of our key technical, engineering, 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 engineering, 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. The market for talent in the technology industry, especially in the areas of software and subscription services is competitive, and we may not have the resources to compete at the same level as larger companies who are able to offer more compelling compensation packages. Therefore, our ability to recruit new talent and retain existing talent may be adversely affected, and as a result our business as a whole may suffer. 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 two 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.

[Table of Contents](#)

Political events, war, terrorism, public health issues, climate changes, 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. Substantially all of our critical enterprise-wide information technology systems, including our main servers, are currently housed in colocation facilities in Arizona and different geographic regions in the United States. The majority of our manufacturing occurs in Southeast Asia and mainland China. Each of these regions are known for or susceptible to seismic activity and other natural disasters, such as drought, wildfires, storms, sea-level rise, and flooding. Furthermore, the global effects of climate change have resulted in increased frequency and severity of these extreme weather events and could cause physical damage or disrupt operations. 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. This could also lead to increased costs and decreased revenues.

In addition, health epidemics, war, terrorism, geopolitical uncertainties, social and economic instability, public health issues, sudden changes in trade and immigration policies (such as the higher tariffs on certain products imported from China enacted by the previous U.S. administration or U.S. sanctions against Russia as a result of the Russia-Ukraine dispute), 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. In addition, in the past, labor disputes at third-party manufacturing facilities 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, more expensive or impossible for us to make and deliver products to our customers or to receive components from our direct or indirect suppliers, and create delays and inefficiencies in our supply chain. Major public health issues, including pandemics such as COVID-19, could negatively affect us through 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.

Our stock price has experienced recent volatility and may be volatile in the future 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 companies in the technology industry and the stock market as a whole, 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, political and market conditions, including government efforts to mitigate economic downturns or control inflation;
- novel and unforeseen market forces and trading strategies, such as the massive short squeeze rally caused by retail investors on companies such as GameStop;
- 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.

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.

[Table of Contents](#)**Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities****(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 (In millions)
July 3, 2023 - July 30, 2023	—	\$ —	—	2.5
July 31, 2023 - August 27, 2023	36,462	\$ 13.64	—	2.5
August 28, 2023 - October 1, 2023	11,079	\$ 12.64	—	2.5
Total	47,541	\$ 13.41	—	

⁽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.

⁽²⁾ During the three months ended October 1, 2023, we repurchased and retired, as reported on trade date, approximately 48,000 shares of common stock at a cost of approximately \$0.6 million to facilitate tax withholding for Restricted Stock Units.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

[Table of Contents](#)

Item 5. Other Information

Insider Trading Arrangements

During the three months ended October 1, 2023, our Board of Directors and officers (as defined in Rule 16a-1(f)) under the Exchange Act adopted or terminated the contracts, instructions or written plans for the purchase or sale of the Company's securities set forth in the table below.

Name and Position	Action	Adoption/Termination Date	Type of Trading Arrangement		Total Shares of Common Stock to be Sold***	Total Shares of Common Stock to be Purchased	Expiration Date
			Rule 10b5-1*	Non-Rule 10b5-1**			
Sarah Butterfass, Director	Adopted	8/29/2023	Yes		40% of net shares resulting from the vesting of 14,064 (gross) RSUs	N/A	6/28/2024
Andrew Kim, Chief Legal Officer	Adopted	7/28/2023	Yes		50,220	N/A	7/31/2024
Vikram Mehta, Senior Vice President, SMB Products and Services	Modified	8/7/2023	Yes		Net shares resulting from the vesting of 26,562 (gross) RSUs and PSUs	N/A	8/30/2024
Martin Westhead, Chief Technology Officer, Software	Adopted	7/28/2023	Yes		3,066 shares plus net shares resulting from the vesting of 33,226 (gross) RSUs, PSUs and ESPP purchase	N/A	8/30/2024
Michael Werdann, Chief Revenue Officer	Adopted	9/8/2023	Yes		Net shares resulting from the vesting of 25,000 (gross) RSUs and PSUs	N/A	9/30/2024

* Contract, instruction or written plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act.

** "Non-Rule 10b5-1 trading arrangement" as defined in Item 408(c) of Regulation S-K under the Exchange Act

*** Net shares issued with shares withheld to administratively facilitate the withholding and subsequent remittance of personal income and payroll taxes for the vesting of RSUs and PSUs.

[Table of Contents](#)

Item 6. Exhibits

Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
3.1	Amended and Restated Certificate of Incorporation of the registrant	10-Q	8/4/2017	3.1	
3.2	Amended and Restated Bylaws of the registrant	8-K	4/20/2018	3.2	
4.1	Form of registrant's common stock certificate	S-1/A	7/14/2003	4.1	
10.1+	2016 Equity Incentive Plan, as amended	8-K	6/5/2023	10.1	
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	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104*	Cover Page Interactive Data File				X
+	Management contract or arrangement				
#	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.				
*	Included in Interactive Data File covered by Exhibit 101.				

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/ BRYAN D. MURRAY

Bryan D. Murray
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: November 3, 2023

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Patrick C.S. Lo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NETGEAR, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: November 3, 2023

/s/ PATRICK C.S. LO

Patrick C.S. Lo

Chairman and Chief Executive Officer

NETGEAR, Inc.

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Bryan D. Murray, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NETGEAR, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: November 3, 2023

/s/ BRYAN D. MURRAY

Bryan D. Murray

Chief Financial Officer

NETGEAR, Inc.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NETGEAR, Inc. (the “Company”) on Form 10-Q for the period ended October 1, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Patrick C.S. Lo, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2023

By: /s/ PATRICK C.S. LO

Patrick C.S. Lo

Chairman and Chief Executive Officer

NETGEAR, Inc.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Form 10-Q), irrespective of any general incorporation language contained in such filing.

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEYACT OF 2002

In connection with the Quarterly Report of NETGEAR, Inc. (the “Company”) on Form 10-Q for the period ended October 1, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bryan D. Murray, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2023

By: /s/ BRYAN D. MURRAY

Bryan D. Murray
Chief Financial Officer
NETGEAR, Inc.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Form 10-Q), irrespective of any general incorporation language contained in such filing.
