NETGEAR, INC

FORM 10-K
(Annual Report)

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	SAN JOSE, CA 95134
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Sector	Technology
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2016

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

Registrant's telephone number, including area code
(408) 907-8000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001	The NASDAQ Stock Market LLC
	(NASDAQ Global Select Market)

Securities registered pursuant to 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of July 3, 2016 was approximately $917.2 million . Such aggregate market value was computed by reference to the closing price of the common stock as reported on the Nasdaq Global Select Market on July 1, 2016 (the last business day of the Registrant's most recently completed fiscal second quarter). Shares of common stock held by each executive officer and director and each entity that owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the registrant's Common Stock, $0.001 par value, was 32,931,706 shares as of February 17, 2017 .

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2017 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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PART I

This Annual Report on Form 10-K (“Form 10-K”), including Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 below, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts contained in this Form 10-K, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect” and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in “Risk Factors” in Part I, Item 1A below, and elsewhere in this Form 10-K, including, among other things: future demand for our products may be lower than anticipated; consumers may choose not to adopt our new product offerings or adopt competing products; the actual price, performance and ease of use of our products may not meet the price, performance and ease of use requirements of consumers; our dependence on certain significant customers; our reliance on a limited number of third-party suppliers and manufacturers; new cyber threats may challenge the effectiveness or threaten the security of our products; and our business strategies and development plans may not be successful. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Form 10-K may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. All forward-looking statements in this Form 10-K are based on information available to us as of the date hereof and we assume no obligation to update any such forward-looking statements. The following discussion should be read in conjunction with our consolidated financial statements and the accompanying notes contained in this Form 10-K.

Item 1. *Business*

General

We are a global company that designs, develops and markets innovative networking solutions and smart connected products for consumers, businesses and service providers. Our business is managed in three specific business units: retail, commercial, and service provider. The retail business unit consists of high performance, dependable and easy-to-use whole home WiFi networking solutions and Smart connected products. The commercial business unit consists of business networking, storage and security solutions that bring enterprise class functionality down to small and medium-sized businesses at an affordable price. The service provider business unit consists of made-to-order and retail-proven whole home networking hardware and software solutions, including 4G LTE hotspots sold to service providers for sale to their subscribers. We are organized into the following three geographic territories: Americas; Europe, Middle-East and Africa ("EMEA") and Asia Pacific ("APAC"). For further detail, refer to Note 11, *Segment Information,* in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

We were incorporated in Delaware on January 8, 1996. Our principal executive offices are located at 350 East Plumeria Drive, San Jose, California 95134, and our telephone number at that location is (408) 907-8000. Our website address is www.netgear.com.

In the years ended December 31, 2016 , 2015 , and 2014 , we generated net revenue of $1.33 billion , $1.30 billion , and $1.39 billion , respectively.

Markets

Our mission is to be the innovative leader in connecting the world to the internet. Our goal includes being the provider of industry-leading networking and smart connected products for consumers, business, and the service provider markets. There are a number of factors that are driving today's demand for networking products within these markets. The ever-growing number of internet connected devices, such as smart phones, laptops, tablets and the advent of Smart Home and Internet-of-Things devices has increased the need for more robust networking solutions. The internet has enabled information and resource sharing via both local area networks, and more broadly via the internet. To take advantage of complex applications, advanced communication capabilities and rich multimedia content, internet connections are being upgraded by deploying high-speed broadband access technologies. Users also seek the convenience and flexibility of operating their laptops, smart phones, tablets and related computing devices while accessing their content in a more mobile, or wireless, manner. Increased market demand for Smart Home and internet-connected products, such as Smart TVs, game consoles, HD streaming players, security cameras, thermostats, smoke detectors, etc., continue to drive new innovations in networking. As a result, the need and desire for more convenience, speed, coverage range, and reliability of an in-home WiFi network has become a greater priority among households as well as businesses.

Consumers, businesses and service providers demand a complete set of both wired and wireless networking and broadband products that are tailored to their specific needs and budgets, while incorporating the latest networking technologies. Although these users desire the continual introduction of new advanced technologies, they often lack technical knowledge and resources. Therefore, a seamless 'plug-and-play' or easy-to-install experience with little to no customer service and support is the expected norm. We have also observed that this audience prefers the convenience of obtaining a networking solution from a single company and we have seen that they tend to be loyal purchasers of a brand with which they have had a good experience. Purchasing decisions in these markets are driven by the affordability and reliability of the products. To provide reliable, easy-to-use products at an attractive price, we believe a successful supplier must have a company-wide focus on the unique requirements of these markets, operational discipline and a cost-efficient infrastructure with processes that allow for efficient product development, manufacturing and distribution.

Sales Channels

We sell our products through multiple sales channels worldwide, including traditional retailers, online retailers, wholesale distributors, direct market resellers ("DMRs"), value-added resellers ("VARs"), and broadband service providers.

Wholesale Distribution. Our distribution channel supplies our products to retailers, e-commerce resellers, DMRs, VARs and broadband service providers. We sell directly to our distributors, the largest of which are Ingram Micro, Inc., D&H Distributing Company and Tech Data Corporation.

Retailers. Our retail channel primarily supplies products that are sold into the consumer market. However, increasingly we are seeing products designed for small and medium-sized businesses move through these channels. We sell directly to, or enter into consignment arrangements with, a number of our traditional and online retailers. The remaining traditional retailers, as well as our online retailers, are fulfilled through wholesale distributors. We work directly with our retail channels on market development activities, such as co-advertising, on-line promotions and video demonstrations, instant rebate programs, event sponsorship and sales associate training. Our largest retailers include Best Buy Co., Inc., Amazon.com, Inc. and their affiliates.

DMRs and VARs. We sell into the commercial business marketplace through an extensive network of DMRs and VARs. Our DMRs include companies such as CDW and Insight. VARs include our network of registered NETGEAR Solution Partners. DMRs and VARs may receive sales incentives, marketing support and other program benefits from us. Our DMRs and VARs generally purchase our products through our wholesale distributors.

Broadband Service Providers. We also supply our products directly to broadband service providers in the United States and internationally providing cable, DSL and 4G LTE broadband. Service providers supply our products to their business and home subscribers. Our largest broadband service providers include Telstra and AT&T.

The largest portion of our net revenues was derived from Americas sales in the year ended December 31, 2016 . Americas sales as a percentage of net revenue increased from 61.4% in the year ended December 31, 2015 to 66.5% in the year ended December 31, 2016 . We have continuously committed resources to our international operations and sales channels. Accordingly, we are subject to a number of risks related to international operations such as macroeconomic and microeconomic conditions, geopolitical instability, preference for locally branded products, exchange rate fluctuations, increased difficulty in managing inventory, challenges of staffing and managing foreign operations, the effect of international sales on our tax structure, and changes in local tax laws.

Best Buy Co., Inc. and affiliates and Amazon and affiliates accounted for 10% or more of net revenue for the year ended December 31, 2016. Best Buy Co., Inc. and affiliates accounted for 10% or more of net revenue for the year ended December 31, 2015. None of our customers accounted for 10% or more of our net revenue for the years ended December 31, 2014.

See Note 11, *Segment Information* , in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for further discussion of operations by geographic area, for details on long-lived assets by geographic area, and for further details on significant customers.

Product Offerings

Our product line consists of devices that create and extend wired and wireless networks as well as devices that provide a special function and attach to the network, such as network attached storage, IP security cameras and home automation devices and services. These products are available in multiple configurations to address the changing needs of our customers in each geographic region in which our products are sold.

Commercial business networking. These products are sold into the commercial business marketplace through an extensive network of DMRs and VARs, and increasingly through brick and mortar retail and e-commerce channels and include:

- Ethernet switches, which are multiple port devices used to network computing devices and peripherals via Ethernet wiring;
- Wireless controllers and access points, which are devices used to manage and control multiple WiFi base stations on a campus or a facility providing WiFi connections to smart phones, tablets, laptops and other computing devices;
- Unified storage, which delivers file and block based data into a single shared storage system, meeting the demands of small enterprises, education, hospitality and health markets through an easy-to-use interface for managing multiple storage protocols; and
- Internet security appliances, which provide internet access through capabilities such as anti-virus and anti-spam.

Broadband access. Broadband access is a high speed transmission via coaxial cable, phone lines, fiber, or cellular mediums using technologies such as DOCSIS 3.x, xDSL, FTTx or 4G LTE, to connect to the internet over public broadband networks. We develop networking products that enable connections to these broadband networks that are sold primarily via brick and mortar retail, e-commerce, and service provider channels and include:

- Broadband modems, which are devices that convert the broadband signals into Ethernet data that feeds Internet into homes and offices. We provide modems that connect to DOCSIS 3.x, xDSL, FTTx, and 4G LTE;
- WiFi Gateways, which are WiFi routers with an integrated broadband modem, for broadband Internet access;
- WiFi Hotspots, which create mobile WiFi Internet access that utilizes 3G and 4G LTE data networks for use on the go, and at home in place of traditional wired broadband, Internet access.

Smart Home/ Internet-of-Things Connectivity and Products. Products that create and extend wired and WiFi networks in homes and small businesses to connect devices to internet as well as devices that provide remote, secure monitoring of homes and businesses. These connectivity and Smart products are sold primarily via brick and mortar retail, e-commerce, and service provider channels and include:

- WiFi routers and home WiFi Systems, which create a local area network (LAN) for home or office computer, mobile and Smart Devices to connect and share a broadband Internet connection;
- WiFi range extenders, which extend the range of an existing WiFi network to eliminate WiFi dead spots;
- Powerline adapters and bridges, which extend wired and WiFi Internet connections to any AC outlet using existing electrical wiring;
- Remote video security systems, which provide WiFi video and audio monitoring and recordings, accessible by smart phones, tablets or PCs and MACs;
- WiFi network adapters, which enable computing devices to be connected to the network via WiFi.

We design our products to meet the specific needs of the consumer, business and service provider markets, tailoring various elements of the software interface, the product design, including component specification, physical characteristics such as casing, design and coloration, and specific user interface features to meet the needs of these markets. We also leverage many of our technological developments, high volume manufacturing, technical support and engineering infrastructure across our markets to maximize business efficiencies.

Our products that target the business market are generally designed with an industrial appearance, including metal cases and, for some product categories, the ability to mount the product within standard data networking racks as well as unique mounting solutions for other uses. These products typically include higher port counts, higher data transfer rates and other performance characteristics designed to meet the needs of a commercial business user. For example, we offer data transfer rates up to ten gigabits per second for our business products to meet the higher capacity requirements of business users. Some of these products are also designed to support transmission modes such as fiber optic cabling, which is common in more sophisticated business environments. Security requirements within our products for commercial business broadband access include firewall, virtual private network and content threat management capabilities that allow for secure interactions between remote offices and business headquarter locations over the internet. Our connectivity product offerings for the commercial business market include enhanced security and remote configurability often required in a business setting. Our ReadyNAS ® family of network attached storage products implements redundant array of independent disks data protection, enabling businesses to store and protect critical data easily, efficiently and intelligently.

Our vision for the home network is about intelligently controlling and monitoring all devices connected to the home network at all times, thus creating a Smart Environment. Our focus is to continue to introduce new products into growth areas that form the basis of Smart Homes, such as: the fastest WiFi standards with broadest coverage via latest technology (802.11ac) WiFi routers and home WiFi systems; high speed DOCSIS 3.1, xDSL and fiber gateways with more integrated functions; 4G LTE gateways and AirCard hotspots; and home security cameras and automation devices such as our Arlo Smart security cameras. We continue to announce and introduce new products in these key markets.

Our vision for the commercial network is about increased effectiveness and efficiency of the hybrid cloud access network. We believe small and medium-sized enterprises will continue to move into cloud-based applications, such as: Salesforce.com, Ring Central, Zoom video conferencing, SuccessFactors, Workday, and others. In addition, we believe these enterprises will move into utility-like on demand computing power supplied by third party data centers. Also, increasingly more enterprises are enabling the BYOD (bring your own device) environment allowing smart phones, tablets, and netbooks to be the business computing devices of choice. These trends will place a greater demand on commercial networks. To meet this demand we are introducing next generation commercial products in rapid pace, such as: Power over Ethernet (PoE) switches, 10 gigabit Ethernet switches, high capacity local and remote unified storage, small to medium capacity campus wireless LAN, and security appliances.

Competition

The consumer, business and service provider markets are intensely competitive and subject to rapid technological change. We expect competition to continue to intensify. Our principal competitors include:

- within the consumer markets, companies such as Apple, Arris, ASUS, Belkin/Linksys, Canary, Devolo, D-Link, Eero, Google, Logitech, Luma, Nest Labs (owned by Google), Ring, Samsung, Swann, Synology, Symantec, TP Link, and Western Digital;

- within the business markets, companies such as Allied Telesys, Barracuda, Buffalo, Cisco Systems, Dell, D-Link, Fortinet, Hewlett-Packard Enterprise, Huawei, QNAP Systems, Seagate Technology, SonicWall, Synology, TP Link, Ubiquiti, WatchGuard and Western Digital; and

- within the service provider markets, companies such as Actiontec, Arcadyan, ARRIS, AVM, Compal Broadband, D-Link, Hitron, Huawei, Novatel Wireless (owned by TCL Corporation of China), Sagem, Scientific Atlanta (a Cisco Systems company), Sercomm, SMC Networks, TechniColor, TP-Link, Ubee, ZTE and ZyXEL.

Our potential competitors include other consumer electronics vendors, including LG Electronics, Microsoft, Panasonic, Sony, Toshiba and Vizio, who could integrate networking and streaming capabilities into their line of products, such as televisions, set top boxes and gaming consoles, and our channel customers who may decide to offer self-branded networking products. We also face competition from service providers who bundle a free networking device with their broadband service offering, which would reduce our sales if we are not the supplier of choice to those service providers. In the service provider space, we also face significant and increased competition from original design manufacturers ("ODMs") and contract manufacturers ("CMs") who are selling and attempting 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. As a result, they may have more advanced technology, larger distribution channels, stronger brand names, better customer service and access to more customers than we do. For example, Hewlett-Packard Enterprise has significant brand name recognition and has an advertising presence substantially greater than ours. Similarly, Cisco Systems is well recognized as a leader in providing networking products to businesses and has substantially greater financial resources than we do. Several of our competitors, such as TP-Link, offer a range of products that directly compete with most of our product offerings. Several of our other competitors primarily compete in a more limited manner. For example, Hewlett-Packard sells networking products primarily targeted at larger businesses or enterprises. However, the competitive environment in which we operate changes rapidly. Other companies with significant resources could also become direct competitors, either through acquiring a competitor or through internal efforts.

We believe that the principal competitive factors in the consumer, business and service provider markets for networking products include product breadth, size and scope of the sales channel, brand name, timeliness of new product introductions, product availability, performance, features, functionality and reliability, price, ease-of-installation, maintenance and use, and customer service and support. We believe our products are competitive in these markets based on these factors.

To remain competitive, we must invest significant resources in developing new products and enhancing our current products while continuing to expand our sales channels and maintaining customer satisfaction worldwide.

Research and Development

As of December 31, 2016 , we had 331 employees engaged in research and development. Our success depends on our ability to develop products that meet changing user needs and to anticipate and proactively respond to evolving technology in a timely and cost-effective manner. Accordingly, we have made investments in our research and development department in order to effectively evaluate new third-party technologies, develop new in-house technologies, and develop and test new products. Our research and development employees work closely with our technology and manufacturing partners to bring our products to market in a timely, high quality and cost-efficient manner.

We identify, qualify or self-develop new technologies, and we work closely with our various technology suppliers and manufacturing partners to develop products using one or more of the development methodologies described below.

ODM. Under the ODM methodology, we define the product concept and specification and recommend the technology selection. We then coordinate with our technology suppliers while they develop the product meeting our specification. On certain new products, one or more subsystems of the design can be done in-house and then integrated with the remaining design pieces from the ODM. Once prototypes are completed, we work with our partners to complete the debugging and systems integration and testing. After completion of the final tests, agency approvals and product documentation, the product is released for production.

In-House Development. Under the in-house development model, one or more subsystems of the product are designed and developed utilizing the NETGEAR engineering team. Under this model, some of the primary technology is developed in-house. We then work closely with either an ODM or a Joint Development Manufacturer ("JDM") to complete the development of the entire design, perform the necessary testing, and obtain regulatory approvals before the product is released for production.

Our total research and development expenses were $89.4 million in 2016, $86.5 million in 2015 and $90.9 million in 2014.

Manufacturing

Our primary manufacturers are Hon Hai Precision Industry Co., Ltd., (more commonly known as Foxconn Corporation), Delta Networks Incorporated, Wistron NeWeb Corporation, and Pegatron Corporation, all of which are headquartered in Taiwan. We also use Sky Light Industrial Ltd. which is headquartered in Hong Kong. The actual manufacturing of our products occurs primarily in mainland China and Vietnam, with pilot and low-volume manufacturing in Taiwan on a select basis. We distribute our manufacturing among these key suppliers to avoid excessive concentration with a single supplier. However there was an increase in supplier concentration since 2015. Because substantially all of our manufacturing occurs in mainland China and Vietnam, any disruptions from natural disasters, health epidemics and political, social and economic instability would affect the ability of our manufacturers to manufacture our products. In addition, our manufacturers in China have continued to increase our costs of production, particularly in the recent years. These increased costs have affected our margins and ability to lower prices for our products to stay competitive. If our manufacturers or warehousing facilities are disrupted or destroyed, we would have no other readily available alternatives for manufacturing our products and our business would be significantly impacted. In addition to their responsibility for the manufacturing of our products, our manufacturers purchase all necessary parts and materials to produce complete, finished goods. To maintain quality standards for our suppliers, we have established our own product quality organization based in Hong Kong and mainland China. They are responsible for auditing and inspecting process and product quality on the premises of our ODMs and JDMs.

We obtain several key components from limited or sole sources. For example, many of the semiconductors and metamaterials used in our products are designed specifically for our products and are obtained from sole source suppliers on a purchase order basis. In addition, some components that are used in our products are obtained from limited sources. These components include connector jacks, plastic casings and physical layer transceivers. From a limited number of suppliers, we obtain switching fabric semiconductors, which are used in our Ethernet switches and internet gateway products; wireless local area network chipsets which are used in our wireless products and mobile network chipsets which are used in our wireless gateways and hotspots. Our third party manufacturers generally purchase these components on our behalf on a purchase order basis. If these sources fail to satisfy our supply requirements, our ability to meet scheduled product deliveries would be harmed and we may lose sales and experience increased component costs.

We currently outsource warehousing and distribution logistics to four main third-party providers who are responsible for warehousing, distribution logistics and order fulfillment. In addition, these parties are also responsible for some configuration and re-packaging of our products including bundling components to form kits, inserting appropriate documentation, disk drive configuration, and adding power adapters. APL Logistics Americas, Ltd. in City of Industry, California serves the Americas region, Kerry Logistics Ltd. in Hong Kong serves the Asia Pacific region, DSV Solutions B.V. Netherlands serves the EMEA region, and Brightstar Logistics Pty Ltd. in Melbourne, VIC, Australia serves Australia and New Zealand.

Sales and Marketing

As of December 31, 2016 , we had 318 employees engaged in sales, marketing, and technical support. We work directly with our customers on market development activities, such as co-advertising, online promotions and video demonstrations, event sponsorship and sales associate training. We also participate in major industry trade shows and marketing events. Our marketing department is comprised of our channel marketing, product marketing and corporate marketing groups.

Our channel marketing team focuses on working with the sales teams to maximize our participation in channel partner marketing activities and merchandise our products both online and in store.

Our product marketing group focuses on product strategy, product development roadmaps, the new product introduction process, product lifecycle management, demand assessment and competitive analysis. The group works closely with our sales and research and development groups to align our product development roadmap to meet customer technology demands from a strategic perspective. The group also ensures that product development activities, product launches, and ongoing demand and supply planning occur in a well-managed, timely basis in coordination with our development, manufacturing, and sales groups, as well as our ODM, JDMs and sales channel partners.

Our corporate marketing group is responsible for defining and building our corporate brand and supporting the business units with creative and marketing strategies and tactics. The group focuses on defining our brand promise and marketing messages on a worldwide basis. This group is also responsible for driving the social media and online marketing strategy, public relations and email marketing programs, events, and corporate websites worldwide, as well as creative production for all product categories.

We conduct most of our international sales and marketing operations through wholly-owned subsidiaries, which operate via sales and marketing subsidiaries and branch offices worldwide.

Customer Support

We design our products with ease-of-use top of mind. We respond globally to customer inquiries through a variety of channels including phone, chat, community, social, and email. Customers can also get self-help service through the comprehensive knowledgebase and the user forum from our website. Customer support is provided through a combination of a limited number of permanent employees and use of subcontracted, out-sourced resources. Our permanent employees design our technical support database and are responsible for training and managing our outsourced sub-contractors. They also handle escalations from the outsourced resources. We utilize the information gained from customers by our customer support organization to enhance our product offerings, including further simplifying the installation process.

Intellectual Property

We believe that our continued success will depend primarily on the technical expertise, speed of technology implementation, creative skills and management abilities of our officers and key employees, plus ownership of a limited but important set of copyrights, trademarks, trade secrets and patents. We primarily rely on a combination of copyright, trademark and trade secret and patent laws, nondisclosure agreements with employees, consultants and suppliers and other contractual provisions to establish, maintain and protect our proprietary rights. We hold approximately 155 issued United States patents that expire between years 2017 and 2034 and 70 foreign patents that expire between 2017 and 2034. In addition, we currently have approximately 100 pending United States and foreign patent applications related to technology and products offered by us. We also rely on third-party licensors for patented hardware and software license rights in technology that are incorporated into and are necessary for the operation and functionality of our products. Our success will depend in part on our continued ability to have access to these technologies.

We have trade secret rights for our products, consisting mainly of product design, technical product documentation and software. We also own, or have applied for registration of trademarks, in connection with our products in the United States and internationally, including NETGEAR, AirCard, AirCard Enabled, Aircard Watcher, Watcher, Watcher and Wireless Expert, Around Town, Arlo, Arlo Q, Arlo logo, The Next Wave of WiFi, Orbi, Genie, Genie+, the Genie logo, ReadyShare, Neo TV, the Neo TV logo, NETGEAR Stora, the NETGEAR Stora logo, ProSafe, RangeMax, ReadyNAS, ReadyDrop, ReadyData, ReadyCloud, ReadyDLNA, ReadyRecover, ProSecure, the ProSecure logo, Push2TV, Streampro, Centria, My Media, Nighthawk, Nighthawk x4, Nighthawk x6, NETGEAR Trek, Overdrive, Overdrive 3G/4G Mobile Hotspot logo, Zing Mobile Hotspot, Mingle, Vue, VueZone, Ufast, NETGEAR Insight, NETGEAR UP, and X-RAID.

We have registered a number of internet domain names that we use for electronic interaction with our customers including dissemination of product information, marketing programs, product registration, sales activities, and other commercial uses.

Seasonal Business

We have historically experienced increased net sales in our third and fourth fiscal quarters as compared to the first and second quarters in our fiscal year due to seasonal demand of consumer markets related to the beginning of the school year and the holiday season. This pronounced seasonality has been previously offset by irregular and significant purchases from customers in other markets, such as the service provider market. As the proportion of our retail business unit grows relative to our overall business, the impact of the seasonally high third and fourth fiscal quarters shall become more pronounced than experienced in prior years.

Backlog

We believe the actual amount of order backlog at any particular time is not a meaningful indication of our future business. Our backlog consists of products for which customer purchase orders have been received that are scheduled or in the process of being scheduled for shipment. While we expect to fulfill the order backlog within the current year, most orders are subject to rescheduling or cancellation with little or no penalties. Because of the possibility of customer changes in product scheduling or order cancellation, our backlog as of any particular date may not be an indicator of net sales for any subsequent period. Accordingly, backlog should not be considered a reliable indicator of our ability to achieve any particular level of revenue or financial performance.

Environmental Laws

Our products and manufacturing process are subject to numerous governmental regulations, which cover both the use of various materials as well as environmental concerns. Environmental issues such as pollution and climate change have had significant legislative and regulatory efforts on a global basis, and there are expected to be additional changes to the regulations in these areas. 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 and the cost of compliance. Other regulations in the environmental area may require us to continue to monitor and ensure proper disposal or recycling of our products. To the best of our knowledge, we maintain compliance with all current government regulations concerning our production processes for all locations in which we operate. Since we operate on a global basis, this is also a complex process that requires continual monitoring of regulations and an ongoing compliance process to ensure that we and our suppliers are in compliance with all existing regulations.

Employees

As of December 31, 2016 , we had 945 full-time employees, with 318 in sales, marketing and technical support, 331 in research and development, 135 in operations, and 161 in finance, information systems and administration. We also utilize a number of temporary staff to supplement our workforce. We have never had a work stoppage among our employees and no personnel are represented under collective bargaining agreements.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the Securities Exchange Commission (the "SEC"). We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements, and other information with the SEC. You may read and copy our reports, proxy statements and other information filed by us at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. Our filings are also available to the public over the Internet at the SEC's website at *http://www.sec.gov*.

Our website provides a link to our SEC filings, which are available free of charge on the same day such filings are made. The specific location on the website where these reports can be found is http://investor.netgear.com/sec.cfm. Our website also provides a link to Section 16 filings which are available free of charge on the same day as such filings are made. Information contained on these websites is not a part of this Annual Report on Form 10-K.

Executive Officers of the Registrant

The following table sets forth the names, ages and positions of our executive officers as of February 10, 2017.

Name	Age	Position
Patrick C.S. Lo	60	Chairman and Chief Executive Officer
Christine M. Gorjanc	60	Chief Financial Officer
Patrick J. Collins III	45	Senior Vice President of Smart Home Products
Michael F. Falcon	60	Senior Vice President of Worldwide Operations and Support
David J. Henry	44	Senior Vice President of Home Networking
Andrew W. Kim	46	Senior Vice President of Corporate Development, General Counsel and Corporate Secretary
John P. McHugh	56	Senior Vice President and General Manager of Commercial Business Unit
Mark G. Merrill	62	Chief Technology Officer
Tamesa T. Rogers	43	Senior Vice President, Human Resources
Michael A. Werdann	48	Senior Vice President of Worldwide Sales

Patrick C.S. Lo is our co-founder and has served as our Chairman and Chief Executive Officer since March 2002. He has also served as interim general manager of our retail business unit since the first quarter of 2014 and has served as interim general manager of our service provider business unit since the first quarter of 2015. Patrick founded NETGEAR with Mark G. Merrill with the singular vision of providing the appliances to enable everyone in the world to connect to the high speed Internet for information, communication, business transactions, education, and entertainment. From 1983 until 1995, Mr. Lo worked at Hewlett-Packard Company, where he served in various management positions in sales, technical support, product management, and marketing in the U.S. and Asia. Mr. Lo was named the Ernst & Young National Technology Entrepreneur of the Year in 2006. Mr. Lo received a B.S. degree in electrical engineering from Brown University.

Christine M. Gorjanc has served as our Chief Financial Officer since January 2008, Chief Accounting Officer from December 2006 to January 2008 and Vice President, Finance from November 2005 to December 2006. From September 1996 through November 2005, Ms. Gorjanc served as Vice President, Controller, Treasurer and Assistant Secretary for Aspect Communications Corporation, a provider of workforce and customer management solutions. From October 1988 through September 1996, Ms. Gorjanc served as the Manager of Tax for Tandem Computers, Inc., a provider of fault-tolerant computer systems. Prior to that, Ms. Gorjanc served in management positions at Xidex Corporation, a manufacturer of storage devices, and spent eight years in public accounting with a number of accounting firms. Ms. Gorjanc is a member of the Board of Directors of Invitae Corporation. Ms. Gorjanc holds a B.A. in Accounting (with honors) from the University of Texas at El Paso and a M.S. in Taxation from Golden Gate University.

Patrick J. Collins III h as served as our Senior Vice President of Smart Home Products since January 2016. He has been with NETGEAR since June 2008, most recently serving as our Vice President of Home Automation Products from March 2014 to January 2016, Chief Information Officer from November 2012 to March 2014, and Vice President of Information Technology from October 2010 to November 2012. Prior to NETGEAR, Mr. Collins held leadership positions in the consulting services groups of Oracle Corporation and Computer Sciences Corporation. Mr. Collins received a B.S. degree in Computer Information Systems from Alvernia University.

Michael F. Falcon has served as our Senior Vice President of Worldwide Operations and Support since January 2009, Senior Vice President of Operations from March 2006 to January 2009, and Vice President of Operations from November 2002 to March 2006. Prior to joining us, Mr. Falcon was at Quantum Corporation, where he served as Vice President of Operations and Supply Chain Management from September 1999 to November 2002, Meridian Data (acquired by Quantum Corporation), where he served as Vice President of Operations from April 1999 to September 1999, and Silicon Valley Group, where he served as Director of Operations, Strategic Planning and Supply Chain Management from February 1989 to April 1999. Prior to February 1989, Mr. Falcon served in management positions at SCI Systems, an electronics manufacturer, Xerox Imaging Systems, a provider of scanning and text recognition solutions, and Plantronics, Inc., a provider of lightweight communication headsets. Mr. Falcon received a B.A. degree in Economics with honors from the University of California, Santa Cruz and has completed coursework in the M.B.A. program at Santa Clara University.

David J. Henry has served as our Senior Vice President of Home Networking since January 2016. He has worldwide responsibility for both Product Marketing and Engineering of our home networking products, encompassing product strategy, development and delivery. He has been with NETGEAR since July 2004, most recently serving as our Vice President of Product Management of our Retail Business Unit from March 2011 to January 2016 and as our Senior Director of Product Marketing from October 2010 to March 2011. Prior to NETGEAR, Mr. Henry was a senior product manager for the high technology vertical application at Siebel Systems (acquired by Oracle Corporation). His professional experience also includes business process and information technology consulting with Deloitte Consulting. Mr. Henry received a B.S. degree in Electrical Engineering, with an emphasis on Signal Processing, from the University of Washington and an M.B.A. from the Stanford Graduate School of Business.

Andrew W. Kim has served as our Senior Vice President of Corporate Development, General Counsel and Corporate Secretary since July 2013, Vice President, Legal and Corporate Development and Corporate Secretary from October 2008 until July 2013, and as our Associate General Counsel from March 2008 to October 2008. Prior to joining NETGEAR, Mr. Kim served as Special Counsel in the Corporate and Securities Department of Wilson Sonsini Goodrich & Rosati, a private law firm, where he represented public and private technology companies in a wide range of matters, including mergers and acquisitions, debt and equity financing arrangements, securities law compliance and corporate governance from 2000 to 2003 and 2006 to 2008. In between his two terms at Wilson Sonsini Goodrich & Rosati, Mr. Kim served as Partner in the Business and Finance Department of the law firm Schwartz Cooper Chartered in Chicago, Illinois, and was an Adjunct Professor of Entrepreneurship at the Illinois Institute of Technology. Mr. Kim holds a J.D. from Cornell Law School, and received a B.A. degree in history from Yale University.

John P. McHugh serves as our Senior Vice President and General Manager of the Commercial Business Unit, overseeing the development and delivery of the industry's premiere line of networking and storage solutions for SMB customers. Prior to joining us in July 2013, Mr. McHugh led the commercial networking business units at both Nortel and Hewlett-Packard. During his career, Mr. McHugh has held leadership roles in R&D, Marketing and Manufacturing, as well as having over 12 years of experience in General Management. Mr. McHugh holds a BS degree in Electrical Engineering and in Computer Science from Rose-Hulman Institute of Technology.

Mark G. Merrill is our co-founder and currently serves as our Chief Technology Officer. In this role, Mr. Merrill continues to guide the emerging market efforts and work closely with the RF engineering team to ensure technical leadership of our wireless networking products. Previously, Mr. Merrill served as our Senior Vice President of Advanced Engineering from May 2013 to January 2015 and as our Chief Technology Officer from January 2003 to April 2013. From September 1999 to January 2003, he served as Vice President of Engineering and served as Director of Engineering from September 1995 to September 1999. Mr. Merrill received both a B.S. degree and an M.S. degree in Electrical Engineering from Stanford University.

Tamesa T. Rogers has served as our Senior Vice President, Human Resources since July 2013, Vice President, Human Resources from January 2009 to July 2013, Director, Worldwide Human Resources from September 2006 to January 2009 and as our Senior Human Resources Manager from December 2003 to September 2006. From March 2000 to December 2003, Ms. Rogers worked at TriNet Employer Group, a professional employer organization, as a Human Resources Manager, providing HR consulting to technology companies throughout Silicon Valley. Prior to TriNet, Ms. Rogers served in various human resources functions in several Northern California companies. Ms. Rogers received a B.A. in Communication Studies from the University of California, Santa Barbara and an M.S. in Counseling from California State University, Hayward.

Michael A. Werdann has served as our Senior Vice President of Worldwide Sales since October 2015, Worldwide Senior Vice President of Sales for Consumer Products from March 2015 to October 2015 and Vice President of Americas Sales from December 2003 to March 2015. Since joining us in 1998, Mr. Werdann has served as our United States Director of Sales, E-Commerce and DMR from December 2002 to December 2003 and as our Eastern Regional Sales Director from October 1998 to December 2002. Prior to joining us, Mr. Werdann worked for three years at Iomega Corporation, a computer hardware company, as a Sales Director for the value added reseller sector. Mr. Werdann holds a B.S. Degree in Communications from Seton Hall University.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. The risks described below are not exhaustive of the risks that might affect our business. Other risks, including those we currently deem immaterial, may also impact our business. Any of the following risks could materially adversely affect our business operations, results of operations and financial condition and could result in a significant decline in our stock price. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described in this section. This section should be read in conjunction with the consolidated financial statements and accompanying notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report on Form 10-K.

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

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

- changes in the pricing policies of or the introduction of new products by us or our competitors;
- slow or negative growth in the networking product, personal computer, Internet infrastructure, Smart Home, home electronics and related technology markets, as well as decreased demand for Internet access;
- seasonal shifts in end market demand for our products, particularly in our retail business;
- delays in the introduction of new products by us or market acceptance of these products;

- unanticipated decreases or delays in purchases of our products by our significant traditional and online retail customers;
- component supply constraints from our vendors;
- shift in overall product mix sales from higher to lower margin products, or from one business unit to another, that would adversely impact our margins;
- unanticipated increase in costs, including air freight, associated with shipping and delivery of our products;
- the inability to maintain stable operations by our suppliers and other parties with which we have commercial relationships;
- discovery of security vulnerabilities in our products, services or systems, leading to negative publicity, decreased demand or potential liability;
- foreign currency exchange rate fluctuations in the jurisdictions where we transact sales and expenditures in local currency;
- unfavorable level of inventory and turns;
- changes in or consolidation of our sales channels and wholesale distributor relationships or failure to manage our sales channel inventory and warehousing requirements;
- delay or failure to fulfill orders for our products on a timely basis;
- delay or failure of our service provider customers to purchase at the volumes that they forecast;
- changes in tax rates or adverse changes in tax laws that expose us to additional income tax liabilities;
- changes in international trade policy and potential U.S. tax overhaul that adversely affect customs, tax or duty rates, including consequences of the "Brexit" process in the United Kingdom;
- operational disruptions, such as transportation delays or failure of our order processing system, particularly if they occur at the end of a fiscal quarter;
- disruptions or delays related to our financial and enterprise resource planning systems;
- our inability to accurately forecast product demand, particularly from our service provider sales channel, resulting in increased inventory exposure;
- allowance for bad debts exposure with our existing customers and new customers, particularly as we expand into new international markets;
- geopolitical disruption, including sudden changes in immigration policies, leading to disruption in our workforce or delay or even stoppage of our operations in manufacturing, transportation, technical support and research and development;
- terms of our contracts with customers or suppliers that cause us to incur additional expenses or assume additional liabilities;
- an increase in price protection claims, redemptions of marketing rebates, product warranty and stock rotation returns or allowance for doubtful accounts;
- litigation involving alleged patent infringement;
- epidemic or widespread product failure, or unanticipated safety issues, in one or more of our products;

- challenges associated with integrating acquisitions that we make, or with realizing value from our strategic investments in other companies;
- failure to effectively manage our third party customer support partners, which may result in customer complaints and/or harm to the NETGEAR brand;
- our inability to monitor and ensure compliance with our anti-corruption compliance program and domestic and international anti-corruption laws and regulations, whether in relation to our employees or with our suppliers or customers;
- labor unrest at facilities managed by our third-party manufacturers;
- unanticipated shift or decline in profit by geographical region that would adversely impact our tax rate;
- our failure to implement and maintain the appropriate internal controls over financial reporting which may result in restatements of our financial statements; and
- any changes in accounting rules.

As a result, period-to-period comparisons of our operating results may not be meaningful, and you should not rely on them as an indication of our future performance.

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

There has been significant volatility in the market price and trading volume of securities of technology and other companies, which may be unrelated to the financial performance of these companies. These broad market fluctuations may negatively affect the market price of our common stock.

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

- actual or anticipated fluctuations in our operating results or our competitors' operating results;
- actual or anticipated changes in the growth rate of the general networking sector, our growth rates or our competitors' growth rates;
- conditions in the financial markets in general or changes in general economic conditions, including government efforts to stabilize currencies;
- actual or anticipated changes in governmental regulation, including taxation and tariff policies;
- interest rate or currency exchange rate fluctuations;
- our ability to forecast or report accurate financial results; and
- changes in stock market analyst recommendations regarding our common stock, other comparable companies or our industry generally.

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

We operate in a highly competitive, quickly changing environment, and our future success depends on our ability to develop or acquire, and introduce new products that achieve broad market acceptance. Our future success will depend in large part upon our ability to identify demand trends in the commercial business, retail, and service provider markets and quickly develop or acquire, and manufacture and sell products that satisfy these demands in a cost effective manner. In order to differentiate our products from our competitors' products, we must continue to increase our focus and capital investment in research and development, including software development. For example, we have committed a substantial amount of resources to the development, manufacture and sale of our Nighthawk home networking products, Arlo Smart security cameras and Orbi WiFi system, and to introducing additional and improved models in these lines. If these products do not continue to achieve widespread market acceptance, or if we are unsuccessful in capitalizing on other Smart Home market opportunities, our future growth may be slowed and our financial results could be harmed. Successfully predicting demand trends is difficult, and it is very difficult to predict the effect that introducing a new product will have on existing product sales. We will also need to respond effectively to new product announcements by our competitors by quickly introducing competitive products.

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

We have experienced delays and quality issues in releasing new products in the past, which resulted in lower quarterly net revenue than expected. In addition, we have experienced, and may in the future experience, product introductions that fall short of our projected rates of market adoption. Online Internet reviews of our products are increasingly becoming a significant factor in the success of our new product launches, especially in the retail business unit. If we are unable to quickly respond to negative reviews, including end user reviews posted on various prominent online retailers, our ability to sell these products will be harmed. Any future delays in product development and introduction, or product introductions that do not meet broad market acceptance, or unsuccessful launches of new product lines could result in:

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

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

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

We sell a substantial portion of our products through traditional and online retailers, including Best Buy Co., Inc., Amazon.com, Inc. and their affiliates, wholesale distributors, including Ingram Micro, Inc. and Tech Data Corporation, and service providers, such as AT&T. We expect that a significant portion of our net revenue will continue to come from sales to a small number of customers for the foreseeable future. In addition, because our accounts receivable are often concentrated with a small group of purchasers, the failure of any of them to pay on a timely basis, or at all, would reduce our cash flow. We are also exposed to increased credit risk if any one of these limited numbers of customers fails or becomes insolvent. We generally have no minimum purchase commitments or long-term contracts with any of these customers. These purchasers could decide at any time to discontinue, decrease or delay their purchases of our products. If our customers increase the size of their product orders without sufficient lead-time for us to process the order, our ability to fulfill product demands would be compromised. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us, including demands on product pricing and on contractual terms, which often results in the allocation of risk to us as the supplier. Accordingly, the prices that they pay for our products are subject to negotiation and could change at any time. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If any of our major customers reduce their level of purchases or refuse to pay the prices that we set for our products, our net revenue and operating results could be harmed. Our traditional retail customers have faced increased and significant competition from online retailers, and some of these traditional retail customers have increasingly become a smaller portion of our business. If key retail customers continue to reduce their level of purchases, our business could be harmed.

Additionally, concentration and consolidation among our customer base may allow certain customers to command increased leverage in negotiating prices and other terms of sale, which could adversely affect our profitability. In addition, if, as a result of increased leverage, customer pressures require us to reduce our pricing such that our gross margins are diminished, we could decide not to sell our products to a particular customer, which could result in a decrease in our revenue. Consolidation among our customer base may also lead to reduced demand for our products, elimination of sales opportunities, replacement of our products with those of our competitors and cancellations of orders, each of which would harm our operating results. Consolidation among our service provider customers worldwide may also make it more difficult to grow our service provider business, given the fierce competition for the already limited number of service providers worldwide and the long sales cycles to close deals. If consolidation among our customer base becomes more prevalent, our operating results may be harmed.

We obtain several key components from limited or sole sources, and if these sources fail to satisfy our supply requirements or we are unable to properly manage our supply requirements with our third-party manufacturers, we may lose sales and experience increased component costs.

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

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

If we are unable to obtain a sufficient supply of components, or if we experience any interruption in the supply of components, our product shipments could be reduced or delayed or our cost of obtaining these components may increase. Component shortages and delays affect our ability to meet scheduled product deliveries, damage our brand and reputation in the market, and cause us to lose sales and market share. For example, component shortages and disruptions in supply in the past have limited our ability to supply all the worldwide demand for our products, and our revenue was affected. At times we have elected to use more expensive transportation methods, such as air freight, to make up for manufacturing delays caused by component shortages, which reduces our margins. In addition, at times sole suppliers of highly specialized components have provided components that were either defective or did not meet the criteria required by our customers, resulting in delays, lost revenue opportunities and potentially substantial write-offs.

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

We compete in a rapidly evolving and fiercely competitive market, and we expect competition to continue to be intense, including price competition. Our principal competitors in the home market for networking and Smart Home devices include Apple, Arris, ASUS, Belkin/Linksys, Devolo, D-Link, Eero, Google, Logitech, Luma, Nest Labs (owned by Google), Ring, Samsung, Swann, Synology, Symantec, TP-Link and Western Digital. Our principal competitors in the commercial business market include Allied Telesys, Barracuda, Buffalo, Cisco Systems, Dell, D-Link, Fortinet, Hewlett-Packard Enterprise, Huawei, QNAP Systems, Seagate Technology, SonicWall, Synology, TP-Link, Ubiquiti, WatchGuard and Western Digital. Our principal competitors in the broadband service provider market include Actiontec, Arcadyan, ARRIS, AVM, Compal Broadband, D-Link, Hitron, Huawei, Novatel Wireless (owned by TCL Corporation of China), Sagem, Scientific Atlanta (a Cisco Systems company), Sercomm, SMC Networks, TechniColor, TP-Link, Ubee, ZTE and ZyXEL. Other competitors include numerous local vendors such as Xiaomi in China, and Buffalo in Japan. In addition, these local vendors may target markets outside of their local regions and may increasingly compete with us in other regions worldwide. Our potential competitors also include other consumer electronics vendors, including LG Electronics, Microsoft, Panasonic, Sony, Toshiba and Vizio, who could integrate networking and streaming capabilities into their line of products, such as televisions, set top boxes and gaming consoles, and our channel customers who may decide to offer self-branded networking products. We also face competition from service providers who may bundle a free networking device with their broadband service offering, which would reduce our sales if we are not the supplier of choice to those service providers. In the service provider space, we are also facing significant and increased competition from original design manufacturers, or ODMs, and contract manufacturers who are selling and attempting to sell their products directly to service providers around the world.

Many of our existing and potential competitors have longer operating histories, greater name recognition and substantially greater financial, technical, sales, marketing and other resources. These competitors may, among other things, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, obtain more favorable pricing from suppliers and manufacturers, and exert more influence on sales channels than we can. In addition, certain competitors may have different business models, such as integrated manufacturing capabilities, that may allow them to achieve cost savings and to compete on the basis of price. Other competitors may have fewer resources, but may be more nimble in developing new or disruptive technology or in entering new markets. We anticipate that current and potential competitors will also intensify their efforts to penetrate our target markets. For example, price competition is intense in our industry in certain geographical regions and product categories. Many of our competitors in the service provider and retail spaces price their products significantly below our product costs in order to gain market share. Average sales prices have declined in the past and may again decline in the future. These competitors may have more advanced technology, more extensive distribution channels, stronger brand names, greater access to shelf space in retail locations, bigger promotional budgets and larger customer bases than we do. In addition, many of these competitors leverage a broader product portfolio and offer lower pricing as part of a more comprehensive end-to-end solution which we may not have. These companies could devote more capital resources to develop, manufacture and market competing products than we could. Our competitors may also acquire other companies in the market and leverage combined resources to gain market share. If any of these companies are successful in competing against us, our sales could decline, our margins could be negatively impacted and we could lose market share, any of which could seriously harm our business and results of operations.

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

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

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

- our reseller agreements generally do not require substantial minimum purchases;

- our customers can stop purchasing and our resellers can stop marketing our products at any time; and

- our reseller agreements generally are not exclusive.

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

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

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 amount of our products through broadband service providers worldwide. However, the service provider business is challenging and exceptionally competitive. Beginning in 2015, we undertook a reorganization of our service provider business unit to re-size the cost structure of this unit and to redeploy certain resources internally to focus on other initiatives. These reorganization efforts also sought to concentrate our resources on long-term and profitable accounts. The reorganization may not be successful in meeting these goals or the other challenges posed by the service provider channel. Difficulties and challenges in selling to service providers include a longer sales cycle, more stringent product testing and validation requirements, a higher level of customization demands, requirements that suppliers take on a larger share of the risk with respect to contractual business terms, competition from established suppliers, pricing pressure resulting in lower gross margins, and irregular and unpredictable ordering habits. For example, rigorous service provider certification processes may delay our sale of new products, or our products ultimately may fail these tests. In either event, we may lose some or all of the amounts we expended in trying to obtain business from the service provider, as well as lose the business opportunity altogether. In addition, even if we have a product which a service provider customer may wish to purchase, we may choose not to supply products to the potential service provider customer if the contract requirements, such as service level requirements, penalties, and liability provisions, are too onerous. Accordingly, our business may be harmed and our revenues may be reduced. We have, in exceptional limited circumstances, while still in contract negotiations, shipped products in advance of and subject to agreement on a definitive contract. We do not record revenue from these shipments until a definitive contract exists. There is risk that we do not ultimately close and sign a definitive contract. If this occurs, the timing of revenue recognition is uncertain and our business would be harmed. In addition, we often commence building custom-made products prior to execution of a contract in order to meet the customer's contemplated launch dates and requirements. Service provider products are generally custom-made for a specific customer and may not be salable to other customers or in other channels. If we have pre-built custom-made products but do not come to agreement on a definitive contract, we may be forced to scrap the custom-made products or re-work them at substantial cost and our business would be harmed.

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

Orders from service providers generally tend to be large but sporadic, which causes our revenues from them to fluctuate and challenges our ability to accurately forecast demand from them. In particular, managing inventory and production of our products for our service provider customers is a challenge. Many of our service provider customers have irregular purchasing requirements. These customers may decide to cancel orders for customized products specific to that customer, and we may not be able to reconfigure and sell those products in other channels. These cancellations could lead to substantial write-offs. In addition, these customers may issue unforecasted orders for products which we may not be able to produce in a timely manner and as such, we may not be able to accept and deliver on such unforecasted orders. In certain cases, we may commit to fixed-price, long term purchase orders, with such orders priced in foreign currencies which could lose value over time in the event of adverse changes in foreign exchange rates. Even if we are selected as a supplier, typically a service provider will also designate a second source supplier, which over time will reduce the aggregate orders that we receive from that service provider. Further, as the technology underlying our products deployed by broadband service providers matures and more competitors offer alternative products with similar technology, we anticipate competing in an extremely price sensitive market and our margins may be affected. If we are unable to introduce new products with sufficiently advanced technology to attract service provider interest in a timely manner, our service provider customers may then require us to lower our prices, or they may choose to purchase products from our competitors. If this occurs, our business would be harmed and our revenues would be reduced.

If we were to lose a service provider customer for any reason, we may experience a material and immediate reduction in forecasted revenue that may cause us to be below our net revenue and operating margin expectations for a particular period of 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. These particular challenges are a significant reason for the reduced service provider business unit revenue outlook that we have announced in recent quarters. 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 depend on a limited number of third-party manufacturers for substantially all of our manufacturing needs. If these third-party manufacturers experience any delay, disruption or quality control problems in their operations, we could lose market share and our brand may suffer.

All of our products are manufactured, assembled, tested and generally packaged by a limited number of third-party manufacturers, including original design manufacturers, or ODMs, and original equipment manufacturers, as well as contract manufacturers. In most cases, we rely on these manufacturers to procure components and, in some cases, subcontract engineering work. Some of our products are manufactured by a single manufacturer. For example, we currently rely on a single manufacturer for certain of our Arlo Smart security cameras. We do not have any long-term contracts with any of our third-party manufacturers. Some of these third-party manufacturers produce products for our competitors. Due to changing economic conditions, the viability of some of these third-party manufacturers may be at risk. Our ODMs are increasingly refusing to work with us on certain projects, such as projects for manufacturing products for our service provider customers. Because our service provider customers command significant resources, including for software support, and demand extremely competitive pricing, our ODMs are starting to refuse to engage on service provider terms. The loss of the services of any of our primary third-party manufacturers could cause a significant disruption in operations and delays in product shipments. Qualifying a new manufacturer and commencing volume production is expensive and time consuming. Ensuring that a contract manufacturer is qualified to manufacture our products to our standards is time consuming. In addition, there is no assurance that a contract manufacturer can scale its production of our products at the volumes and in the quality that we require. If a contract manufacturer is unable to do these things, we may have to move production for the products to a new or existing third party manufacturer which would take significant effort and our business may be harmed. In addition, as we contemplate moving manufacturing into different jurisdictions, we will be subject to additional significant challenges in ensuring that quality, processes and costs, among other issues, are consistent with our expectations. For example, while we expect our manufacturers to be responsible for penalties assessed on us because of excessive failures of the products, there is no assurance that we will be able to collect such reimbursements from these manufacturers, which causes us to take on additional risk for potential failures of our products.

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

- unexpected increases in manufacturing and repair costs;
- inability to control the quality and reliability of finished products;
- inability to control delivery schedules;
- potential liability for expenses incurred by third-party manufacturers in reliance on our forecasts that later prove to be inaccurate;
- potential lack of adequate capacity to manufacture all or a part of the products we require; and
- potential labor unrest affecting the ability of the third-party manufacturers to produce our products.

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

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

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

System security risks, data protection breaches and cyber-attacks could disrupt our products, services, internal operations or information technology systems, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

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

Maintaining the security of our computer information systems and communication systems is a critical issue for us and our customers. Malicious actors may develop and deploy viruses and other advanced persistent threats that are designed to attack our systems, including our internal network, or those of our vendors or customers. Additionally, outside parties may attempt to fraudulently induce our employees to disclose sensitive information in order to gain access to our information technology systems, our data or our customers' data. We have established a crisis management plan and business continuity program. While we regularly test the plan and the program, there can be no assurance that the plan and program can withstand an actual or serious disruption in our business, including a data protection breach or cyber-attack. While we have established infrastructure and geographic redundancy for our critical systems, our ability to utilize these redundant systems requires further testing and we cannot be assured that such systems are fully functional. For example, much of our order fulfillment process is automated and the order information is stored on our servers. A significant business interruption could result in losses or damages and harm our business. If our computer systems and servers go down at the end of a fiscal quarter, our ability to recognize revenue may be delayed until we are able to utilize back-up systems and continue to process and ship our orders. This could cause our stock price to decline significantly.

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

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

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

We hedge our exposure to fluctuations in foreign currency exchange rates as a response to the risk of changes in the value of foreign currency-denominated assets and liabilities. We may enter into foreign currency forward contracts or other instruments, the majority of which mature within approximately five months. Our foreign currency forward contracts reduce, but do not eliminate, the impact of currency exchange rate movements. For example, we do not execute forward contracts in all currencies in which we conduct business. In addition, we hedge to reduce the impact of volatile exchange rates on net revenue, gross profit and operating profit for limited periods of time. However, the use of these hedging activities may only offset a portion of the adverse financial effect resulting from unfavorable movements in foreign exchange rates.

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

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

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

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

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

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

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

Traditional retailers have limited shelf space and promotional budgets, and competition is intense for these resources. If the networking sector does not experience sufficient growth, retailers may choose to allocate more shelf space to other consumer product sectors. A competitor with more extensive product lines and stronger brand identity may have greater bargaining power with these retailers. Any reduction in available shelf space or increased competition for such shelf space would require us to increase our marketing expenditures simply to maintain current levels of retail shelf space, which would harm our operating margin. Our traditional retail customers have faced increased and significant competition from online retailers. If we cannot effectively manage our business amongst our online customers and traditional retail customers, our business would be harmed. The recent trend in the consolidation of online retailers and DMR channels has resulted in intensified competition for preferred product placement, such as product placement on an online retailer's Internet home page. Expanding our presence in the VAR channel may be difficult and expensive. We compete with established companies that have longer operating histories and longstanding relationships with VARs that we would find highly desirable as sales channel partners. In addition, our efforts to realign or consolidate our sales channels may cause temporary disruptions in our product sales and revenue, and these changes may not result in the expected longer-term benefits.

We also sell products to broadband service providers. Competition for selling to broadband service providers is fierce and intense. Penetrating service provider accounts typically involves a long sales cycle and the challenge of displacing incumbent suppliers with established relationships and field-deployed products. If we are unable to maintain and expand our sales channels, our growth would be limited and our business would be harmed.

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

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

Our future success depends in large part upon the continued services of our key technical, sales, marketing, finance and senior management personnel. In particular, the services of Patrick C.S. Lo, our Chairman and Chief Executive Officer, who has led our company since its inception, are very important to our business. We do not maintain any key person life insurance policies. Our business model requires extremely skilled and experienced senior management who are able to withstand the rigorous requirements and expectations of our business. Our success depends on senior management being able to execute at a very high level. The loss of any of our senior management or other key research, development, sales or marketing personnel, particularly if lost to competitors, could harm our ability to implement our business strategy and respond to the rapidly changing needs of our business. While we have adopted an emergency succession plan for the short term, we have not formally adopted a long term succession plan. As a result, if we suffer the loss of services of any key executive, our long term business results may be harmed. While we believe that we have mitigated some of the business execution and business continuity risk with our reorganization into three business units, the loss of any key personnel would still be disruptive and harm our business, especially given that our business is leanly staffed and relies on the expertise and high performance of our key personnel. In addition, because we do not have a formal long term succession plan, we may not be able to have the proper personnel in place to effectively execute our long term business strategy if Mr. Lo or other key personnel retire, resign or are otherwise terminated.

Global economic conditions could materially adversely affect our revenue and results of operations.

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

In the recent past, slow economic growth throughout various regions worldwide, especially in Europe, presented significant challenges to our business. In addition, current economic challenges in China, including any global economic ramifications of these challenges, may continue to put negative pressure on global economic conditions. If conditions in the global economy, including Europe, China, Australia and the United States, or other key vertical or geographic markets remain uncertain or deteriorate further, such conditions could have a material adverse impact on our business, operating results and financial condition. If we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, which could materially adversely affect our business and results of operations.

In addition, the economic problems affecting the financial markets and the uncertainty in global economic conditions resulted in a number of adverse effects including a low level of liquidity in many financial markets, extreme volatility in credit, equity, currency and fixed income markets, instability in the stock market and high unemployment. For example, the challenges faced by the European Union to stabilize some of its member economies, such as Greece, Portugal, Spain, Hungary and even Italy, have had international implications affecting the stability of global financial markets and hindering economies worldwide. Many member nations in the European Union have been addressing the issues with controversial austerity measures. In addition, the potential consequences of the "Brexit" process in the United Kingdom have led to significant uncertainty in the region. Should the European Union monetary policy measures be insufficient to restore confidence and stability to the financial markets, or should the United Kingdom's "Brexit" decision lead to additional economic or political instability, the recovery of the global economy, including the U.S. and European Union economies where we have a significant presence, could be hindered or reversed, which could have a material adverse effect on us. There could also be a number of other follow-on effects from these economic developments and negative economic trends on our business, including the inability of customers to obtain credit to finance purchases of our products; customer insolvencies; decreased customer confidence to make purchasing decisions; decreased customer demand; and decreased customer ability to pay their trade obligations.

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

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

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

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our effective tax rate has fluctuated in the past and may fluctuate in the future. Future effective tax rates could be affected by changes in the composition of earnings in countries with differing tax rates, changes in deferred tax assets and liabilities, or changes in tax laws. Numerous foreign jurisdictions have been influenced by the OECD's (Organization of Economic Cooperation and Development) issuance of its Base Erosion and Profit Shifting (BEPS) Report that is comprised of 15 comprehensive actions intended to address tax base erosion and jurisdictional profit shifting within multinational corporations. The OECD has encouraged all countries to adopt minimum standards that would result in more transparency and consistency in intercompany transactions. Many countries continue to evaluate and modify their tax laws in light of BEPS as well as increase the volume of tax audits of multinational corporations. Changes in tax laws could affect the distribution of our earnings, result in double taxation and adversely affect our results.

We have been audited by the Italian Tax Authority (ITA) for the 2004 through 2012 tax years. The ITA examination included an audit of income, gross receipts and value-added taxes. Currently, we are in litigation with the ITA for the 2004 through 2012 years. If we are unsuccessful in defending our tax positions, our profitability will be reduced.

We are also subject to examination by the Internal Revenue Service, or IRS, and other tax authorities, including state revenue agencies and other foreign governments. The IRS recently commenced an audit of the tax year ended December 31, 2014. While we regularly assess the likelihood of favorable or unfavorable outcomes resulting from examinations by the IRS and other tax authorities to determine the adequacy of our provision for income taxes, there can be no assurance that the actual outcome resulting from these examinations will not materially adversely affect our financial condition and operating results. Additionally, the IRS and several foreign tax authorities have increasingly focused attention on intercompany transfer pricing with respect to sales of products and services and the use of intangibles. Tax authorities could disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. If we do not prevail in any such disagreements, our profitability may be affected.

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

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

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

International sales comprise a significant amount of our overall net revenue. International sales were approximately 36% of overall net revenue in fiscal year 2016 and approximately 40% in fiscal year 2015. We continue to be committed to growing our international sales, and while we have committed resources to expanding our international operations and sales channels, these efforts may not be successful. International operations are subject to a number of other risks, including:

- exchange rate fluctuations;
- political and economic instability, international terrorism and anti-American sentiment, particularly in emerging markets;
- potential for violations of anti-corruption laws and regulations, such as those related to bribery and fraud;
- preference for locally branded products, and laws and business practices favoring local competition;
- potential consequences of, and uncertainty related to, the "Brexit" process in the United Kingdom, which could lead to additional expense and complexity in doing business there;
- increased difficulty in managing inventory;
- delayed revenue recognition;
- less effective protection of intellectual property;
- stringent consumer protection and product compliance regulations, including but not limited to the Restriction of Hazardous Substances directive, the Waste Electrical and Electronic Equipment directive and the European Ecodesign directive, or EuP, that are costly to comply with and may vary from country to country;
- difficulties and costs of staffing and managing foreign operations;
- business difficulties, including potential bankruptcy or liquidation, of any of our worldwide third party logistics providers; and
- changes in local tax and customs duty laws or changes in the enforcement, application or interpretation of such laws.

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

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

Our products are complex and may contain defects, errors or failures, particularly when first introduced or when new versions are released. The industry standards upon which many of our products are based are also complex, experience change over time and may be interpreted in different manners. Some errors and defects may be discovered only after a product has been installed and used by the end-user.

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

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

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

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

Software research and development is complex. We must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. We must accurately forecast mixes of software solutions and configurations that meet customer requirements, and we may not succeed at doing so within a given product's life cycle or at all. Any delay in the development, production or marketing of a new software solution could result in us not being among the first to market, which could further harm our competitive position. In addition, our regular testing and quality control efforts may not be effective in controlling or detecting all quality issues and defects. We may be unable to determine the cause, find an appropriate solution or offer a temporary fix to address defects. Finding solutions to quality issues or defects can be expensive and may result in additional warranty, replacement and other costs, adversely affecting our profits. If new or existing customers have difficulty with our software solutions or are dissatisfied with our services, our operating margins could be adversely affected, and we could face possible claims if we fail to meet our customers' expectations. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our brand and reputation, which could adversely affect our operating results.

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

From time to time, we will undertake acquisitions to add new product lines and technologies, gain new sales channels or enter into new sales territories. For example, on November 30, 2016 we acquired Placemeter, Inc., a leader in computer vision analytics, to enhance our Arlo product and service offerings. Additionally in April 2013, we closed the acquisition of the AirCard business of Sierra Wireless, Inc., which was our largest acquisition, both in terms of consideration and headcount. Acquisitions involve numerous risks and challenges, including but not limited to the following:

- integrating the companies, assets, systems, products, sales channels and personnel that we acquire;
- higher than anticipated acquisition and integration costs and expenses;
- reliance on third parties to provide transition services for a period of time after closing to ensure an orderly transition of the business;
- growing or maintaining revenues to justify the purchase price and the increased expenses associated with acquisitions;

- entering into territories or markets with which we have limited or no prior experience;
- establishing or maintaining business relationships with customers, vendors and suppliers who may be new to us;
- overcoming the employee, customer, vendor and supplier turnover that may occur as a result of the acquisition;
- disruption of, and demands on, our ongoing business as a result of integration activities including diversion of management's time and attention from running the day to day operations of our business;
- inability to implement uniform standards, disclosure controls and procedures, internal controls over financial reporting and other procedures and policies in a timely manner;
- inability to realize the anticipated benefits of or successfully integrate with our existing business the businesses, products, technologies or personnel that we acquire; and
- potential post-closing disputes.

As part of undertaking an acquisition, we may also significantly revise our capital structure or operational budget, such as issuing common stock that would dilute the ownership percentage of our stockholders, assuming liabilities or debt, utilizing a substantial portion of our cash resources to pay for the acquisition or significantly increasing operating expenses. Our acquisitions have resulted and may in the future result in charges being taken in an individual quarter as well as future periods, which results in variability in our quarterly earnings. In addition, our effective tax rate in any particular quarter may also be impacted by acquisitions. Following the closing of an acquisition, we may also have disputes with the seller regarding contractual requirements and covenants. Any such disputes may be time consuming and distract management from other aspects of our business. In addition, if we increase the pace or size of acquisitions, we will have to expend significant management time and effort into the transactions and the integrations and we may not have the proper human resources bandwidth to ensure successful integrations and accordingly, our business could be harmed.

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

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

We are subject to, and must remain in compliance with, numerous laws and governmental regulations concerning the manufacturing, use, distribution and sale of our products, as well as any such future laws and regulations. Some of our customers also require that we comply with their own unique requirements relating to these matters. Any failure to comply with such laws, regulations and requirements, and any associated unanticipated costs, may adversely affect our business, financial condition and results of operations.

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

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

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

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

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

The networking industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding infringement of patents, trade secrets and other intellectual property rights. In particular, leading companies in the data communications markets, some of which are our competitors, have extensive patent portfolios with respect to networking technology. From time to time, third parties, including these leading companies, have asserted and may continue to assert exclusive patent, copyright, trademark and other intellectual property rights against us demanding license or royalty payments or seeking payment for damages, injunctive relief and other available legal remedies through litigation. These also include third-party non-practicing entities who claim to own patents or other intellectual property that cover industry standards that our products comply with. If we are unable to resolve these matters or obtain licenses on acceptable or commercially reasonable terms, we could be sued or we may be forced to initiate litigation to protect our rights. The cost of any necessary licenses could significantly harm our business, operating results and financial condition. We may also choose to join defensive patent aggregation services in order to prevent or settle litigation against such non-practicing entities and avoid the associated significant costs and uncertainties of litigation. These patent aggregation services may obtain, or have previously obtained, licenses for the alleged patent infringement claims against us and other patent assets that could be used offensively against us. The costs of such defensive patent aggregation services, while potentially lower than the costs of litigation, may be significant as well. At any time, any of these non-practicing entities, or any other third-party could initiate litigation against us, or we may be forced to initiate litigation against them, which could divert management attention, be costly to defend or prosecute, prevent us from using or selling the challenged technology, require us to design around the challenged technology and cause the price of our stock to decline. In addition, third parties, some of whom are potential competitors, have initiated and may continue to initiate litigation against our manufacturers, suppliers, members of our sales channels or our service provider customers or even end user customers, alleging infringement of their proprietary rights with respect to existing or future products. In the event successful claims of infringement are brought by third parties, and we are unable to obtain licenses or independently develop alternative technology on a timely basis, we may be subject to indemnification obligations, be unable to offer competitive products, or be subject to increased expenses. Finally, consumer class-action lawsuits related to the marketing and performance of our home networking products have been asserted and may in the future be asserted against us. For additional information regarding certain of the lawsuits in which we are involved, see the information set forth under Note 8, *Commitments and Contingencies,* in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K. If we do not resolve these claims on a favorable basis, our business, operating results and financial condition could be significantly harmed.

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

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

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting. Such report must contain among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. From time to time, we conduct internal investigations as a result of whistleblower complaints. In some instances, the whistleblower complaint may implicate potential areas of weakness in our internal controls. Although all known material weaknesses have been remediated, we cannot be certain that the measures we have taken ensure that restatements will not occur in the future. Execution of restatements create a significant strain on our internal resources and could cause delays in our filing of quarterly or annual financial results, increase our costs and cause management distraction. Restatements may also significantly affect our stock price in an adverse manner.

Continued performance of the system and process documentation and evaluation needed to comply with Section 404 is both costly and challenging. During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective. If we are unable to assert that our internal control over financial reporting is effective as of the end of a fiscal year or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which may have an adverse effect on our stock price.

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

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

The transportation network is subject to disruption or congestion from a variety of causes, including labor disputes or port strikes, acts of war or terrorism, natural disasters and congestion resulting from higher shipping volumes. Labor disputes among freight carriers and at ports of entry are common, particularly in Europe, and we expect labor unrest and its effects on shipping our products to be a continuing challenge for us. A port worker strike, work slow-down or other transportation disruption in Long Beach, California, where we have a significant distribution center, could significantly disrupt our business. For example, a series of work stoppages and slow-downs arising from labor disputes at the Long Beach port and other West Coast ports, particularly in the first quarter of 2015, negatively impacted our ability to timely deliver certain product shipments to the United States and resulted in additional transportation expense. Our international freight is regularly subjected to inspection by governmental entities. If our delivery times increase unexpectedly for these or any other reasons, our ability to deliver products on time would be materially adversely affected and result in delayed or lost revenue as well as customer imposed penalties. In addition, if increases in fuel prices occur, our transportation costs would likely increase. Moreover, the cost of shipping our products by air freight is greater than other methods. From time to time in the past, we have shipped products using extensive air freight to meet unexpected spikes in demand, shifts in demand between product categories, to bring new product introductions to market quickly and to timely ship products previously ordered. If we rely more heavily upon air freight to deliver our products, our overall shipping costs will increase. A prolonged transportation disruption or a significant increase in the cost of freight could severely disrupt our business and harm our operating results.

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

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

In the past, there have been bankruptcies amongst our customer base, and certain of our customers' businesses face financial challenges that put them at risk of future bankruptcies. For example, our customer RadioShack Corp. filed for Chapter 11 bankruptcy protection in 2015. Although losses resulting from customer bankruptcies have not been material to date, any future bankruptcies could harm our business and have a material adverse effect on our operating results and financial condition. To the degree that turmoil in the credit markets makes it more difficult for some customers to obtain financing, our customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

Expansion of our operations and infrastructure may strain our operations and increase our operating expenses.

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

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

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

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

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

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

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

We also utilize third-party software development companies to develop, customize, maintain and support software that is incorporated into our products. If these companies fail to timely deliver or continuously maintain and support the software, as we require of them, we may experience delays in releasing new products or difficulties with supporting existing products and customers. In addition, if these third-party licensors fail or experience instability, then we may be unable to continue to sell products that incorporate the licensed technologies in addition to being unable to continue to maintain and support these products. We do require escrow arrangements with respect to certain third-party software which entitle us to certain limited rights to the source code, in the event of certain failures by the third party, in order to maintain and support such software. However, there is no guarantee that we would be able to understand and use the source code, as we may not have the expertise to do so. We are increasingly exposed to these risks as we continue to develop and market more products containing third-party software, such as our TV connectivity, security and network attached storage products.

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

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

Political events, war, terrorism, public health issues, natural disasters, sudden changes in trade and immigration policies, and other circumstances could materially adversely affect us.

Our corporate headquarters are located in Northern California and one of our warehouses is located in Southern California, both of which are regions known for seismic activity. Substantially all of our critical enterprise-wide information technology systems, including our main servers, are currently housed in colocation facilities in Mesa, Arizona. While our critical information technology systems are located at colocation facilities in a different geographic region in the United States, our headquarters and warehouses remain susceptible to seismic activity so long as they are located in California. In addition, substantially all of our manufacturing occurs in two geographically concentrated areas in mainland China, where disruptions from natural disasters, health epidemics and political, social and economic instability may affect the region. If our manufacturers or warehousing facilities are disrupted or destroyed, we would be unable to distribute our products on a timely basis, which could harm our business.

In addition, war, terrorism, geopolitical uncertainties, public health issues, sudden changes in trade and immigration policies, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a strong negative effect on us, our suppliers, logistics providers, manufacturing vendors and customers. Our business operations are subject to interruption by natural disasters, fire, power shortages, terrorist attacks and other hostile acts, labor disputes, public health issues, and other events beyond our control. For example, labor disputes at manufacturing facilities in China have led to workers going on strike, and labor unrest could materially affect our third-party manufacturers' abilities to manufacture our products.

Such events could decrease demand for our products, make it difficult or impossible for us to make and deliver products to our customers or to receive components from our suppliers, and create delays and inefficiencies in our supply chain. Should major public health issues, including pandemics, arise, we could be negatively affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products, and disruptions in the operations of our manufacturing vendors and component suppliers.

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

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

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

Although we have not recognized any material losses on our cash equivalents and short-term investments, future declines in their market values could have a material adverse effect on our financial condition and operating results. Given the global nature of our business, we have investments with both domestic and international financial institutions. Accordingly, we face exposure to fluctuations in interest rates, which may limit our investment income. If these financial institutions default on their obligations or their credit ratings are negatively impacted by liquidity issues, credit deterioration or losses, financial results, or other factors, the value of our cash equivalents and short-term investments could decline and result in a material impairment, which could have a material adverse effect on our financial condition and operating results.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our principal administrative, sales, marketing and research and development facilities currently occupy approximately 142,700 square feet in an office complex in San Jose, California, under a lease that expires in September 2025.

Our international headquarters occupy approximately 10,000 square feet in an office complex in Cork, Ireland, under a lease that expires in December 2026. Our international sales personnel are based out of local sales offices or home offices in Austria, Australia, Belgium, Canada, China, Denmark, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Korea, Poland, Russia, Singapore, Spain, Sweden, Switzerland, the Netherlands, the United Arab Emirates, and the United Kingdom. We also have operations personnel using a leased facility in Hong Kong and Suzhou and utilizes the Guangzhou branch office in conjunction with an office in Tangxia. We also maintain research and development facilities in Carlsbad (US), Beijing and Nanjing (China), Richmond B.C. (Canada), and in Taipei (Taiwan). From time to time we consider various alternatives related to our long-term facilities needs. While we believe our existing facilities provide suitable space for our operations and are adequate to meet our immediate needs, it may be necessary to lease additional space to accommodate future growth. We have invested in internal capacity and strategic relationships with outside manufacturing vendors as needed to meet anticipated demand for our products.

We use third parties to provide warehousing services to us, consisting of facilities in Southern California, Australia, Hong Kong and the Netherlands.

Item 3. *Legal Proceedings*

The information set forth under the heading "Litigation and Other Legal Matters" in Note 8, *Commitments and Contingencies* , in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, is incorporated herein by reference. For additional discussion of certain risks associated with legal proceedings, see Item 1A, *Risk Factors* .

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

Our common stock is publicly traded on the Nasdaq Global Select Market ("Nasdaq") under the symbol "NTGR". The following table sets forth for the indicated periods the high and low intraday sales prices for our common stock on the Nasdaq. Such information reflects interdealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

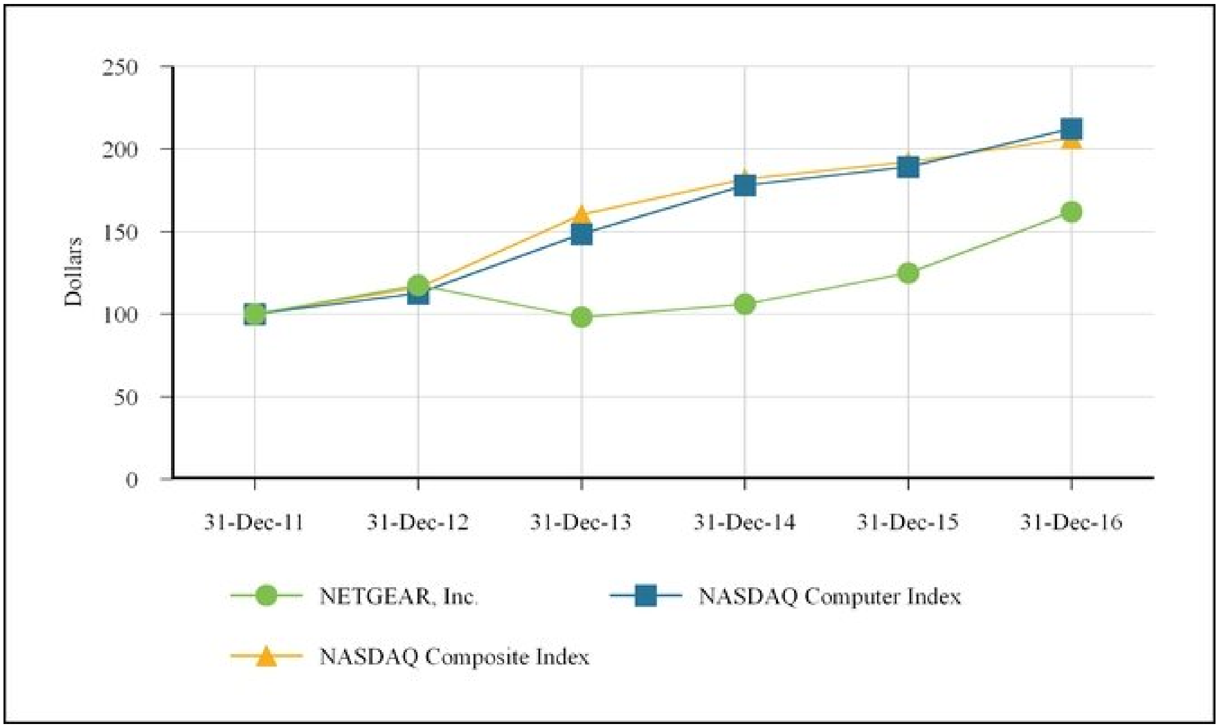
Fiscal Year Ended December 31, 2016	High	Low
First Quarter	$ 41.30	$ 33.39
Second Quarter	48.80	38.25
Third Quarter	60.82	46.94
Fourth Quarter	60.25	48.35

Fiscal Year Ended December 31, 2015	High	Low
First Quarter	$ 36.34	$ 29.81
Second Quarter	34.25	29.20
Third Quarter	34.96	28.12
Fourth Quarter	45.76	28.52

Company Performance

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, the following information relating to the price performance of our common stock shall not be deemed "filed" with the SEC or "soliciting material" under the Exchange Act and shall not be incorporated by reference into any such filings.

The following graph shows a comparison from December 31, 2011 through December 31, 2016 of cumulative total return for our common stock, the Nasdaq Composite Index and the Nasdaq Computer Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the Nasdaq Composite Index and the Nasdaq Computer Index assume reinvestment of dividends. We have never paid dividends on our common stock and have no present plans to do so.



Holders of Common Stock

On February 21, 2017, there were 21 stockholders of record.

The number of record holders is based upon the actual number of holders registered on our books at such date and does not include holders of shares in "street names" or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depository trust companies.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. We do not anticipate paying cash dividends in the foreseeable future.

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
October 3, 2016 - October 30, 2016	42,408	$	50.32	42,408	1,592,548
October 31, 2016 - November 27, 2016	260,361	$	50.15	256,570	1,335,978
November 28, 2016 - December 31, 2016	2,436	$	53.89	—	1,335,978
Total	305,205	$	50.20	298,978	

(1) On October 21, 2008, October 17, 2014 and July 21, 2015, the Company's Board of Directors authorized management to repurchase up to 6.0 million, 3.0 million and 3.0 million shares of the Company's outstanding common stock, respectively, which, at the time of authorization, were incremental to the remaining shares under the share repurchase programs. Under the authorizations, the Company may repurchase shares of its common stock, depending on market conditions, in the open market or through privately negotiated transactions. 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. During the three months ended December 31, 2016, we repurchased and retired, reported based on trade date, approximately 0.3 million shares of common stock at a cost of $15.0 million under this authorization.

(2) During the three months ended December 31, 2016, we repurchased and retired, as reported on trade date, approximately 6,000 shares of common stock at a cost of $0.3 million to help facilitate tax withholding for RSUs.

Refer to Note 9, *Stockholders' Equity* , in Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for more information regarding our stock repurchase programs.

Recent Sales of Unregistered Securities

None.

Item 6. ***Selected Financial Data***

The following selected consolidated financial data are qualified in their entirety, and should be read in conjunction with, the consolidated financial statements and related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K.

We derived the selected consolidated statements of operations data for the years ended December 31, 2016 , 2015 and 2014 and the selected consolidated balance sheets data as of December 31, 2016 and 2015 from our audited consolidated financial statements appearing elsewhere in this Form 10-K. We derived the selected consolidated statements of operations data for the years ended December 31, 2013 and 2012 and the selected consolidated balance sheets data as of December 31, 2014 , 2013 and 2012 from our audited consolidated financial statements, which are not included in this Form 10-K. Historical results are not necessarily indicative of results to be expected for future periods.

Consolidated Statements of Operations Data:

	Year Ended December 31,				
	2016 (1)	2015 (1)	2014 (1)	2013 (1)	2012
	(In thousands, except per share data)				
Net revenue	$ 1,328,298	$ 1,300,695	$ 1,393,515	$ 1,369,633	$ 1,271,921
Cost of revenue (3)	916,113	933,016	995,597	976,018	888,368
Gross profit	412,185	367,679	397,918	393,615	383,553
Operating expenses:					
Research and development (3)	89,367	86,499	90,902	85,168	61,066
Sales and marketing (3)	150,355	146,794	157,017	153,804	149,766
General and administrative (3)	54,482	45,313	46,552	48,915	45,027
Restructuring and other charges	3,881	6,398	2,209	5,335	1,190
Litigation reserves, net	73	(2,682)	(1,011)	5,354	390
Goodwill impairment charges	—	—	74,196	—	—
Intangibles impairment charges	—	—	—	2,000	—
Total operating expenses	298,158	282,322	369,865	300,576	257,439
Income from operations	114,027	85,357	28,053	93,039	126,114
Interest income	1,163	295	253	400	498
Other income (expense), net	(121)	(88)	2,455	(457)	2,670
Income before income taxes	115,069	85,564	30,761	92,982	129,282
Provision for income taxes	39,218	36,980	21,973	37,765	42,743
Net income	$ 75,851	$ 48,584	$ 8,788	$ 55,217	$ 86,539
Net income per share:					
Basic (2)	$ 2.32	$ 1.47	$ 0.25	$ 1.44	$ 2.27
Diluted (2)	$ 2.25	$ 1.44	$ 0.24	$ 1.42	$ 2.23

(1) Includes the impact of AirCard acquisition that occurred in April 2013.

(2) Information regarding calculation of per share data is described in Note 5, *Net Income Per Share* , in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

(3) Stock-based compensation expense was allocated as follows:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Cost of revenue	$ 1,740	$ 1,566	$ 2,037	$ 1,577	$ 1,347
Research and development	4,075	3,451	4,916	3,943	2,787
Sales and marketing	5,065	5,022	6,168	5,379	4,751
General and administrative	8,069	6,786	6,893	6,563	5,487

Consolidated Balance Sheets Data:

	As of December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Cash, cash equivalents and short-term investments	$ 365,982	$ 278,266	$ 257,129	$ 248,154	$ 376,877
Working capital	$ 606,132	$ 505,371	$ 518,849	$ 500,028	$ 603,279
Total assets	$ 1,184,456	$ 1,050,569	$ 1,048,687	$ 1,093,930	$ 1,034,569
Total current liabilities	$ 356,653	$ 315,772	$ 304,116	$ 300,083	$ 260,930
Total non-current liabilities	$ 30,984	$ 26,087	$ 23,006	$ 20,064	$ 19,028
Total stockholders' equity	$ 796,819	$ 708,710	$ 721,565	$ 773,783	$ 754,611

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

You should read the following discussion of our financial condition and results of operations together with the audited consolidated financial statements and notes to the financial statements included elsewhere in this Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed under "Risk Factors" in Part I, Item 1A above.

Business and Executive Overview

We are a global company that designs, develops and markets innovative networking solutions and smart connected products for consumers, businesses and service providers. Our products are built on a variety of proven technologies such as wireless (WiFi and LTE), Ethernet and powerline, with a focus on reliability and ease-of-use. Our product line consists of wired and wireless devices that enable networking, broadband access and network connectivity. These products are available in multiple configurations to address the needs of our end-users in each geographic region in which our products are sold.

We operate in three specific business segments: retail, commercial, and service provider. We believe this structure enables us to better focus our efforts on our core customer segments and allows us to be more nimble and opportunistic as a company overall. Each business unit contains leadership focused on the product development efforts, both from a product marketing and engineering standpoint, to service the unique needs of these customer segments. The retail business unit is focused on individual consumers and consists of high performance, dependable and easy-to-use whole home WiFi networking solutions and Smart connected products. The commercial business unit is focused on small and medium-sized businesses and consists of business networking, storage and security solutions that bring enterprise class functionality down to small and medium-sized businesses at an affordable price. The service provider business unit is focused on the service provider market and consists of made-to-order and retail-proven whole home networking hardware and software solutions, including 4G LTE hotspots sold to service providers for sale to their subscribers. We conduct business across three geographic regions: Americas; Europe, Middle-East and Africa ("EMEA") and Asia Pacific ("APAC").

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

We sell our networking products through multiple sales channels worldwide, including traditional retailers, online retailers, wholesale distributors, direct market resellers ("DMRs"), value-added resellers ("VARs"), and broadband service providers. Our retail channel includes traditional retail locations domestically and internationally, such as Best Buy, Costco, Fry's Electronics, Staples, Target, Wal-Mart, Argos (U.K.), Dixons (U.K.), PC World (U.K.), MediaMarkt (Europe), Darty (France), JB HiFi (Australia), Elkjop (Norway) and Sunning and Guomei (China). Online retailers include Amazon.com worldwide, Newegg.com (US), JD.com and Alibaba (China), as well as NBB.com (Germany) and Coolblue.com (Netherlands). Our DMRs include CDW Corporation, Insight Corporation and PC Connection in domestic markets and Misco throughout Europe. In addition, we also sell our products through broadband service providers, such as multiple system operators ("MSOs"), xDSL, and other broadband technology operators domestically and internationally. Some of these retailers and broadband service providers purchase directly from us, while others are fulfilled through wholesale distributors around the world. A substantial portion of our net revenue to date has been derived from a limited number of wholesale distributors and retailers. We expect that these wholesale distributors and retailers will continue to contribute a significant percentage of our net revenue for the foreseeable future.

On November 30, 2016, we completed the acquisition of certain intellectual property and other assets of Placemeter, Inc. at a purchase price of approximately $9.6 million. The acquisition qualified as a business acquisition and was accounted for using the acquisition method of accounting. We believe the acquisition will bolster our Smart Device product offerings, strengthen our internal capabilities in image analytics and machine learning and contribute to retail business net revenue growth. For further detail, refer to Note 2, *Business Acquisition,* in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

We experienced an increase of 2.1% in net revenue during the year ended December 31, 2016 , driven by a 19.9% increase in our combined retail and commercial business net revenue, which was mainly offset by a reduction in service provider net revenue. Retail net revenue increased compared to the prior year due primarily to an increase in gross shipments of home security cameras, broadband gateways and home wireless products. End user demand for our premium range of retail products, such as Arlo cameras, Nighthawk home networking products and the recently introduced Orbi WiFi system, continues to be robust. Commercial net revenue increased compared to the prior year due primarily to increased gross shipments of switches, partially offset by a reduction in gross shipments of network storage products. Service provider net revenue decreased compared to the prior year due primarily to a reduction in gross shipments of broadband gateways, mobile, and home wireless products. As previously announced, we took steps to restructure the service provider business unit in the first and second quarter of 2015 and again in the first quarter of 2016. The actions were taken to bring expenses in line with the reduced revenue outlook and to concentrate resources on LTE Advanced and long-term profitable accounts. On a geographic basis, net revenue increased in the Americas and, to a lesser extent, in APAC, partially offset by a decline in EMEA. The increase in the Americas was driven primarily by an increase in gross shipments of our home security cameras, broadband gateway products and switches, partially offset by a decrease in gross shipments of our mobile products. The increase in APAC was driven primarily by an increase in gross shipments of broadband gateways, home wireless, home security camera products and switches, partially offset by a reduction in gross shipments of our mobile and network storage products. The decline in EMEA was primarily attributable to a reduction of gross shipments of broadband gateways, network storage and home wireless products, partially offset by an increase in home security cameras and switches.

Looking forward, we expect growth in our retail business unit mainly driven by increasing demand for our Smart connected products, broadband gateways and home WiFi systems. We expect growth in our commercial business unit driven by the sales of our 10Gig, PoE, and web-managed switches and rackmount storage products. We also expect approximately $55 million per quarter revenue run rate for the service provider business unit in 2017 as we continue to remain focused on improving profitability.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). The preparation of these financial statements requires management to make assumptions, judgments and estimates that can have a significant impact on the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. Actual results could differ significantly from these estimates. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. On a regular basis we evaluate our assumptions, judgments and estimates and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of the Board of Directors. Note 1, *The Company and Summary of Significant Accounting Policies* , in Notes to Consolidated Financial Statements of this Annual Report on Form 10-K describes the significant accounting policies used in the preparation of the consolidated financial statements. We have listed below our critical accounting policies that we believe to have the greatest potential impact on our consolidated financial statements. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

Revenue Recognition

Revenue from product sales is generally recognized at the time the product is shipped provided that persuasive evidence of an arrangement exists, title and risk of loss has transferred to the customer, the selling price is fixed or determinable and collection of the related receivable is reasonably assured. Currently, for some of our customers, title passes to the customer upon delivery to the port or country of destination, upon their receipt of the product, or upon the customer's resale of the product. At the end of each fiscal quarter, we estimate and defer revenue related to product where title has not transferred. The revenue continues to be deferred until such time that title passes to the customer. We assess collectability based on a number of factors, including general economic and market conditions, past transaction history with the customer, and the creditworthiness of the customer. If we determine that collection is not reasonably assured, then revenue is deferred until receipt of the payment from the customer.

We have product offerings with multiple elements. Our multiple-element product offerings include hardware with free services, networking hardware with embedded software, various software subscription services, and support, which are considered separate units of accounting. In general, the hardware and networking hardware with embedded software are delivered up front, while the free services are delivered over the stated service period, or the estimated useful life, while the subscription services and support are delivered over the subscription and support period. We allocate revenue to the deliverables based upon their relative selling price. Revenue allocated to each unit of accounting is then recognized when persuasive evidence of an arrangement exists, title and risk of loss has transferred to the customer, the selling price is fixed or determinable and collection of the related receivable is reasonably assured.

When applying the relative selling price method, we determine the selling price for each deliverable using vendor-specific objective evidence ("VSOE") of fair value of the deliverable, or when VSOE of fair value is unavailable, its best estimate of selling price (“ESP”), as we have determined it is unable to establish third-party evidence of selling price for the deliverables. In determining VSOE, we require that a substantial majority of the selling prices for a deliverable sold on a stand-alone basis fall within a reasonably narrow pricing range, generally evidenced by approximately 80% of such historical stand-alone transactions falling within +/-15% of the median price. We determine ESP for a deliverable by considering multiple factors including, but not limited to, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. The objective of ESP is to determine the price at which we would transact a sale if the deliverable were sold on a stand-alone basis. The determination of ESP is made through consultation with and formal approval by our management, taking into consideration the go-to-market strategy.

We have not made any material changes in the accounting methodology we use to estimate deferred revenue related to product where title has not transferred. Our estimated deferred revenue can vary from actual results and we may have to record additional deferred revenue, which could materially impact our financial position and results of operations.

Allowances for Warranty Obligations, Returns due to Stock Rotation, Sales Incentives and Doubtful Accounts

Our standard warranty obligation to our direct customers generally provides for a right of return of any product for a full refund in the event that such product is not merchantable or is found to be damaged or defective. At the time revenue is recognized, an estimate of future warranty returns is recorded to reduce revenue in the amount of the expected credit or refund to be provided to our direct customers. At the time we record the reduction to revenue related to warranty returns, we include within cost of revenue a write-down to reduce the carrying value of such products to net realizable value. Our standard warranty obligation to end-users provides for replacement of a defective product for one or more years. Factors that affect the warranty obligation include product failure rates, material usage, and service delivery costs incurred in correcting product failures. The estimated cost associated with fulfilling the warranty obligation to end-users is recorded in cost of revenue. Because our products are manufactured by third-party manufacturers, in certain cases we have recourse to the third-party manufacturer for replacement or credit for the defective products. We give consideration to amounts recoverable from our third-party manufacturers in determining our warranty liability. Our estimated allowances for product warranties can vary from actual results and we may have to record additional revenue reductions or charges to cost of revenue, which could materially impact our financial position and results of operations.

In addition to warranty-related returns, certain distributors and retailers generally have the right to return product for stock rotation purposes. Upon shipment of the product, we reduce revenue for an estimate of potential future stock rotation returns related to the current period product revenue. We analyze historical returns, channel inventory levels, current economic trends and changes in customer demand for our products when evaluating the adequacy of the allowance for sales returns, namely stock rotation returns. Our estimated allowances for returns due to stock rotation can vary from actual results and we may have to record additional revenue reductions, which could materially impact our financial position and results of operations.

We accrue for sales incentives as a marketing expense if we receive an identifiable benefit in exchange and can reasonably estimate the fair value of the identifiable benefit received; otherwise, it is recorded as a reduction of revenues. Our estimated provisions for sales incentives can vary from actual results and we may have to record additional expenses or additional revenue reductions dependent on the classification of the sales incentive.

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We regularly perform credit evaluations of our customers’ financial condition and consider factors such as historical experience, credit quality, age of the accounts receivable balances, and geographic or country-specific risks and economic conditions that may affect a customer’s ability to pay. The allowance for doubtful accounts is reviewed quarterly and adjusted if necessary based on our assessments of our customers' ability to pay. If the financial condition of our customers should deteriorate or if actual defaults are higher than our historical experience, additional allowances may be required, which could have an adverse impact on operating expenses.

Valuation of Inventory

We value our inventory at the lower of cost and net realizable value, cost being determined using the first-in, first-out method. We continually assess the value of our inventory and will periodically write down its value for estimated excess and obsolete inventory based upon assumptions about future demand and market conditions. On a quarterly basis, we review inventory quantities on hand and on order under non-cancelable purchase commitments, including consignment inventory, in comparison to our estimated forecast of product demand for the next nine months to determine what inventory, if any, are not saleable. Our analysis is based on the demand forecast but takes into account market conditions, product development plans, product life expectancy and other factors. Based on this analysis, we write down the affected inventory value for estimated excess and obsolescence charges. At the point of loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. As demonstrated during prior years, demand for our products can fluctuate significantly. If actual demand is lower than our forecasted demand and we fail to reduce our manufacturing accordingly, we could be required to write down the value of additional inventory, which would have a negative effect on our gross profit.

Goodwill

Goodwill represents the purchase price over estimated fair value of net assets of businesses acquired in a business combination. Goodwill acquired in a business combination is not amortized, but instead tested for impairment at least annually on the first day of the fourth quarter. Should certain events or indicators of impairment occur between annual impairment tests, we will perform the impairment test as those events or indicators occur. Examples of such events or circumstances include the following: a significant decline in our expected future cash flows, a sustained, significant decline in our stock price and market capitalization, a significant adverse change in the business climate, and slower growth rates.

Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of the reporting unit is less than its carrying value. We identified the reporting units as retail, commercial and service provider reporting units, as this is the lowest level for which discrete financial information is available and segment management regularly reviews the operating results. The qualitative assessment considers the following factors: macroeconomic conditions, industry and market considerations, cost factors, overall company financial performance, events affecting the reporting units, and changes in our share price. If the reporting unit does not pass the qualitative assessment, we estimate our fair value and compare the fair value with the carrying value of our net assets. If the fair value is greater than the carrying value of our net assets, no impairment results. If the fair value is less than our carrying value, we would determine the fair value of the goodwill by comparing the implied fair value to the carrying value of the goodwill in the same manner as if the business unit were being acquired in a business combination. Specifically, we would allocate the fair value to all of our assets and liabilities, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, an impairment charge would be recorded to earnings in the consolidated statements of operations.

In the fourth fiscal quarter of 2016 , we completed the annual impairment test of goodwill. The test was performed as of the first day of the fourth quarter, or October 3, 2016 .

We performed a qualitative test for goodwill impairment of the retail and commercial reporting units as of October 3, 2016. Based upon the results of the qualitative testing, the respective fair values of the retail and commercial reporting units were substantially in excess of these reporting units' carrying values. We believe that it is more-likely-than-not that the fair value of these reporting units are greater than their respective carrying values and therefore performing the first step of the two-step impairment test for the retail and commercial reporting units was unnecessary. No goodwill impairment was recognized for the retail and commercial reporting units in the years ended December 31, 2016 , 2015 or 2014 .

In the fourth quarter of fiscal year 2014, we recorded an impairment charge of $74.2 million which was the entire goodwill balance related to the service provider reporting unit in the year ended December 31, 2014.

For retail and commercial reporting units, we do not believe it is likely that there will be a material change in the estimates or assumptions we use to test for impairment losses on goodwill. However, if the actual results are not consistent with our estimates or assumptions, we may be exposed to a future impairment charge that could be material.

Long Lived Assets Excluding Goodwill

Our long lived assets include goodwill, purchased intangibles with finite lives and property and equipment. Purchased intangibles with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from three to ten years. Property and equipment are stated at historical cost, less accumulated depreciation. Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Examples of such events or circumstances include the following: a significant decrease in the market price of the asset, a significant decline in our expected future cash flows, significant changes or planned changes in our use of the assets, a sustained, significant decline in our stock price and market capitalization and a significant adverse change in the business climate. D etermination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the carrying amount of the asset exceeds its estimated undiscounted future net cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The carrying value of the asset is reviewed on a regular basis for the existence of facts, both internal and external, that may suggest impairment.

During the years ended December 31, 2016, there were no events or changes in circumstances that indicated the carrying amount of our finite-lived assets may not be recoverable from their undiscounted cash flows. Consequently, we did not perform an impairment test. We also reviewed the depreciation and amortization policies for the long-lived asset groups and ensured the remaining useful lives are appropriate. We did not record any impairments to intangibles during the years ended December 31, 2016 , 2015 and 2014 . The carrying value of property and equipment asset is reviewed on a regular basis for the existence of facts, both internal and external, that may suggest impairment. Charges related to the impairment of property and equipment were insignificant for the years ended December 31, 2016 , 2015 and 2014 .

We will continue to evaluate the carrying value of our long-lived assets and if we determine in the future that there is a potential further impairment, we may be required to record additional charges to earnings which could affect our financial results.

Income Taxes

We account 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 treatments for tax versus accounting of certain items, such as accruals and allowances not currently deductible for tax purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. Our assessment considers the recognition of deferred tax assets on a jurisdictional basis. Accordingly, in assessing our future taxable income on a jurisdictional basis, we consider the effect of its transfer pricing policies on that income. We have placed a valuation allowance against California deferred tax assets since the recovery of the assets is uncertain. We believe that all of our other deferred tax assets are recoverable; however, if there were a change in our ability to recover our deferred tax assets, we would be required to take a charge in the period in which we determined that recovery was not more likely than not.

Uncertain tax provisions are recognized under guidance that provides that a company should use a more-likely-than-not recognition threshold based on the technical merits of the income tax position taken. Income tax positions that meet the more-likely-than-not recognition threshold should be measured in order to determine the tax benefit to be recognized in the financial statements. We include interest expense and penalties related to uncertain tax positions as additional tax expense.

Results of Operations

The following table sets forth, for the periods presented, the consolidated statements of operations data, which is derived from the accompanying consolidated financial statements:

	Year Ended December 31,					
	2016		2015		2014	
	(In thousands, except percentage data)					
Net revenue	$ 1,328,298	100.0 %	$ 1,300,695	100.0 %	$ 1,393,515	100.0 %
Cost of revenue	916,113	69.0 %	933,016	71.7 %	995,597	71.4 %
Gross profit	412,185	31.0 %	367,679	28.3 %	397,918	28.6 %
Operating expenses:						
Research and development	89,367	6.7 %	86,499	6.7 %	90,902	6.5 %
Sales and marketing	150,355	11.3 %	146,794	11.2 %	157,017	11.4 %
General and administrative	54,482	4.1 %	45,313	3.5 %	46,552	3.3 %
Restructuring and other charges	3,881	0.3 %	6,398	0.5 %	2,209	0.2 %
Litigation reserves, net	73	0.0 %	(2,682)	(0.2)%	(1,011)	(0.1)%
Goodwill impairment charges	—	— %	—	— %	74,196	5.3 %
Total operating expenses	298,158	22.4 %	282,322	21.7 %	369,865	26.6 %
Income from operations	114,027	8.6 %	85,357	6.6 %	28,053	2.0 %
Interest income	1,163	0.1 %	295	0.0 %	253	0.0 %
Other income (expense), net	(121)	0.0 %	(88)	0.0 %	2,455	0.2 %
Income before income taxes	115,069	8.7 %	85,564	6.6 %	30,761	2.2 %
Provision for income taxes	39,218	3.0 %	36,980	2.9 %	21,973	1.6 %
Net income	$ 75,851	5.7 %	$ 48,584	3.7 %	$ 8,788	0.6 %

Net Revenue by Geographic Region

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

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

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(In thousands, except percentage data)				
Americas	$ 883,648	10.8 %	$ 797,746	3.5 %	$ 770,890
Percentage of net revenue	*66.5%*		*61.4%*		*55.3%*
EMEA	$ 245,405	(23.7)%	$ 321,714	(23.7)%	$ 421,887
Percentage of net revenue	*18.5%*		*24.7%*		*30.3%*
APAC	$ 199,245	9.9 %	$ 181,235	(9.7)%	$ 200,738
Percentage of net revenue	*15.0%*		*13.9%*		*14.4%*
Total net revenue	$ 1,328,298	2.1 %	$ 1,300,695	(6.7)%	$ 1,393,515

2016 vs 2015

The increase in Americas net revenue for the year ended December 31, 2016 compared to the prior year was primarily driven by increases in gross shipments of our home security cameras, broadband gateways and switches. The increase was partially offset by a fall in gross shipments of mobile hotspots sales to service provider business unit customers. In addition, the increase in gross shipments of non-service provider products was offset in part by higher sales incentive expenditure deemed to be contra-revenue under the authoritative guidance for revenue recognition. We continue to see strong end user demand for our Arlo cameras, Nighthawk home networking products and the recently introduced Orbi WiFi systems. Service provider net revenue fell versus the prior year period as we continue to prioritize profitability with respect to service provider business opportunities.

The decrease in EMEA net revenue for the year ended December 31, 2016 compared to the prior year was primarily attributable to the performance of our service provider business unit. The steps taken to restructure the service provider business unit in the first and second quarter of 2015 and again in the first quarter of 2016 were primarily responsible for the fall, resulting in a reduction of gross shipments of broadband gateways and home wireless products. The decline in service provider net revenue was partially offset by growth in both our retail and commercial business units which saw an increase in gross shipments of home security camera products and switches.

The increase in APAC net revenue for the year ended December 31, 2016 compared to the prior year was driven primarily by an increase in gross shipments of broadband gateways, home wireless and home security camera products and switches, partially offset by a reduction in gross shipments of our mobile hotspots and network storage products. The increased net revenue was due to improved performance across all three business units with the majority of growth coming from our commercial business unit.

2015 vs 2014

The increase in Americas net revenue for the year ended December 31, 2015 compared to the prior year was driven primarily by an increase in gross shipments of our home security camera, home wireless and broadband gateway products, partially offset by a decrease in gross shipments of our mobile hotspots and multimedia products. The increase was due primarily to continued growth and increasing average selling prices in the retail business unit driven by strong demand for our products, including the Nighthawk home networking products and Arlo Smart Home cameras. The increase in Americas net revenue was partially offset by a reduction in service provider net revenue as we decided to refocus our service provider business on profitability.

The decrease in EMEA net revenue for the year ended December 31, 2015 compared to the prior year was driven primarily by a reduction in gross shipments of broadband gateways, home wireless products and switches, partially offset by an increase in gross shipments of home security camera products. We were also challenged by a difficult small business market climate caused by weakening foreign currencies compared to the U.S. dollar. The decrease was primarily attributable to a reduction in gross shipments driven, in part, by continued decline in European service provider gross shipment as we restructured our service provider business for profitability instead of gross shipment growth.

The decrease in APAC net revenue for the year ended December 31, 2015 compared to the prior year was driven primarily by a reduction in gross shipments of mobile hotspots, home wireless, network storage products and switches, partially offset by an increase in gross shipments of our home security camera and broadband gateway products. Similar to EMEA, APAC net revenue was constrained by weakening foreign currencies compared to the U.S. dollar.

Cost of Revenue and Gross Margin

Cost of revenue consists primarily of the following: the cost of finished products from our third party manufacturers; overhead costs, including purchasing, product planning, inventory control, warehousing and distribution logistics; third-party software licensing fees; inbound freight; warranty costs associated with returned goods; write-downs for excess and obsolete inventory, amortization expense of certain acquired intangibles and restructuring accounting adjustments to inventory.

We outsource our manufacturing, warehousing and distribution logistics. We believe this outsourcing strategy allows us to better manage our product costs and gross margin. Our gross margin can be affected by a number of factors, including fluctuation in foreign exchange rates, sales returns, changes in average selling prices, end-user customer rebates and other sales incentives, and changes in our cost of goods sold due to fluctuations in prices paid for components, net of vendor rebates, warranty and overhead costs, inbound freight, conversion costs, charges for excess or obsolete inventory and amortization of acquired intangibles. The following table presents costs of revenue and gross margin, for the periods indicated:

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(In thousands, except percentage data)				
Cost of revenue	$ 916,113	(1.8)%	$ 933,016	(6.3)%	$ 995,597
Gross margin percentage	*31.0%*		*28.3%*		*28.6%*

2016 vs 2015

Cost of revenue decreased for the year ended December 31, 2016 compared to the prior year due primarily to the shift in net revenue away from our service provider business unit toward the retail business unit. Cost of revenue associated with retail business unit products represents a lower proportion of net revenue than service provider business unit products. In fiscal 2016, this net revenue shift was further assisted by improved gross margin performance of the commercial business unit, mainly driven by improved gross margin achievement on switch product lines.

Our gross margin increased for the year ended December 31, 2016 compared to the prior year due primarily to the change in business unit net revenue mix from service provider to retail. To a lesser extent, gross margins in fiscal 2016 were positively impacted by higher gross margin yield and higher net revenue performance in the commercial business unit. Net revenue from service providers decreased as a percentage of net revenue to 20.6% in the year ended December 31, 2016, compared to 32.4% in the prior year.

2015 vs 2014

Cost of revenue decreased for the year ended December 31, 2015 compared to the prior year due primarily to the decrease in net revenue and related product costs attributable, in part, to continued decline in net revenue to service provider customers worldwide, partially offset by an increase in freight costs of $4.0 million.

Our gross margin slightly decreased for the year ended December 31, 2015 compared to the prior year due primarily to weakening foreign currencies compared to the U.S. dollar and, to a lesser extent, an increase in per unit freight costs. Foreign currency movements had an unfavorable impact of 2 percentage points on the year over year comparison. The decrease was largely offset by the positive effects of lower excess and obsolete inventory charges of $6.9 million and the decrease in segment product mix toward service provider, which generally maintains lower margins. Net revenue from service providers decreased as a percentage of net revenue to 32.4% in the year ended December 31, 2015, compared to 41.6% in the prior year.

We expect gross margin percentage in fiscal 2017 to remain consistent with fiscal year 2016. Forecasting future gross margin percentages is difficult, and there are a number of risks related to our ability to maintain or improve our current gross margin levels. Our cost of revenues as a percentage of revenues can vary significantly based upon a number of factors such as the following: uncertainties surrounding revenue levels, including future pricing and/or potential discounts as a result of the economy or in response to the strengthening of the U.S. dollar in our international markets, and related production level variances; competition; changes in technology; changes in product mix; variability of stock-based compensation costs; royalties to third parties; fluctuations in freight, duty and repair costs; manufacturing and purchase price variances; changes in prices on commodity components; warranty costs; and the timing of sales, particularly to service providers.

Operating Expenses

Research and Development

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

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(In thousands, except percentage data)				
Research and development expense	$ 89,367	3.3%	$ 86,499	(4.8)%	$ 90,902

2016 vs 2015

Research and development expense increased for the year ended December 31, 2016 compared to the prior year period. The increase was attributable to increases in variable compensation of $3.5 million and personnel-related expense of $1.1 million primarily related to the retail and commercial business units. The increase was partially offset by a $1.7 million reduction in outside engineering services mainly associated with our service provider business unit on a year over year basis. Headcount decreased by 6 from 337 as of December 31, 2015 to 331 as of December 31, 2016. The fall in headcount was attributable to the service provider business unit which experienced a reduction of 42 positions year over year. The fall was offset primarily by headcount additions to the retail business unit which added 29 positions compared with 2015.

2015 vs 2014

Research and development expense decreased for the year ended December 31, 2015 compared to the prior year due primarily to a reduction in personnel-related costs of $4.7 million, driven by a reduction in headcount attributable to the restructuring activities executed in the first quarter of 2015. Headcount decreased by 16 to 337 employees at December 31, 2015 compared to 353 employees at December 31, 2014.

We believe that innovation and technological leadership is critical to our future success, and we are committed to continuing a significant level of research and development to develop new technologies and products to combat competitive pressures. We continue to invest in research and development to expand our cloud platform capabilities, grow our home security camera and Smart connected products portfolio including services, and develop innovative WiFi and LTE Advanced coverage solutions. For fiscal year 2017, we expect research and development expenses to grow in absolute dollars as we continue to allocate resources to areas that we expect will drive future growth and profitability. Research and development expenses will fluctuate depending on the timing and number of development activities in any given quarter and could vary significantly as a percentage of revenue, depending on actual revenues achieved in any given quarter.

Sales and Marketing Expense

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 and technical support expenses. The following table presents sales and marketing expense, for the periods indicated:

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(In thousands, except percentage data)				
Sales and marketing expense	$ 150,355	2.4%	$ 146,794	(6.5)%	$ 157,017

2016 vs 2015

Sales and marketing expense increased for the year ended December 31, 2016 compared to the prior year due primarily to increases in product marketing expenditure of $5.1 million, variable compensation and personnel-related costs of $1.5 million partially offset by a reduction in outside professional service of $2.4 million, and a reduction in freight expenses of $1.2 million. The increased marketing spend was incurred to support new product introductions and brand marketing campaigns primarily associated with our Nighthawk, Arlo and Orbi product lines.

2015 vs 2014

Sales and marketing expense decreased for the year ended December 31, 2015 compared to the prior year due primarily to a reduction in personnel-related costs of $6.7 million, driven by a reduction in headcount attributable to the restructuring activities executed in the first quarter of 2015, and $2.7 million in outside professional services. Headcount decreased by 38 employees to 339 employees at December 31, 2015 compared to 377 employees at December 31, 2014.

We expect our sales and marketing expense to remain relatively flat as a percentage of net revenue for fiscal year 2017. Expenses may fluctuate depending on revenue levels achieved as certain expenses, such as commissions, are determined based upon the revenues achieved. Forecasting sales and marketing expenses as a percentage of revenues is highly dependent on expected revenue levels and could vary significantly depending on actual revenues achieved in any given quarter. Marketing expenses will also fluctuate depending upon the timing, extent and nature of marketing programs.

General and Administrative Expense

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 and other general corporate expenses. The following table presents general and administrative expense, for the periods indicated:

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(In thousands, except percentage data)				
General and administrative expense	$ 54,482	20.2%	$ 45,313	(2.7)%	$ 46,552

2016 vs 2015

General and administrative expense increased for the year ended December 31, 2016 compared to the prior year mainly due to increases in personnel-related costs of $3.0 million, variable compensation costs of $2.7 million, legal and professional services of $1.5 million. The increase was also attributable to higher costs associated with IT and facility allocation of $1.7 million. The increase in personnel expenses was primarily driven by increases in stock based compensation expense of $1.3 million. Headcount increased by 6 to 161 employees at December 31, 2016 compared to 155 employees at December 31, 2015.

2015 vs 2014

General and administrative expense decreased for the year ended December 31, 2015 compared to the prior year due primarily to a reduction in facilities, allocation and other expenses of $2.6 million and outside professional services of $0.7 million, partially offset by an increase in variable compensation of $2.2 million. Headcount decreased by 1 employee to 155 employees at December 31, 2015 compared to 156 employees at December 31, 2014.

We expect our general and administrative expenses to decrease slightly as a percentage of net revenue in fiscal year 2017, but they could fluctuate depending on a number of factors, including the level and timing of expenditures associated with litigation defense costs in connection with the litigation described in Note 8, *Commitments and Contingencies,* in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K. Future general and administrative expense increases or decreases in absolute dollars are difficult to predict due to the lack of visibility of certain costs, including legal costs associated with defending claims against us, as well as legal costs associated with asserting and enforcing our intellectual property portfolio and other factors.

Restructuring and Other Charges

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(In thousands, except percentage data)				
Restructuring and other charges	$ 3,881	(39.3)%	$ 6,398	189.6%	$ 2,209

No significant restructuring and other charges or benefits were recognized during the last two fiscal quarters of 2016. Restructuring and other charges recognized in the second quarter of 2016 related primarily to severance as headcount reductions occurred within our commercial business unit. The headcount reductions were implemented in line with channel shift and changing buying behaviors being experienced for our commercial business unit products. Restructuring and other charges recognized in the first quarter of 2016, and the first and second quarter of 2015 respectively related to actions to resize our service provider business unit and supporting functions. The actions were taken to match the reduced revenue outlook and to concentrate resources on LTE Advanced and long-term profitable accounts. Charges incurred in these periods primarily related to severance, other one-time termination benefits and other associated costs attributable to the restructuring actions announced in February 2015 and January 2016, respectively. During the year ended December 31, 2014, we recognized a charge of $1.4 million relating primarily to expenses associated with the early termination of a lease agreement in Canada and a charge of $0.8 million primarily relating to one-time separation charges associated with the departure of the retail business unit general manager.

Restructuring actions are subject to significant risks, including delays in implementing expense control programs or workforce reductions and the failure to meet operational targets due to the loss of employees, all of which would impair our ability to achieve anticipated cost reductions. If we do not achieve anticipated cost reductions, our financial results could be negatively impacted.

For a detailed discussion of our restructuring and other charges, refer to Note 13, *Restructuring and Other Charges,* in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Litigation Reserves, Net

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(In thousands, except percentage data)				
Litigation reserves, net	$ 73	**	$ (2,682)	165.3%	$ (1,011)

**Percentage data not meaningful

No significant litigation reserves or benefits were recognized in fiscal 2016. By contrast, we recognized a benefit of $2.7 million during the year ended December 31, 2015 resulting from adjustments recorded to release litigation reserves previously accrued associated with the Ericsson patent litigation matter. We recognized $1.0 million benefits in litigation reserves during the year ended December 31, 2014 resulting from the adjustments made to decrease the accrued litigation reserves relating to Ericsson after the Federal Circuits issued its opinion and order in our appeal.

For a detailed discussion of our litigation matters, refer to Note 8, *Commitments and Contingencies* , in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Goodwill Impairment Charges

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(In thousands, except percentage data)				
Goodwill impairment charges	$ —	**	$ —	**	$ 74,196

**Percentage data not meaningful

We did not recognize any goodwill impairment change during the years ended December 31, 2016 and 2015. We recognized a goodwill impairment charge of $74.2 million during the year ended December 31, 2014 related to our service provider business unit. The goodwill impairment was due to a decrease in the estimated fair value of the business resulting from a decline in the long-term revenue and profitability projections of the business.

For a detailed discussion of our goodwill impairment charges, refer to Note 3, *Balance Sheet Components* , in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Interest Income and Other Income (Expense), Net

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

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(In thousands, except percentage data)				
Interest income	$ 1,163	**	$ 295	16.6 %	$ 253
Other income (expense), net	(121)	37.5%	(88)	**	2,455
Total	$ 1,042	**	$ 207	(92.4)%	$ 2,708

** Percentage change not meaningful.

2016 vs 2015

Interest income increased for the year ended December 31, 2016 compared to the prior year due to increases in both short term investment average balances and yields obtained on such balances being more favorable than the prior year periods. Our foreign currency hedging program effectively reduced volatility associated with hedged currency exchange rate movements during fiscal year 2016. For a detailed discussion of our hedging program and related foreign currency contracts, refer to Note 4, *Derivative Financial Instruments* , in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

2015 vs 2014

Total interest income and other income (expense), net, decreased for the year ended December 31, 2015 compared to the prior year. During the year ended December 31, 2014, we recognized income of $2.8 million relating to the execution of a litigation settlement agreement, which was partially offset by foreign currency losses incurred. In contrast, no significant other income (expense) was recognized during the year ended December 31, 2015.

Interest income and other income (expense), net will fluctuate due to changes in interest rates and returns on our cash, cash equivalents and short-term investments, any future impairment of investments, foreign currency rate fluctuations on hedged exposures, fluctuations in costs associated with our hedging program, gains and losses on asset disposals and timing of non-income based taxes and license fees. The cash balance could also decrease depending upon the amount of cash used in our stock repurchase activity, any future acquisitions and other factors which would also impact our interest income.

Provision for Income Taxes

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(In thousands, except percentage data)				
Provision for income taxes	$ 39,218	6.1%	$ 36,980	68.3%	$ 21,973
Effective tax rate	*34.1%*		*43.2%*		*71.4%*

2016 vs 2015

Provision for income taxes increased for the year ended December 31, 2016 compared to the prior year due primarily to higher pretax income. The effective tax rate for the years ended December 31, 2016 and 2015 differed from the U.S. statutory rate of 35% each year due to earnings from foreign jurisdictions, state taxes, tax credits and non-deductible expenses. For the year ended December 31, 2016, tax on earnings from foreign operations decreased the effective tax rate by 2.7 percentage points compared to an increase of 7.1 percentage points for 2015. The decrease in the effective tax rate from earnings of foreign operations in 2016 compared to 2015 resulted from the 2015 tax effect of non-deductible losses in a foreign jurisdictions where no benefit can be claimed.

2015 vs 2014

Provision for income taxes increased for the year ended December 31, 2015 compared to the prior year due primarily to higher pretax income. The effective tax rate for the year ended December 31, 2015 differed from the U.S. statutory rate of 35% due to earnings from foreign jurisdictions, state taxes, tax credits and non-deductible expenses. The effective tax rate for December 31, 2014 differed from the U.S. statutory rate of 35% due to earnings from foreign jurisdictions, impairment of goodwill not deductible for tax, valuation allowance established to reduce certain deferred tax assets, state taxes, tax credits and non-deductible expenses. For the year ended December 31, 2015, tax on earnings from foreign operations increased the effective tax rate by 7.1 percentage points compared to an increase of 19.8 percentage points for 2014. The decrease in the effective tax rate from earnings of foreign operations in 2015 compared to 2014 resulted from the 2014 tax effect of non-deductible losses caused by the impairment of goodwill in foreign jurisdictions where no benefit can be claimed. The 2015 effective tax rate decreased by 7.8 percentage points when compared to 2014 for the 2014 goodwill impairments that are not deductible for U.S. federal and state tax purposes.

Segment Information

A description of our products and services, as well as segment financial data, for each segment can be found in Note 11, *Segment Information,* in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Retail

	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
	(in thousands, except percentage data)				
Net revenue	$ 763,549	24.3%	$ 614,367	20.9%	$ 508,100
Percentage of net revenue	*57.5%*		*47.2%*		*36.5%*
Contribution income	104,454	22.6%	85,231	11.8%	76,266
Contribution margin	*13.7%*		*13.9%*		*15.0%*

2016 vs 2015

Retail net revenue increased for the year ended December 31, 2016 compared to the prior year due primarily to an increase in gross shipments of home security cameras, broadband gateways and home wireless products. Geographically, retail business unit net revenue grew across all three regions in fiscal year 2016 with the Americas contributing the largest share. End user demand for our premium range of retail products, such as Arlo cameras, Nighthawk home networking products and the recently introduced Orbi WiFi systems, continues to be robust.

Contribution income increased for the year ended December 31, 2016 compared to the prior year due primarily to growth in net revenue. Contribution margin decreased slightly for the year ended December 31, 2016, due primarily to increased investment in research and development as a percentage of net revenue, driving incremental expenditure of $6.2 million versus the prior year period. The increased expenditure focused on high growth product lines as management continues to invest resources in areas and product categories positioned for future growth.

2015 vs 2014

Retail net revenue increased for the year ended December 31, 2015 compared to the prior year due primarily to an increase in gross shipments of home security cameras, broadband gateways and home wireless products. In addition, the increase in retail net revenue was due to increasing average selling prices, mainly driven by our Nighthawk and Arlo product lines. Geographically, we experienced growth in the Americas, while net revenue in EMEA declined due primarily to challenges resulting from the macro-economic environment, increased competition and pricing pressures we continue to experience in the region, as well as weakening foreign currencies compared to the U.S. dollar. Net revenue in APAC also declined compared to the prior year period as a result of the strengthening of the U.S. dollar. We continue to see strong end-user demand for some of our retail products, including the Nighthawk home networking products and Arlo Smart Home cameras. Through the year ended December 31, 2015, we have continued to expand our distribution of Arlo with U.S. retail customers and in select international markets, driving sequential gross shipment growth in each of the four quarters of 2015. In contrast, we didn't release the product until December 2014.

Contribution income increased for the year ended December 31, 2015 compared to the prior year due primarily to the increase in net revenue, partially offset by the negative effects of increases in freight costs of $5.9 million and operating expenses of $16.9 million, primarily driven by an increase in research and development expenses.

Commercial

	Year Ended December 31,							
	2016		% Change	2015		% Change	2014	
	(in thousands, except percentage data)							
Net revenue	$	290,836	9.8%	$	264,846	(13.4)%	$	305,677
Percentage of net revenue		*21.9%*			*20.4%*			*21.9%*
Contribution income		73,734	38.1%		53,393	(24.6)%		70,810
Contribution margin		*25.4%*			*20.2%*			*23.2%*

2016 vs 2015

Commercial net revenue increased for the year ended December 31, 2016 compared to the prior year due primarily to increased gross shipments of switches, partially offset by a reduction in gross shipments of network storage products. We experienced growth in all three geographic regions experiencing double digit growth in APAC and strong single digit growth in the Americas and EMEA, respectively.

Contribution income increased for the year ended December 31, 2016 compared to the prior year due primarily to growth in both net revenue and gross margin yield versus the prior year period. In addition, the growth in net revenue did not require corresponding investment in operating expense resulting in greater contribution income return.

2015 vs 2014

Commercial net revenue decreased for the year ended December 31, 2015 compared to the prior year due primarily to a reduction in gross shipments of network storage, wireless products and switches. Geographically, we experienced a reduction in EMEA and APAC net revenue and a slight increase in the Americas. Commercial net revenue continued to be impacted by the difficult small business market climate in Europe and by weakening foreign currencies as compared to the U.S. dollar driving increased pricing pressures.

Contribution income decreased for the year ended December 31, 2015 compared to the prior year due primarily to a reduction in net revenue. This effect was further amplified by the reduction in operating expenses occurring at lower rate than the reduction of cost of revenue, primarily driven by an increase in product management and marketing expense of $1.0 million.

Service Provider

	Year Ended December 31,							
	2016		% Change	2015		% Change	2014	
	(in thousands, except percentage data)							
Net revenue	$	273,913	(35.0)%	$	421,482	(27.3)%	$	579,738
Percentage of net revenue		*20.6%*			*32.4%*			*41.6%*
Contribution income		44,615	14.0 %		39,151	(17.7)%		47,547
Contribution margin		*16.3%*			*9.3%*			*8.2%*

2016 vs 2015

Service provider net revenue decreased for the year ended December 31, 2016 compared to the prior year due primarily to a reduction in gross shipments of broadband gateways, mobile hotspots, and home wireless products. Geographically, we experienced a substantial reduction in net revenue achievement of both the EMEA and Americas regions. The reduction was partially offset by growth in APAC **.** As previously announced, we took steps to restructure the service provider business unit in the first and second quarter of 2015 and again in the first quarter of 2016. The actions were taken to match the reduced revenue outlook and to concentrate resources on LTE Advanced and long-term profitable accounts.

Contribution income increased in the year ended December 31, 2016 compared to the prior year period. The service provider business unit was restructured at various points in 2015 and 2016 to meet changing market dynamics and to focus efforts on higher profitability accounts. The consequences of these actions yielded benefit to the company in 2016 through improved gross margin yield and lower operating expenditure which dropped 46% year over year primarily due to headcount reduction.

2015 vs 2014

Service provider net revenue decreased for the year ended December 31, 2015 compared to the prior year due primarily to a reduction in gross shipments in all geographies. As the profit margin of this business unit continued to deteriorate throughout 2014, we decided to restructure the business in the first quarter of 2015 to downsize the net revenue and cost structure of this business unit while focusing our resources on more profitable accounts and technologies. Service provider net revenue is also negatively impacted by the strengthening of U.S. dollars.

Contribution income decreased for the year ended December 31, 2015 compared to the prior year due primarily to a reduction in net revenue, partially offset by the positive effects of the reduction of operating expenses occurring at higher rate than the reduction of cost of revenue, primarily driven by decreases in research and development of $14.6 million and in sales and marketing expenses of $9.4 million. In the second half of 2015, the profit margin of this business unit returned to levels to be successful long term.

Liquidity and Capital Resources

As of December 31, 2016 , we had cash, cash equivalents and short-term investments totaling $366.0 million . Our cash and cash equivalents balance increased from $181.9 million as of December 31, 2015 to $240.5 million as of December 31, 2016 . Our short-term investments, which represent the investment of funds available for current operations, increased from $96.3 million as of December 31, 2015 to $125.5 million as of December 31, 2016 as we increased purchases of treasuries.

Operating activities during the year ended December 31, 2016 generated cash of $115.2 million , compared to $110.4 million in the prior year, resulting primarily from an increase in net income partially offset by changes in working capital. Investing activities during the year ended December 31, 2016 used cash of $48.8 million , compared to $6.0 million cash generated in the prior year, resulting primarily due to more purchase of short-term investments along with less proceeds from maturities of short-term investments, and payment relating to business acquisition of Placemeter which occurred in 2016. Financing activities during the year ended December 31, 2016 used cash of $7.9 million as compared to $75.6 million in the prior year, primarily due to less repurchases of common stock, partially offset by less proceeds from the issuance of common stock upon exercise of stock options.

Our days sales outstanding ("DSO") remained flat at 77 days as of December 31, 2016 and December 31, 2015 . Historically, we grant limited payment term extensions to key retail partners to support holiday season demand. Payment term extensions were granted in both the fourth quarter of 2016 and 2015 respectively.

Our accounts payable increased from $90.5 million at December 31, 2015 to $112.4 million at December 31, 2016 , primarily as a result of timing of payments.

Inventory increased from $213.1 million at December 31, 2015 to $247.9 million at December 31, 2016 . Ending inventory turns of 4.2 turns in the three months ended December 31, 2016 down from 4.8 turns in the three months ended December 31, 2015 .

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

On October 21, 2008, October 17, 2014 and July 21, 2015, our Board of Directors authorized management to repurchase up to 6.0 million , 3.0 million and 3.0 million shares of our outstanding common stock, respectively, which, at the time of authorization, were incremental to the remaining shares under the share repurchase programs. Under the authorizations, we may repurchase shares of our common stock, depending on market conditions, in the open market or through privately negotiated transactions. 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. As of December 31, 2016 , the share repurchase programs authorized prior to July 2015 have been completed and there were 1.3 million shares remaining in the buyback program. We repurchased, reported based on trade date, approximately 0.9 million shares of common stock at a cost of $38.3 million during the year ended December 31, 2016 . During the years ended December 31, 2015 and December 31, 2014 , we repurchased, reported based on trade date, approximately 3.8 million shares of common stock at a cost of $117.7 million and approximately 2.8 million shares of common stock at a cost of $90.6 million , respectively.

We also repurchased, as reported based on trade date, approximately 0.1 million shares of common stock at a cost of $4.7 million , under a repurchase program to help administratively facilitate the withholding and subsequent remittance of personal income and payroll taxes for individuals receiving RSUs during the year ended December 31, 2016 . Similarly, during the years ended December 31, 2015 and December 31, 2014 , we repurchased, as reported on trade date, approximately 85,000 shares of common stock at a cost of $2.6 million and 82,000 shares of common stock at a cost of $2.6 million , respectively, under the same program to help facilitate tax withholding for RSUs.

These shares were retired upon repurchase. Our 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.

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

Backlog

As of December 31, 2016 , we had a backlog of approximately $74.6 million, compared to approximately $115.6 million as of December 31, 2015 , primarily due to product demand required in the future. Our backlog consists of products for which customer purchase orders have been received and that are scheduled or in the process of being scheduled for shipment. While we expect to fulfill the order backlog within the current year, most orders are subject to rescheduling or cancellation with minimal penalties. Because of the possibility of customer changes in product scheduling or order cancellation, our backlog as of any particular date may not be an indicator of net revenue for any succeeding period.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

The following table describes our commitments to settle non-cancelable lease and purchase commitments as of December 31, 2016 (in thousands).

	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Operating leases	$ 7,744	$ 18,884	$ 10,391	$ 12,445	$ 49,464
Purchase obligations	136,949	—	—	—	136,949
	$ 144,693	$ 18,884	$ 10,391	$ 12,445	$ 186,413

We lease office space, cars and equipment under non-cancelable operating leases with various expiration dates through December 2026. Rent expense in the years ended December 31, 2016 , 2015 , and 2014 was $9.5 million , $9.8 million and $10.8 million , respectively. The terms of some of the office leases provide for rental payments on a graduated scale. We recognize rent expense on a straight-line basis over the lease period, and have accrued for rent expense incurred but not paid. The amounts presented are consistent with contractual terms and are not expected to differ significantly, unless a substantial change in our headcount needs requires us to exit an office facility early or expand our occupied space.

We enter into various inventory-related purchase agreements with suppliers. Generally, under these agreements, 50% of the orders are cancelable by giving notice 46 to 60 days prior to the expected shipment date and 25% of orders are cancelable by giving notice 31 to 45 days prior to the expected shipment date. Orders are not cancelable within 30 days prior to the expected shipment date. As of December 31, 2016 , we had $136.9 million in non-cancelable purchase commitments with suppliers. We expect to sell all products for which we have committed purchases from suppliers.

As of December 31, 2016 and 2015 , we had $16.6 million and $15.8 million, respectively, of total gross unrecognized tax benefits and related interest and penalties. The timing of any payments that could result from these unrecognized tax benefits will depend upon a number of factors. The unrecognized tax benefits have been excluded from the contractual obligations table because reasonable estimates cannot be made of whether, or when, any cash payments for such items might occur. The possible reduction in liabilities for uncertain tax positions in multiple jurisdictions that may impact the statements of operations in the next 12 months is approximately $1.0 million, excluding the interest, penalties and the effect of any related deferred tax assets or liabilities.

Off-Balance Sheet Arrangements

As of December 31, 2016 , we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Recent Accounting Pronouncements

See Note 1, *The Company and Summary of Significant Accounting Policies* , in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial condition and results of operations, which are hereby incorporated by reference.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

We do not use derivative financial instruments in our investment portfolio. We have an investment portfolio of fixed income securities that are classified as available-for-sale securities. These securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. We attempt to limit this exposure by investing primarily in highly rated short-term securities. Our investment policy requires investments to be rated triple-A with the objective of minimizing the potential risk of principal loss. Due to the short duration and conservative nature of our investment portfolio, a movement of 10% by market interest rates would not have a material impact on our operating results and the total value of the portfolio over the next fiscal year. We monitor our interest rate and credit risks, including our credit exposure to specific rating categories and to individual issuers. There were no impairment charges on our investments during fiscal 2016 .

Foreign Currency Transaction Risk

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

We are exposed to risks associated with foreign exchange rate fluctuations due to our international sales and operating activities. These exposures may change over time as business practices evolve and could negatively impact our operating results and financial condition. We use foreign currency forward contract derivatives to partially offset our business exposure to foreign exchange risk on our foreign currency denominated assets and liabilities. Additionally, we enter into certain foreign currency forward contracts that have been designated as cash flow hedges under the authoritative guidance for derivatives and hedging to partially offset our business exposure to foreign exchange risk on portions of our anticipated foreign currency net revenue, cost of revenue, and certain operating expenses. The objective of these foreign currency forward contracts is to reduce the impact of currency exchange rate movements on our operating results by offsetting gains and losses on the forward contracts with increases or decreases in foreign currency transactions. The contracts are marked-to-market on a monthly basis with gains and losses included in other income (expense), net in the consolidated statements of operations, and in accumulated other comprehensive income on the consolidated balance sheets. For cash flow hedges, the gains and losses are further reclassified from other comprehensive income to revenue, cost of revenue, or operating expenses when the underlying hedged items are recognized. We do not use foreign currency contracts for speculative or trading purposes. Hedging of our balance sheet and anticipated cash flow exposures may not always be effective to protect us against currency exchange rate fluctuations. In addition, we do not fully hedge our balance sheets and anticipated cash flow exposures, leaving us at risk to foreign exchange gains and losses on the un-hedged exposures. If there were an adverse movement in exchange rates, we might suffer significant losses. See Note 4, *Derivative Financial Instruments,* in Notes to Consolidated Financial Statements for additional disclosure on our foreign currency contracts, which are hereby incorporated by reference into this Part II, Item 7A.

As of December 31, 2016 , we had net assets in various local currencies. A hypothetical 10% movement in foreign exchange rates would result in an after-tax positive or negative impact of $0.4 million net income, net of our hedged position at December 31, 2016 . Actual future gains and losses associated with our foreign currency exposures and positions may differ materially from the sensitivity analyses performed as of December 31, 2016 due to the inherent limitations associated with predicting the foreign currency exchange rates, and our actual exposures and positions. For the year ended December 31, 2016 , 21% of total net revenue was denominated in a currency other than the U.S. dollar.

Item 8. ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of NETGEAR, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a) (1) present fairly, in all material respects, the financial position of NETGEAR, Inc. and its subsidiaries as of December 31, 2016 and December 31, 2015 , and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016 , based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
San Jose, CA
February 24, 2017

NETGEAR, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	As of	
	December 31, 2016	**December 31, 2015**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 240,468	$ 181,945
Short-term investments	125,514	96,321
Accounts receivable, net	313,839	290,642
Inventories	247,862	213,118
Prepaid expenses and other current assets	35,102	39,117
Total current assets	962,785	821,143
Property and equipment, net	19,473	22,384
Intangibles, net	37,899	48,947
Goodwill	85,463	81,721
Other non-current assets	78,836	76,374
Total assets	$ 1,184,456	$ 1,050,569
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 112,436	$ 90,546
Accrued employee compensation	33,096	27,868
Other accrued liabilities	170,674	166,282
Deferred revenue	35,301	29,125
Income taxes payable	5,146	1,951
Total current liabilities	356,653	315,772
Non-current income taxes payable	15,119	14,444
Other non-current liabilities	15,865	11,643
Total liabilities	387,637	341,859
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock: $0.001 par value; 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock: $0.001 par value; 200,000,000 shares authorized; shares issued and outstanding: 32,958,444 and 32,600,990 as of December 31, 2016 and 2015, respectively	33	33
Additional paid-in capital	566,307	513,047
Accumulated other comprehensive income	1,938	3
Retained earnings	228,541	195,627
Total stockholders' equity	796,819	708,710
Total liabilities and stockholders' equity	$ 1,184,456	$ 1,050,569

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

NETGEAR, INC.

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

	Year Ended December 31,		
	2016	2015	2014
Net revenue	$ 1,328,298	$ 1,300,695	$ 1,393,515
Cost of revenue	916,113	933,016	995,597
Gross profit	412,185	367,679	397,918
Operating expenses:			
Research and development	89,367	86,499	90,902
Sales and marketing	150,355	146,794	157,017
General and administrative	54,482	45,313	46,552
Restructuring and other charges	3,881	6,398	2,209
Litigation reserves, net	73	(2,682)	(1,011)
Goodwill impairment charges	—	—	74,196
Total operating expenses	298,158	282,322	369,865
Income from operations	114,027	85,357	28,053
Interest income	1,163	295	253
Other income (expense), net	(121)	(88)	2,455
Income before income taxes	115,069	85,564	30,761
Provision for income taxes	39,218	36,980	21,973
Net income	$ 75,851	$ 48,584	$ 8,788
Net income per share:			
Basic	$ 2.32	$ 1.47	$ 0.25
Diluted	$ 2.25	$ 1.44	$ 0.24
Weighted average shares used to compute net income per share:			
Basic	32,758	33,161	35,771
Diluted	33,728	33,788	36,445

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

NETGEAR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income	$ 75,851	$ 48,584	$ 8,788
Other comprehensive income (loss), before tax:			
Unrealized gains (losses) on derivative instruments	2,187	—	(22)
Unrealized gains (losses) on available-for-sale securities	33	(56)	(14)
Other comprehensive income (loss), before tax	2,220	(56)	(36)
Tax benefit (provision) related to derivative instruments	(273)	—	—
Tax benefit (provision) related to available-for-sale securities	(12)	21	5
Other comprehensive income (loss), net of tax	1,935	(35)	(31)
Comprehensive income	$ 77,786	$ 48,549	$ 8,757

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

NETGEAR, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of December 31, 2013	36,840	$ 37	$ 421,901	$ 69	$ 351,776	$ 773,783
Change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	(9)	—	(9)
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	(22)	—	(22)
Net income	—	—	—	—	8,788	8,788
Stock-based compensation expense	—	—	19,983	—	—	19,983
Purchase and retirement of common stock	(2,908)	(2)	—	—	(93,216)	(93,218)
Issuance of common stock under stock-based compensation plans	777	—	12,741	—	—	12,741
Tax impact from exercises and cancellations of stock options	—	—	(481)	—	—	(481)
Balance as of December 31, 2014	34,709	$ 35	$ 454,144	$ 38	$ 267,348	$ 721,565
Change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	(35)	—	(35)
Net income	—	—	—	—	48,584	48,584
Stock-based compensation expense	—	—	16,813	—	—	16,813
Purchase and retirement of common stock	(3,855)	(4)	—	—	(120,305)	(120,309)
Issuance of common stock under stock-based compensation plans	1,747	2	44,323	—	—	44,325
Tax impact from exercises and cancellations of stock options	—	—	(2,233)	—	—	(2,233)
Balance as of December 31, 2015	32,601	$ 33	$ 513,047	$ 3	$ 195,627	$ 708,710
Change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	21	—	21
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	1,914	—	1,914
Net income	—	—	—	—	75,851	75,851
Stock-based compensation expense	—	—	19,180	—	—	19,180
Purchase and retirement of common stock	(999)	(1)	—	—	(42,937)	(42,938)
Issuance of common stock under stock-based compensation plans	1,356	1	31,626	—	—	31,627
Tax impact from exercises and cancellations of stock options	—	—	2,454	—	—	2,454
Balance as of December 31, 2016	32,958	$ 33	$ 566,307	$ 1,938	$ 228,541	$ 796,819

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

NETGEAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$ 75,851	$ 48,584	$ 8,788
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	31,993	35,850	35,590
Purchase premium amortization/discount accretion on investments, net	167	(57)	11
Non-cash stock-based compensation	18,949	16,825	20,014
Income tax impact associated with stock option exercises	2,454	(2,233)	(481)
Excess tax benefit from stock-based compensation	(3,008)	(759)	(485)
Goodwill impairment charges	—	—	74,196
Deferred income taxes	(2,723)	(710)	(20,261)
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(23,206)	(14,952)	(9,205)
Inventories	(34,744)	9,765	1,573
Prepaid expenses and other assets	5,932	560	(7,905)
Accounts payable	21,327	(14,990)	(8,236)
Accrued employee compensation	5,228	6,280	5,037
Other accrued liabilities	6,907	29,987	2,574
Deferred revenue	6,176	(2,496)	5,188
Income taxes payable	3,870	(1,263)	2,566
Net cash provided by operating activities	115,173	110,391	108,964
Cash flows from investing activities:			
Purchases of short-term investments	(144,271)	(110,316)	(145,186)
Proceeds from maturities of short-term investments	115,291	130,273	134,827
Purchase of property and equipment	(10,972)	(14,000)	(19,338)
Payments made in connection with business acquisitions, net of cash acquired	(8,807)	—	(1,050)
Net cash provided by (used in) investing activities	(48,759)	5,957	(30,747)
Cash flows from financing activities:			
Purchase and retirement of common stock	(42,938)	(120,309)	(93,218)
Proceeds from exercise of stock options	28,147	40,928	9,979
Proceeds from issuance of common stock under employee stock purchase plan	3,892	2,985	2,762
Excess tax benefit from stock-based compensation	3,008	759	485
Net cash used in financing activities	(7,891)	(75,637)	(79,992)
Net increase (decrease) in cash and cash equivalents	58,523	40,711	(1,775)
Cash and cash equivalents, at beginning of year	181,945	141,234	143,009
Cash and cash equivalents, at end of year	$ 240,468	$ 181,945	$ 141,234
Supplemental Cash Flow Information:			
Cash paid for income taxes	$ 35,149	$ 40,273	$ 38,938

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

NETGEAR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company and Summary of Significant Accounting Policies

The Company

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

The Company operates in three specific business segments: retail, commercial, and service provider. The Company believes this structure enables it to better focus its efforts on the Company's core customer segments and allows it to be more nimble and opportunistic as a company overall. Each business unit contains leadership focused on the product development efforts, both from a product marketing and engineering standpoint, to service the unique needs of these customer segments. The retail business unit is focused on individual consumers and consists of high performance, dependable and easy-to-use whole home WiFi networking solutions and Smart connected products. The commercial business unit is focused on small and medium-sized businesses and consists of business networking, storage and security solutions that bring enterprise class functionality down to small and medium-sized businesses at an affordable price. The service provider business unit is focused on the service provider market and consists of made-to-order and retail-proven whole home networking hardware and software solutions, including 4G LTE hotspots sold to service providers for sale to their subscribers.

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”), and broadband service providers.

Basis of presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated in the consolidation of these subsidiaries.

Fiscal periods

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.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity at the time of purchase of three months or less to be cash equivalents. The Company deposits cash and cash equivalents with high credit quality financial institutions.

Short-term investments

Short-term investments are partially comprised of marketable securities that consist of government securities with an original maturity or a remaining maturity at the time of purchase, of greater than three months and no more than 12 months. The marketable securities are held in the Company's name with one high quality financial institution, which acts as the Company's custodian and investment manager. These marketable securities are classified as available-for-sale securities in accordance with the provisions

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

of the authoritative guidance for investments and are carried at fair value with unrealized gains and losses reported as a separate component of stockholders' equity.

Short-term investments are also comprised of marketable securities related to deferred compensation under the Company’s Deferred Compensation Plan. Mutual funds are the only investments allowed in the Company's Deferred Compensation Plan and the investments are held in a grantor trust formed by the Company. The Company has classified these investments as trading securities as the grantor trust actively manages the asset allocation to match the participants’ notional fund allocations. These securities are recorded at fair market value with unrealized gains and losses included in other income (expense), net.

Certain risks and uncertainties

The Company's products are concentrated in the networking and smart connected industries, which are characterized by rapid technological advances, changes in customer requirements and evolving regulatory requirements and industry standards. The success of the Company depends on management's ability to anticipate and/or to respond quickly and adequately to such changes. Any significant delays in the development or introduction of products could have a material adverse effect on the Company's business and operating results.

The Company relies on a limited number of third parties to manufacture all of its products. If any of the Company's third-party manufacturers cannot or will not manufacture its products in required volumes, on a cost-effective basis, in a timely manner, or at all, the Company will have to secure additional manufacturing capacity. Any interruption or delay in manufacturing could have a material adverse effect on the Company's business and operating results.

Derivative financial instruments

The Company uses foreign currency forward contracts to manage the exposures to foreign exchange risk related to expected future cash flows on certain forecasted revenue, costs of revenue, operating expenses, and on certain existing assets and liabilities. Foreign currency forward contracts generally mature within nine months of inception. Under its foreign currency risk management strategy, the Company utilizes derivative instruments to reduce the impact of currency exchange rate movements on the Company's operating results by offsetting gains and losses on the forward contracts with increases or decreases in foreign currency transactions. The company does not use derivative financial instruments for speculative purposes.

The Company accounts for its derivative instruments as either assets or liabilities and records them at fair value. Derivatives that are not defined as hedges in the authoritative guidance for derivatives and hedging must be adjusted to fair value through earnings. For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income in stockholders' equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument is recognized in current earnings. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions. For derivatives designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings.

Concentration of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, short-term investments and accounts receivable. The Company believes that there is minimal credit risk associated with the investment of its cash and cash equivalents and short-term investments, due to the restrictions placed on the type of investment that can be entered into under the Company's investment policy. The Company's short-term investments consist of investment-grade securities, and the Company's cash and investments are held and managed by recognized financial institutions.

The Company's customers are primarily distributors as well as retailers and broadband service providers who sell or distribute the products to a large group of end-users. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. The Company regularly performs credit evaluations of the Company's customers' financial condition and considers factors such as historical experience, credit quality, age of the accounts receivable balances, geographic or country-specific risks and current economic conditions that may affect customers' ability to pay. The Company does not require collateral from its customers. The Company secures credit insurance for certain customers in international and domestic markets.

As of December 31, 2016 and 2015 , Best Buy, Inc. and affiliates accounted for 38% and 37% of the Company's total accounts receivable, respectively, Amazon and affiliates accounted for 11% of the Company's total accounts receivable as of December 31, 2016 , and no other customers accounted for 10% or greater of the Company's total accounts receivable.

The Company is exposed to credit loss in the event of nonperformance by counterparties to the foreign currency forward contracts used to mitigate the effect of foreign currency exchange rate changes. The Company believes the counterparties for its outstanding contracts are large, financially sound institutions and thus, the Company does not anticipate nonperformance by these counterparties. In the event of turbulence or the onset of a financial crisis in financial markets, the failure of additional counterparties cannot be ruled out.

Fair value measurements

The carrying amounts of the Company's financial instruments, including cash equivalents, short-term investments, accounts receivable, and accounts payable approximate their fair values due to their short maturities. Foreign currency forward contracts are recorded at fair value based on observable market data. See Note 12, *Fair Value Measurements,* in Notes to Consolidated Financial Statements for disclosures regarding fair value measurements in accordance with the authoritative guidance for fair value measurements and disclosures.

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company regularly performs credit evaluations of its customers' financial condition and considers factors such as historical experience, credit quality, age of the accounts receivable balances, and geographic or country-specific risks and economic conditions that may affect a customer's ability to pay. The allowance for doubtful accounts is reviewed quarterly and adjusted if necessary based on the Company's assessments of its customers' ability to pay. If the financial condition of the Company's customers should deteriorate or if actual defaults are higher than the Company's historical experience, additional allowances may be required, which could have an adverse impact on operating expenses.

Inventories

Inventories consist primarily of finished goods which are valued at the lower of cost and net realizable value, with cost being determined using the first-in, first-out method. The Company writes down its inventories based on estimated excess and obsolete inventories determined primarily by the demand forecast but takes into account market conditions, product development plans, product life expectancy and other factors. At the point of loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase of the newly established cost basis.

Property and equipment, net

Property and equipment are stated at historical cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment	2 years
Furniture and fixtures	5 years
Software	2-5 years
Machinery and equipment	2-3 years
Leasehold improvements	Shorter of the lease term or 5 years

Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The carrying value of the asset is reviewed on a regular basis for the existence of facts, both internal and external, that may suggest impairment. Charges related to the impairment of property and equipment were insignificant for the years ended December 31, 2016 , 2015 and 2014 .

Goodwill

Goodwill represents the purchase price over estimated fair value of net assets of businesses acquired in a business combination. Goodwill acquired in a business combination is not amortized, but instead tested for impairment at least annually on the first day of the fourth quarter. Should certain events or indicators of impairment occur between annual impairment tests, the Company performs the impairment test as those events or indicators occur. Examples of such events or circumstances include the following: a significant decline in the Company’s expected future cash flows; a sustained, significant decline in the Company’s stock price and market capitalization; a significant adverse change in the business climate; and slower growth rates.

Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of the reporting unit is less than its carrying value. The Company identified the reporting units as retail, commercial and service provider reporting units, as this is the lowest level for which discrete financial information is available and segment management regularly reviews the operating results. The qualitative assessment considers the following factors: macroeconomic conditions, industry and market considerations, cost factors, overall company financial performance, events affecting the reporting units, and changes in the Company's share price. If the reporting unit does not pass the qualitative assessment, the Company estimates its fair value and compares the fair value with the carrying value of its net assets. If the fair value is greater than the carrying value of its net assets, no impairment is recorded. If the fair value is less than its carrying value, the Company would determine the fair value of the goodwill by comparing the implied fair value to the carrying value of the goodwill in the same manner as if the reporting unit were being acquired in a business combination. Specifically, the Company would allocate the fair value to all of its assets and liabilities, including any unrecognized intangibles, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, an impairment charge would be recorded to earnings in the consolidated statements of operations.

The Company did not recognize any goodwill impairment charges during the years ended December 31, 2016 and 2015. A goodwill impairment charge of $74.2 million was recorded in 2014, which was the entire goodwill balance related to the service provider reporting unit.

Intangibles, net

Purchased intangibles with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from three to ten years. Finite-lived intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition.

During the years ended December 31, 2016, there were no events or changes in circumstances that indicated the carrying amount of our finite-lived assets may not be recoverable from their undiscounted cash flows. Consequently, we did not perform an impairment test. The Company recorded no impairments to intangibles during the years ended December 31, 2016 , 2015 and 2014 .

Warranty obligations

The Company provides for estimated future warranty obligations at the time revenue is recognized. The Company's standard warranty obligation to its direct customers generally provides for a right of return of any product for a full refund in the event that such product is not merchantable or is found to be damaged or defective. At the time revenue is recognized, an estimate of future warranty returns is recorded to reduce revenue in the amount of the expected credit or refund to be provided to its direct customers. At the time the Company records the reduction to revenue related to warranty returns, the Company includes within cost of revenue a write-down to reduce the carrying value of such products to net realizable value. The Company's standard warranty obligation to its end-users provides for replacement of a defective product for one or more years. Factors that affect the warranty obligation include product failure rates, material usage, and service delivery costs incurred in correcting product failures. The estimated cost associated with fulfilling the Company's warranty obligation to end-users is recorded in cost of revenue. Because the Company's products are manufactured by third-party manufacturers, in certain cases the Company has recourse to the third-party manufacturer for replacement or credit for the defective products. The Company gives consideration to amounts recoverable from its third-party manufacturers in determining its warranty liability.

Revenue recognition

Revenue from product sales is generally recognized at the time the product is shipped provided that persuasive evidence of an arrangement exists, title and risk of loss has transferred to the customer, the selling price is fixed or determinable and collection of the related receivable is reasonably assured. Currently, for some of the Company's customers, title passes to the customer upon delivery to the port or country of destination, upon their receipt of the product, or upon the customer's resale of the product. At the end of each fiscal quarter, the Company estimates and defers revenue related to product where title has not transferred. The revenue continues to be deferred until such time that title passes to the customer. The Company assesses collectability based on a number of factors, including general economic and market conditions, past transaction history with the customer, and the creditworthiness of the customer. If the Company determines that collection is not reasonably assured, then revenue is deferred until receipt of the payment from the customer.

The Company has product offerings with multiple elements. The Company's multiple-element product offerings include hardware with free services, networking hardware with embedded software, various software subscription services, and support, which are considered separate units of accounting. In general, the hardware and networking hardware with embedded software are delivered up front, while the free services are delivered over the stated service period, or the estimated useful life, while the subscription services and support are delivered over the subscription and support period. The Company allocates revenue to the deliverables based upon their relative selling price. Revenue allocated to each unit of accounting is then recognized when persuasive evidence of an arrangement exists, title and risk of loss has transferred to the customer, the selling price is fixed or determinable and collection of the related receivable is reasonably assured.

When applying the relative selling price method, the Company determines the selling price for each deliverable using vendor-specific objective evidence ("VSOE") of fair value of the deliverable, or when VSOE of fair value is unavailable, its best estimate of selling price (“ESP”), as the Company has determined it is unable to establish third-party evidence of selling price for the deliverables. In determining VSOE, the Company requires that a substantial majority of the selling prices for a deliverable sold on a stand-alone basis fall within a reasonably narrow pricing range, generally evidenced by approximately 80% of such historical stand-alone transactions falling within +/-15% of the median price. The Company determines ESP for a deliverable by considering multiple factors including, but not limited to, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. The objective of ESP is to determine the price at which the Company would transact a sale if the deliverable were sold on a stand-alone basis. The determination of ESP is made through consultation with and formal approval by the Company's management, taking into consideration the go-to-market strategy.

Certain distributors and retailers generally have the right to return product for stock rotation purposes. Upon shipment of the product, the Company reduces revenue for an estimate of potential future product warranty and stock rotation returns related to the current period product revenue. Management analyzes historical returns, channel inventory levels, current economic trends and changes in customer demand for the Company's products when evaluating the adequacy of the allowance for sales returns, namely warranty and stock rotation returns. Revenue on shipments is also reduced for estimated price protection and sales incentives deemed to be contra-revenue under the authoritative guidance for revenue recognition.

Sales incentives

The Company accrues for sales incentives as a marketing expense if it receives an identifiable benefit in exchange and can reasonably estimate the fair value of the identifiable benefit received; otherwise, it is recorded as a reduction to revenues. As a consequence, the Company records a substantial portion of its channel marketing costs as a reduction of revenue.

The Company records estimated reductions to revenues for sales incentives at the later of when the related revenue is recognized or when the program is offered to the customer or end consumer.

Shipping and handling fees and costs

The Company includes shipping and handling fees billed to customers in net revenue. Shipping and handling costs associated with inbound freight are included in cost of revenue. In cases where the Company gives a freight allowance to the customer for their own inbound freight costs, such costs are appropriately recorded as a reduction in net revenue. Shipping and handling costs associated with outbound freight are included in sales and marketing expenses and totaled $9.2 million , $10.4 million and $10.5 million in the years ended December 31, 2016 , 2015 and 2014 respectively.

Research and development

Costs incurred in the research and development of new products are charged to expense as incurred.

Advertising costs

Advertising costs are expensed as incurred. Total advertising and promotional expenses were $24.5 million , $19.4 million , and $19.1 million in the years ended December 31, 2016 , 2015 and 2014 respectively.

Income taxes

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. 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.

In the ordinary course of business there is inherent uncertainty in assessing the Company's income tax positions. The Company assesses its tax positions and records benefits for all years subject to examination based on management's evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company records the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recorded in the financial statements. Where applicable, associated interest and penalties have also been recognized as a component of income tax expense.

Net income per share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the additional dilution from potential issuances of common stock, such as stock issuable pursuant to the exercise of stock options, vesting of restricted stock awards, and issuances of ESPP. Potentially dilutive shares are excluded from the computation of diluted net income per share when their effect is anti-dilutive.

Stock-based compensation

The Company measures stock-based compensation at the grant date based on the fair value of the award. The fair value of stock options is estimated using the Black-Scholes option pricing model. Estimated compensation cost relating to restricted stock units ("RSUs") is based on the closing fair market value of the Company's common stock on the date of grant. Prior to February 16, 2016, the fair value of Employee Stock Purchase Plan ("ESPP") was based on the 15% discount at purchase, since the price of the shares was determined at the purchase date. Beginning February 16, 2016, the fair value of the shares offered under the ESPP is estimated at grant using a Black-Scholes option valuation model.

The compensation expense for equity awards is reduced by an estimate for forfeitures and is recognized over the vesting period of the award under a graded vesting method. In addition, the Company will recognize an excess benefit from stock-based compensation in equity based on the difference between tax expense computed with consideration of the windfall deduction and without consideration of the windfall deduction. In addition, the Company accounts for the indirect effects of stock-based compensation on the research tax credit and the foreign tax credit in the income statement. See Note 10, *Employee Benefit Plans* , in Notes to Consolidated Financial Statements for a further discussion on stock-based compensation.

Comprehensive income

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that the Company excluded from net income, including gains and losses related to fair value of short-term investments and the effective portion of cash flow hedges that were outstanding as of the end of the year.

Foreign currency translation and re-measurement

The Company's functional currency is the U.S. dollar for all of its international subsidiaries. Foreign currency transactions of international subsidiaries are re-measured into U.S. dollars at the end-of-period exchange rates for monetary assets and liabilities, and at historical exchange rates for non-monetary assets. Revenue is re-measured at average exchange rates in effect during each period. Expenses are re-measured at average exchange rates in effect during each period, except for expenses related to non-monetary assets, which are re-measured at historical exchange rates. Gains and losses arising from foreign currency transactions are included in Other income (expense), net.

Recent accounting pronouncements

Accounting Pronouncement Recently Adopted

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") 2015-11, "Simplifying the Measurement of Inventory" (Topic 330). The new guidance changes the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. ASU 2015-11 should be applied on a prospective basis and is effective for the Company beginning in the first fiscal quarter of 2017. Early adoption is permitted. The Company elected to early adopt the ASU 2015-11 effective December 31, 2016 on a prospective basis. There was no impact of the adoption on the Company's financial position, results of operations or cash flows and such statements have been presented in accordance with this new guidance.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes" (Topic 740), which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position. ASU 2015-17 may be adopted either prospectively or retrospectively and is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company elected to early adopt ASU 2015-17 effective December 31, 2015 on a prospective basis. Adoption of this ASU resulted in a reclassification of the Company's net current deferred tax asset to the net non-current deferred tax asset in its consolidated balance sheets as of December 31, 2015.

Accounting Pronouncements Not Yet Effective

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606), which was further updated in March, April, May and December 2016. The guidance in this update supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition". Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. An entity should apply the amendments in the update either retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application (modified retrospective method). On July 9, 2015, the FASB concluded to delay the effective date of the new revenue standard by one year. ASU 2014-09 is effective for the Company beginning in the first quarter of fiscal 2018 and early adoption is permitted. The Company currently anticipates adopting the new standard effective January 1, 2018. The company continues to evaluate the impact of the new standard on its consolidated financial statements and disclosures. Although the Company is still in the process of evaluating its contracts, at this stage of the process, it does not believe the adoption of ASU 2014-09 will have a significant impact on the amount or timing of its revenues. The accounting for consideration payable to a customer under ASU 2014-09 differs to the superseded guidance, which consequently may require the Company to estimate for future consideration payable to a customer ahead of commitment date. The impact of this guidance change is still being evaluated but may result, upon adoption, of an adjustment to the statement of financial position to bring forward the recognition of as of yet committed liabilities at the adoption date. The Company expects to complete the assessment process, including selecting a transition method for adoption, by the end of the third quarter of fiscal 2017 along with the implementation process prior to the first quarter of fiscal 2018.

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities" (Subtopic 825-10), which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance also clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for the Company in the first quarter of fiscal 2018 and early adoption is permitted. The Company is currently evaluating the impact the update will have on its financial position, results of operations and cash flows and related disclosures.

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

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" (Topic 718), which simplifies the accounting for share-based payment transactions, including the income tax consequences, forfeitures, and statutory tax withholding requirements, as well as classification on the statements of cash flows. ASU 2016-09 is effective for the Company beginning in the first quarter of fiscal 2017, with early adoption permitted. The Company will adopt the guidance in the first quarter of fiscal 2017. The Company does not expect the adoption will have material impacts on its financial position, results of operations or cash flows, and expects the primary impact of this standard to be the income tax effects of awards recognized in the income statement when the awards are vested or settled. The tax impacts cannot be quantified until the award vest or settlement date.

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

In October 2016, the FASB issued ASU 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory" (Topic 740), which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This removes the exception to postpone recognition until the asset has been sold to an outside party. ASU 2016-16 is effective for the Company in the first quarter of fiscal 2018 and early adoption is permitted. The Company is currently evaluating what impact, if any, the adoption of this guidance will have on its financial position, results of operations and cash flows.

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

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

Note 2. Business Acquisition

Placemeter, Inc.

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

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

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

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

The $3.7 million of goodwill recorded on the acquisition of Placemeter is not deductible for U.S. federal or U.S. state income tax purposes. The goodwill recognized, which was assigned to the Company's retail business unit, is primarily attributable to expected synergies resulting from the acquisition.

In connection with the acquisition, the Company recorded $0.3 million of deferred tax liabilities net of deferred tax assets. The deferred tax liabilities were recorded for the book basis of intangible assets for which the Company has no tax basis. The deferred tax liabilities are reduced by the tax benefit of the net operating losses as of the date of the acquisition after consideration of limitations on the use under U.S. Internal Revenue Code section 382.

The Company designated $5.5 million of the acquired intangibles as software technology and a further $0.2 million of the acquired intangibles as database. The valuations were arrived at using the replacement cost method, with consideration having been given to the estimated time, investment and resources required to recreate the acquired intangibles. A discount rate of 15.0% was used in the valuation of each intangible. The acquired intangibles are being amortized over an estimated useful life of four years .

The Company designated $0.3 million of the acquired intangibles as non-compete agreements. The value was calculated based on the present value of the future estimated cash flows derived from projections of future operations attributable to the non-compete agreements and discounted at 20.0% . The acquired agreements are being amortized over an estimated useful life of three years .

Note 3. Balance Sheet Components

Available-for-sale short-term investments

	As of							
	December 31, 2016				December 31, 2015			
	Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(In thousands)							
U.S. treasuries	$ 123,869	$ 9	$ (40)	$ 123,838	$ 95,057	$ 1	$ (65)	$ 94,993
Certificates of deposits	148	—	—	148	147	—	—	147
Total	$ 124,017	$ 9	$ (40)	$ 123,986	$ 95,204	$ 1	$ (65)	$ 95,140

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

Accounts receivable, net

	As of	
	December 31, 2016	December 31, 2015
	(In thousands)	
Gross accounts receivable	$ 333,080	$ 309,926
Allowance for doubtful accounts	(1,255)	(1,255)
Allowance for sales returns	(13,506)	(15,904)
Allowance for price protection	(4,480)	(2,125)
Total allowances	(19,241)	(19,284)
Total accounts receivable, net	$ 313,839	$ 290,642

Inventories

	As of	
	December 31, 2016	December 31, 2015
	(In thousands)	
Raw materials	$ 4,596	$ 4,292
Work-in-process	—	2
Finished goods	243,266	208,824
Total inventories	$ 247,862	$ 213,118

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

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

Property and equipment, net

	As of	
	December 31, 2016	December 31, 2015
	(In thousands)	
Computer equipment	$ 10,557	$ 11,161
Furniture, fixtures and leasehold improvements	20,827	18,317
Software	28,663	30,396
Machinery and equipment	63,446	66,662
Total property and equipment, gross	123,493	126,536
Accumulated depreciation and amortization	(104,020)	(104,152)
Total property and equipment, net	$ 19,473	$ 22,384

Depreciation and amortization expense pertaining to property and equipment was $14.6 million , $18.1 million and $17.6 million for the years ended December 31, 2016 , 2015 and 2014 , respectively.

Intangibles, net

The following tables present details of the Company’s purchased intangibles:

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

	As of December 31, 2015		
	Gross	Accumulated Amortization	Net
		(In thousands)	
Technology	$ 61,099	$ (48,485)	$ 12,614
Customer contracts and relationships	56,500	(23,290)	33,210
Other	10,545	(7,422)	3,123
Total intangibles, net	$ 128,144	$ (79,197)	$ 48,947

Amortization of purchased intangibles in the years ended December 31, 2016 , 2015 and 2014 was $17.0 million , $17.3 million and $17.9 million , respectively. No impairment charges were recorded in the years ended December 31, 2016 , 2015 and 2014 .

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

Year Ended December 31,	Amounts (In thousands)
2017	$ 12,911
2018	9,396
2019	7,544
2020	6,622
2021	1,413
Thereafter	13
Total estimated amortization expense	$ 37,899

Goodwill

The changes in the carrying amount of goodwill during the years ended December 31, 2016 and 2015 are as follows:

	Retail	Commercial	Service Provider	Total
		(In thousands)		
As of December 31, 2014	$ 45,442	$ 36,279	$ —	$ 81,721
Goodwill impairment charges	—	—	—	—
As of December 31, 2015	45,442	36,279	—	81,721
Goodwill from acquisition of Placemeter	3,742	—	—	3,742
As of December 31, 2016	$ 49,184	$ 36,279	$ —	$ 85,463

In the fourth fiscal quarter of 2016 , the Company completed the annual impairment test of goodwill. The test was performed as of the first day of the fourth quarter, or October 3, 2016.

The Company performed a qualitative test for goodwill impairment of the retail and commercial reporting units as of October 3, 2016. Based upon the results of the qualitative testing, the respective fair values of the retail and commercial reporting units were substantially in excess of these reporting units' carrying values. The Company believes it is more-likely-than-not that the fair value of these reporting units are greater than their respective carrying values and therefore performing the first step of the two-step impairment test for the retail and commercial reporting units was unnecessary. No goodwill impairment was recognized for the retail and commercial reporting units in the years ended December 31, 2016 , 2015 or 2014 .

In the fourth quarter of fiscal year 2014, the Company recorded a goodwill impairment charge of $74.2 million related to the service provider reporting unit. There were no impairments to goodwill in the years ended December 31, 2016 and 2015 . Accumulated goodwill impairment charges for the years ended December 31, 2016 and 2015 , was $74.2 million and $74.2 million , respectively.

Other non-current assets

	As of	
	December 31, 2016	December 31, 2015
	(In thousands)	
Non-current deferred income taxes	$ 70,859	$ 68,445
Other	7,977	7,929
Total other non-current assets	$ 78,836	$ 76,374

Other accrued liabilities

	As of	
	December 31, 2016	December 31, 2015
	(In thousands)	
Sales and marketing programs	$ 74,330	$ 69,693
Warranty obligation	58,520	56,706
Freight	8,980	5,748
Other	28,844	34,135
Total other accrued liabilities	$ 170,674	$ 166,282

Note 4. Derivative Financial Instruments

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

The Company's foreign currency forward contracts do not contain any credit-risk-related contingent features. The Company is exposed to credit losses in the event of nonperformance by the counter-parties of its forward contracts. The Company enters into derivative contracts with high-quality financial institutions and limits the amount of credit exposure to any one counter-party. In addition, the derivative contracts typically mature in less than nine months and the Company continuously evaluates the credit standing of its counter-party financial institutions. The counter-parties to these arrangements are large highly rated financial institutions and the Company does not consider non-performance a material risk.

The Company may choose not to hedge certain foreign exchange exposures for a variety of reasons, including, but not limited to, materiality, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign exchange rates. The Company's accounting policies for these instruments are based on whether the instruments are designated as hedge or non-hedge instruments in accordance with the authoritative guidance for derivatives and hedging. The Company records all derivatives on the balance sheets at fair value. The effective portions of cash flow hedges are recorded in other comprehensive income ("OCI") until the hedged item is recognized in earnings. Derivatives that are not designated as hedging instruments and the ineffective portions of its designated hedges are adjusted to fair value through earnings in other income (expense), net in the consolidated statements of operations.

The fair values of the Company's derivative instruments and the line items on the consolidated balance sheets to which they were recorded as of December 31, 2016 , and 2015 , are summarized as follows:

Derivative Assets	Balance Sheets Location	Fair value at December 31, 2016	Balance Sheets Location	Fair value at December 31, 2015
		(In thousands)		(In thousands)
Derivative assets not designated as hedging instruments	Prepaid expenses and other current assets	$ 5,873	Prepaid expenses and other current assets	$ 3,203
Derivative assets designated as hedging instruments	Prepaid expenses and other current assets	2,890	Prepaid expenses and other current assets	2
Total		$ 8,763		$ 3,205

Derivative Liabilities	Balance Sheets Location	Fair value at December 31, 2016	Balance Sheets Location	Fair value at December 31, 2015
		(In thousands)		(In thousands)
Derivative liabilities not designated as hedging instruments	Other accrued liabilities	$ 1,002	Other accrued liabilities	$ 447
Derivative liabilities designated as hedging instruments	Other accrued liabilities	703	Other accrued liabilities	4
Total		$ 1,705		$ 451

See Note 12, *Fair Value Measurements,* in Notes to Consolidated Financial Statements for detailed disclosures regarding fair value measurements in accordance with the authoritative guidance for fair value measurements and disclosures.

Offsetting Derivative Assets and Liabilities

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

The following tables set forth the offsetting of derivative assets as of December 31, 2016 and 2015 :

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
As of December 31, 2016	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Of Assets Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Pledged	Net Amount
			(In thousands)			
J.P. Morgan Chase	$ 1,492	$ —	$ 1,492	$ (442)	$ —	$ 1,050
Wells Fargo	7,271	—	7,271	(1,263)	—	6,008
Total	$ 8,763	$ —	$ 8,763	$ (1,705)	$ —	$ 7,058

As of December 31, 2015	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheets: Cash Collateral Pledged	Net Amount
			(In thousands)			
Barclays	$ 577	$ —	$ 577	$ (56)	$ —	$ 521
Wells Fargo	2,628	—	2,628	(395)	—	2,233
Total	$ 3,205	$ —	$ 3,205	$ (451)	$ —	$ 2,754

The following tables set forth the offsetting of derivative liabilities as of December 31, 2016 and 2015 :

As of December 31, 2016	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheets: Cash Collateral Pledged	Net Amount
			(In thousands)			
J.P. Morgan Chase	$ 442	$ —	$ 442	$ (442)	$ —	$ —
Wells Fargo	1,263	—	1,263	(1,263)	—	—
Total	$ 1,705	$ —	$ 1,705	$ (1,705)	$ —	$ —

As of December 31, 2015	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheets: Cash Collateral Pledged	Net Amount
			(In thousands)			
Barclays	$ 56	$ —	$ 56	$ (56)	$ —	$ —
Wells Fargo	395	—	395	(395)	—	—
Total	$ 451	$ —	$ 451	$ (451)	$ —	$ —

Cash flow hedges

To help manage the exposure of operating margins to fluctuations in foreign currency exchange rates, the Company hedges a portion of its anticipated foreign currency revenue, costs of revenue and certain operating expenses. These hedges are designated at the inception of the hedge relationship as cash flow hedges under the authoritative guidance for derivatives and hedging. Effectiveness is tested at least quarterly both prospectively and retrospectively using regression analysis to ensure that the hedge relationship has been effective and is likely to remain effective in the future. The Company typically hedges portions of its anticipated foreign currency exposure for five to eight months. The Company enters into about ten forward contracts per quarter with an average size of approximately $8 million USD equivalent related to its cash flow hedging program.

The Company expects to reclassify to earnings all of the amounts recorded in OCI associated with its cash flow hedges over the next 12 months. OCI associated with cash flow hedges of foreign currency revenue is recognized as a component of net revenue in the same period as the related revenue is recognized. OCI associated with cash flow hedges of foreign currency costs of revenue and operating expenses are recognized as a component of cost of revenue and operating expense in the same period as the related costs of revenue and operating expenses are recognized.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur within the designated hedge period or if not recognized within 60 days following the end of the hedge period. Deferred gains and losses in OCI associated with such derivative instruments are reclassified immediately into earnings through other income (expense), net. Any subsequent changes in the fair value of such derivative instruments are reflected in current earnings unless they are re-designated as hedges of other transactions. The Company did not recognize any material net gains or losses related to the loss of hedge designation on discontinued cash flow hedges during the years ended December 31, 2016 , 2015 and 2014 .

The pre-tax effects of the Company's derivative instruments on OCI and the consolidated statements of operations for the years ended December 31, 2016 , 2015 and 2014 are summarized as follows:

	Year Ended December 31, 2016				
Derivatives Designated as Hedging Instruments	**Gains (Losses) Recognized in OCI - Effective Portion**	**Location of Gains (Losses) Reclassified from OCI into Income - Effective Portion**	**Gains (Losses) Reclassified from OCI into Income - Effective Portion [1]**	**Location of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing**	**Amount of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing**
			(In thousands)		
Cash flow hedges:					
Foreign currency forward contracts	$ 3,007	Net revenue	$ 1,100	Other income (expense), net	$ 365
Foreign currency forward contracts	—	Cost of revenue	(6)	Other income (expense), net	—
Foreign currency forward contracts	—	Operating expenses	(274)	Other income (expense), net	—
Total	$ 3,007		$ 820		$ 365

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

	Year Ended December 31, 2015				
Derivatives Designated as Hedging Instruments	**Gains (Losses) Recognized in OCI - Effective Portion**	**Location of Gains (Losses) Reclassified from OCI into Income - Effective Portion**	**Gains (Losses) Reclassified from OCI into Income - Effective Portion [1]**	**Location of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing**	**Amount of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing**
			(In thousands)		
Cash flow hedges:					
Foreign currency forward contracts	$ 453	Net revenue	$ 462	Other income (expense), net	$ (52)
Foreign currency forward contracts	—	Cost of revenue	6	Other income (expense), net	—
Foreign currency forward contracts	—	Operating expenses	(15)	Other income (expense), net	—
Total	$ 453		$ 453		$ (52)

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

Derivatives Designated as Hedging Instruments	Year Ended December 31, 2014				
	Gains (Losses) Recognized in OCI - Effective Portion	Location of Gains (Losses) Reclassified from OCI into Income - Effective Portion	Gains (Losses) Reclassified from OCI into Income - Effective Portion [1]	Location of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gains (Losses) Recognized in Income and Excluded from Effectiveness Testing
			(In thousands)		
Cash flow hedges:					
Foreign currency forward contracts	$ 292	Net revenue	$ 459	Other income (expense), net	$ (144)
Foreign currency forward contracts	—	Cost of revenue	4	Other income (expense), net	—
Foreign currency forward contracts	—	Operating expenses	(149)	Other income (expense), net	—
Total	$ 292		$ 314		$ (144)

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

The Company did not recognize any material net gains or losses related to the loss of hedge designation as there were no discontinued cash flow hedges during the years ended December 31, 2016 , 2015 and 2014 .

Non-designated hedges

The Company enters into non-designated hedges under the authoritative guidance for derivatives and hedging to manage the exposure of non-functional currency monetary assets and liabilities held on its financial statements to fluctuations in foreign currency exchange rates, as well as to reduce volatility in other income and expense. The non-designated hedges are generally expected to offset the changes in value of its net non-functional currency asset and liability position resulting from foreign exchange rate fluctuations. Foreign currency denominated accounts receivable and payable are hedged with non-designated hedges when the related anticipated foreign revenue and expenses are recognized in the Company's financial statements. The Company also hedges certain non-functional currency monetary assets and liabilities that may not be incorporated into the cash flow hedge program. The Company adjusts its non-designated hedges monthly and enters into about ten non-designated derivatives per quarter. The average size of its non-designated hedges is approximately $2 million USD equivalent and these hedges normally range from one to three months in duration.

The effects of the Company's derivatives not designated as hedging instruments in other income (expense), net in the consolidated statements of operations for the years ended December 31, 2016 , 2015 and 2014 , are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gains (Losses) Recognized in Income on Derivative	Year ended December 31,		
		2016	2015	2014
			(In thousands)	
Foreign currency forward contracts	Other income (expense), net	3,789	4,956	$ 4,897

Note 5. Net Income Per Share

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

Net income per share for the years ended December 31, 2016 , 2015 and 2014 was as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands, except per share data)		
Numerator:			
Net income	$ 75,851	$ 48,584	$ 8,788
Denominator:			
Weighted average common shares - basic	32,758	33,161	35,771
Potentially dilutive common share equivalent	970	627	674
Weighted average common shares - dilutive	33,728	33,788	36,445
Basic net income per share	$ 2.32	$ 1.47	$ 0.25
Diluted net income per share	$ 2.25	$ 1.44	$ 0.24
Anti-dilutive employee stock-based awards, excluded	258	1,807	2,617

Note 6. Other Income (Expense), Net

Other income (expense), net consisted of the following:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Foreign currency transaction loss, net	$ (3,835)	$ (5,114)	$ (5,642)
Foreign currency contract gain, net	4,154	4,904	4,753
Gain on litigation settlements	—	—	2,800
Other	(440)	122	544
Total	$ (121)	$ (88)	$ 2,455

Note 7. Income Taxes

Income before income taxes and the provision for income taxes consisted of the following:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
United States	$ 88,748	$ 88,681	$ 25,152
International	26,321	(3,117)	5,609
Total	$ 115,069	$ 85,564	$ 30,761

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Current:			
U.S. Federal	$ 33,267	$ 30,970	$ 29,089
State	2,693	3,139	2,873
Foreign	6,278	6,105	10,930
	42,238	40,214	42,892
Deferred:			
U.S. Federal	(2,052)	(2,645)	(20,347)
State	441	134	(326)
Foreign	(1,409)	(723)	(246)
	(3,020)	(3,234)	(20,919)
Total	$ 39,218	$ 36,980	$ 21,973

Net deferred tax assets consisted of the following:

	Year Ended December 31,	
	2016	2015
	(In thousands)	
Deferred Tax Assets:		
Accruals and allowances	$ 32,303	$ 29,279
Net operating loss carryforwards	6,358	5,353
Stock-based compensation	8,250	9,895
Deferred rent	3,002	2,740
Deferred revenue	1,957	1,185
Tax credit carryforwards	1,543	2,262
Acquired intangibles	21,871	22,778
Depreciation and amortization	1,160	—
Total deferred tax assets	76,444	73,492
Deferred Tax Liabilities:		
Depreciation and amortization	—	(967)
Other	(991)	(438)
Total deferred tax liabilities	(991)	(1,405)
Valuation Allowance [1]	(4,594)	(3,642)
Net deferred tax assets	$ 70,859	$ 68,445

(1) Valuation allowance is presented gross. The valuation allowance net of the federal tax effect is ($2,986) and ($2,367) for the years ended December 31, 2016 and 2015 , respectively.

Management's judgment is required in determining the Company's provision for income taxes, its deferred tax assets and any valuation allowance recorded against its deferred tax assets. As of December 31, 2016 , a valuation allowance of $4.6 million was placed against California deferred tax assets since the recovery of the assets is uncertain. There was a valuation allowance of $3.6 million placed against deferred tax assets as of December 31, 2015. Accordingly, the valuation allowance increased $1.0 million during 2016 . In management's judgment it is more likely than not that the remaining deferred tax assets will be realized in the future as of December 31, 2016, and as such no valuation allowance has been recorded against the remaining deferred tax assets.

The effective tax rate differs from the applicable U.S. statutory federal income tax rate as follows:

	Year Ended December 31,		
	2016	2015	2014
Tax at federal statutory rate	35.0 %	35.0 %	35.0 %
State, net of federal benefit	1.8 %	2.6 %	2.5 %
Impact of international operations	(2.7)%	7.1 %	19.8 %
Stock-based compensation	1.2 %	(0.4)%	5.5 %
Tax credits	(0.9)%	(1.2)%	(3.8)%
Valuation allowance	— %	— %	3.5 %
Goodwill impairment	— %	— %	7.8 %
Others	(0.3)%	0.1 %	1.1 %
Provision for income taxes	34.1 %	43.2 %	71.4 %

Income tax benefits (provision) in the amount of $2.5 million , $(2.2) million and $(0.5) million related to stock options were credited to additional paid-in capital during the years ended December 31, 2016 , 2015 , and 2014 , respectively. As a result of changes in fair value of available-for-sale securities and foreign currency hedging, income tax (provision) benefits of $(285,000) ,

$21,000 and $5,000 were recorded in comprehensive income related to the years ended December 31, 2016 , 2015 , and 2014 , respectively.

As of December 31, 2016 , the Company has approximately $18.2 million of acquired federal net operating loss carry forwards as well as $1.5 million of California tax credits carryforwards. All of the losses are subject to annual usage limitations under Internal Revenue Code Section 382. The federal losses expire in different years beginning in fiscal 2021 . The California tax credit carryforwards have no expiration.

The Company files income tax returns in the U.S. federal jurisdiction and various state, local, and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations for years before 2011. The U.S. federal Internal Revenue Service (IRS) recently commenced an audit of the tax year ended December 31, 2014. The Company is no longer subject to foreign income tax examinations before 2004. The Italian Tax Authority (ITA) has audited the Company's 2004 through 2012 tax years. The Company is currently in litigation with the ITA with respect to all of these years. In April 2015, the German Tax Authority (GTA) commenced an examination of the Company's 2008 and 2013 tax years. The examination is ongoing. The Company has limited audit activity in various states and other 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 12 months. The existing tax positions of the Company continue to generate an increase in the liability for uncertain tax positions. The liability for uncertain tax positions may be reduced for liabilities that are settled with taxing authorities or on which the statute of limitations could expire without assessment from tax authorities. The possible reduction in liabilities for uncertain tax positions resulting from the expiration of statutes of limitation in multiple jurisdictions in the next 12 months is approximately $1.0 million , excluding the interest, penalties and the effect of any related deferred tax assets or liabilities.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (“UTB”) is as follows:

	Federal, State, and Foreign Tax
	(In thousands)
Balance as of December 31, 2013	$ 12,743
Additions based on tax positions related to the current year	1,894
Additions for tax positions of prior years	1,722
Settlements	(503)
Reductions for tax positions of prior years	(152)
Reductions due to lapse of applicable statutes	(1,838)
Adjustments due to foreign exchange rate movement	(502)
Balance as of December 31, 2014	13,364
Additions based on tax positions related to the current year	1,608
Additions for tax positions of prior years	228
Settlements	(199)
Reductions for tax positions of prior years	(302)
Reductions due to lapse of applicable statutes	(1,053)
Adjustments due to foreign exchange rate movement	(816)
Balance as of December 31, 2015	$ 12,830
Additions based on tax positions related to the current year	1,523
Additions for tax positions of prior years	45
Settlements	—
Reductions for tax positions of prior years	(237)
Reductions due to lapse of applicable statutes	(627)
Adjustments due to foreign exchange rate movement	(569)
Balance as of December 31, 2016	12,965

The total amount of net UTB that, if recognized would affect the effective tax rate as of December 31, 2016 is $11.2 million . The ending net UTB results from adjusting the gross balance at December 31, 2016 for items such as U.S. federal and state deferred tax, interest, and deductible taxes. The net UTB is included as a component of non-current income taxes payable within the consolidated balance sheets.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2016 , 2015 , and 2014 , total interest and penalties expensed were $0.6 million , $0.1 million and $1.1 million , respectively. As of December 31, 2016 and 2015 , accrued interest and penalties on a gross basis was $3.6 million and $3.1 million , respectively. Included in accrued interest are amounts related to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

With the exception of those foreign sales subsidiaries for which deferred tax has been provided, the Company intends to indefinitely reinvest foreign earnings. These earnings were approximately $154.2 million and $136.9 million as of December 31, 2016 and 2015 , respectively. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the income tax liability that would be payable if such earnings were not indefinitely reinvested.

Note 8. Commitments and Contingencies

Leases

The Company leases office space, cars and equipment under operating leases, with various expiration dates through December 2026 . Rent expense in the years ended, December 31, 2016 , 2015 , and 2014 was $9.5 million , $9.8 million and $10.8 million , respectively. The terms of some of the Company's office leases provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

As of December 31, 2016, future minimum lease payments under non-cancelable operating leases are as follows:

Fiscal Year		Amount (In thousands)
2017	$	7,744
2018		7,138
2019		6,366
2020		5,381
2021		5,134
Thereafter		17,701
Total	$	49,464

Purchase Obligations

The Company has entered into various inventory-related purchase agreements with suppliers. Generally, under these agreements, 50% of orders are cancelable by giving notice 46 to 60 days prior to the expected shipment date and 25% of orders are cancelable by giving notice 31 to 45 days prior to the expected shipment date. Orders are non-cancelable within 30 days prior to the expected shipment date. As of December 31, 2016 , the Company had approximately $136.9 million in non-cancelable purchase commitments with suppliers. The Company establishes a loss liability for all products it does not expect to sell for which it has committed purchases from suppliers. Such losses have not been material to date. From time to time the Company's suppliers procure unique complex components on the Company's behalf. If these components do not meet specified technical criteria or are defective, the Company should not be obligated to purchase the materials. However, disputes may arise as a result and significant resources may be spent resolving such disputes.

Warranty obligations

Changes in the Company's warranty liability, which is included in other accrued liabilities in the consolidated balance sheets, are as follows:

	Year Ended December 31,					
	2016		2015		2014	
	(In thousands)					
Balance at the beginning of the year	$	56,706	$	44,888	$	48,754
Provision for warranty obligations made during the year		87,570		80,085		62,709
Settlements made during the year		(85,756)		(68,267)		(66,575)
Balance at the end of year	$	58,520	$	56,706	$	44,888

Guarantees and Indemnifications

The Company, as permitted under Delaware law and in accordance with its Bylaws, indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum amount of potential future indemnification is unlimited; however, the Company has a Director and Officer Insurance Policy that enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the fair value of each indemnification agreement is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of December 31, 2016 .

In its sales agreements, the Company typically agrees to indemnify its direct customers, distributors and resellers for any expenses or liability resulting from claimed infringements by the Company's products of patents, trademarks or copyrights of third parties, subject to customary carve outs. The terms of these indemnification agreements are generally perpetual any time after execution date of the respective agreement. The maximum amount of potential future infringement indemnification is generally unlimited. The Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of December 31, 2016 .

Employment Agreements

The Company has signed various employment agreements with key executives pursuant to which, if their employment is terminated without cause, such employees are entitled to receive their base salary (and commission or bonus, as applicable) for 52 weeks (for the Chief Executive Officer), 39 weeks (for the Senior Vice President of Worldwide Operations and Support) and up to 26 weeks (for other key executives). Such employees will also continue to have equity awards vest for up to a one -year period following such termination without cause. If a termination without cause or resignation for good reason occurs within one year of a change in control, such employees are entitled to full acceleration (for the Chief Executive Officer) and up to two years acceleration (for other key executives) of any unvested portion of his or her equity awards. The Company has no liabilities recorded for these agreements as of December 31, 2016 .

Litigation and Other Legal Matters

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

Ericsson v. NETGEAR, Inc.

On September 14, 2010, Ericsson Inc. and Telefonaktiebolaget LM Ericsson (collectively “Ericsson”) filed a patent infringement lawsuit against the Company and defendants D-Link Corporation, D-Link Systems, Inc., Acer, Inc., Acer America Corporation, and Gateway, Inc. in the U.S. District Court, Eastern District of Texas alleging that the defendants infringe certain Ericsson patents. The Company has been accused of infringing eight U.S. patents: 5,790,516 (the “‘516 Patent”); 6,330,435 (the “‘435 Patent”); 6,424,625 (the “‘625 Patent”); 6,519,223 (the “‘223 Patent”); 6,772,215 (the “‘215 Patent”); 5,987,019 (the “‘019 Patent”); 6,466,568 (the “‘568 Patent”); and 5,771,468 (the “'468 Patent"). Ericsson generally alleged that the Company and the other defendants have infringed and continue to infringe the Ericsson patents through the defendants' IEEE 802.11-compliant products. In addition, Ericsson alleged that the Company infringed the claimed methods and apparatuses of the '468 Patent through the Company's PCMCIA routers. The Company filed its answer to the Ericsson complaint on December 17, 2010 where it asserted the affirmative defenses of non-infringement and invalidity of the asserted patents. On June 8, 2011, Ericsson filed an amended complaint that added Dell, Toshiba and Belkin as defendants. At the status conference held on June 9, 2011, the Court set a Markman (claim construction) hearing for June 28, 2012 and trial for June 3, 2013. On June 21, 2012, Ericsson dismissed the '468 Patent (“Multi-purpose base station”) with prejudice and gave the Company a covenant not to sue as to products in the marketplace now or in the past. On June 22, 2012, Intel filed its Complaint in Intervention, meaning that Intel became an official defendant in the Ericsson case. During the exchange of the expert reports, Ericsson dropped the '516 Patent (the OFDM “pulse shaping” patent). In addition, Ericsson dropped the '223 Patent (packet discard patent) against all the defendants' products, except for those products that use Intel chips. Thus, Ericsson has now dropped the '468 Patent (wireless base station), the '516 Patent (OFDM pulse shaping), and the '223 Patent (packet discard patent) for all non-Intel products.

A jury trial in the Ericsson case occurred in the Eastern District of Texas from June 3 through June 13, 2013. After hearing the evidence, the jury found no infringement of the '435 and '223 Patents, and the jury found infringement of claim 1 of the '625 Patent, claims 1 and 5 of the '568 Patent, and claims 1 and 2 of the '215 Patent. The jury also found that there was no willful infringement by any defendant. Additionally, the jury found no invalidity of the asserted claims of the '435 and '625 Patents. The jury assessed the following damages against the defendants: D-Link: $435,000 ; NETGEAR: $3,555,000 ; Acer/Gateway:

$1,170,000 ; Dell: $1,920,000 ; Toshiba: $2,445,000 ; Belkin: $600,000 . The damages awards equated to 15 cent per unit for each accused 802.11 device sold by each defendant (5 cent per patent).

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

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

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

In September of 2013, Broadcom filed petitions in the USPTO at the Patent Trial and Appeal Board (PTAB) seeking inter partes review ("IPR") of Ericsson's three patents that the jury found were infringed by the Company and other defendants. On March 6, 2015, the PTAB invalidated all the claims of these three patents that were asserted against the Company and other defendants at trial -- claim 1 of the '625 Patent, claims 1 and 5 of the '568 Patent, and claims 1 and 2 of the '215 Patent -- ruling these claims were anticipated or obvious in light of prior art. The PTAB also rejected two motions to amend by Ericsson, which sought to substitute certain proposed claims in the '625 and '568 patents, should they be found unpatentable by the PTAB. This PTAB decision comes on top of the Federal Circuit decision (a) vacating the jury verdict after finding that the district court had not properly instructed the jury on royalty rates and Ericsson's licensing promises, and (b) ruling that no reasonable jury could have found the '625 Patent infringed. Ericsson appealed the PTAB decision to the Federal Circuit and also requested that the PTAB reconsider its decision, but the PTAB denied Ericsson's request for reconsideration. Accordingly, the Company reversed the accruals related to this case in the first fiscal quarter of 2015. On September 16, 2016, the Federal Circuit upheld the invalidity of certain claims of the '625 Patent, the '568 Patent, and '215 Patent, as previously determined by the PTAB. The Federal Circuit only issued one precedential written opinion, on the 215 Patent; the PTAB invalidity rulings on the '625 and '568 Patents were upheld without a written decision. Ericsson petitioned the Federal Circuit for an en banc rehearing of the Federal Circuits appeal decision, and the Federal Circuit agreed to the en banc rehearing. The present status of the case continues to be that the Company does not infringe on any valid Ericsson patent.

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

In November 2012, the Italian tax police began a comprehensive tax audit of NETGEAR International, Inc.'s Italian Branch. The scope of the audit initially was from 2004 through 2011 and was subsequently expanded to include 2012 . The tax audit encompassed Corporate Income Tax (IRES), Regional Business Tax (IRAP) and Value-Added Tax (VAT). In December 2013, December 2014, August 2015, and December 2015 an assessment was issued by Inland Revenue Agency, Provincial Head Office No. 1 of Milan-Auditing Department (Milan Tax Office) for the 2004 tax year, the 2005 through 2007 tax years, the 2008 through 2010 tax years, and the 2011 through 2012 tax years, respectively.

In May 2014, the Company filed with the Provincial Tax Court of Milan an appeal brief, including a Request for Hearing in Open Court and Request for Suspension of the Tax Assessment for the 2004 year. The hearing was held and decision was issued on December 19, 2014. The Tax Court decided in favor of the Company and nullified the assessment by the Inland Revenue Agency for 2004. The Inland Revenue Agency appealed the decision of the Tax Court on June 12, 2015. The Company filed its counter appeal with respect to the 2004 year during September 2015. On February 26, 2016 the Regional Tax Court conducted the appeals hearing for the 2004 year, ruling in favor of the Company. On June 13, 2016, the Inland Revenue Agency appealed the decision to the Supreme Court. The Company filed a counter appeal on July 23, 2016 and is awaiting scheduling of the hearing.

In June 2015, the Company filed with the Provincial Tax Court of Milan an appeal brief including a Request for Hearing in Open Court and Request for Suspension of the Tax Assessment for the 2005 through 2007 tax years. The hearing for suspension was held and the Request for Suspension of payment was granted. The hearing for the validity of the tax assessment for 2005 and 2006 was held in December 2015 with the Provincial Tax Court issuing its decision in favor of the Company. The Inland Revenue Agency filed its appeal with the Regional Tax Court. The Company filed its counter brief on September 30, 2016 and the hearing is scheduled for March 22, 2017.

The hearing for the validity of the tax assessment for 2007 was held on March 10, 2016 with the Provincial Tax Court who issued its decision in favor of the Company on April 7, 2016. The Inland Revenue Agency has filed its appeal to the Regional Tax Court and the Company has submitted its counter brief. The hearing has not yet been scheduled.

With respect to 2008 through 2010, the Company filed its briefs with the Tax Court in October 2015 and the hearing for the validity of the tax assessments was held on April 21, 2016 and a decision favorable to the Company was issued on May 12, 2016. The Inland Revenue Agency has filed its appeal to the Regional Tax Court. The Company filed its counter brief on February 1, 2017.

With respect to 2011 through 2012, the Company has filed its appeal brief on February 26, 2016 with the Provincial Tax Court to contest this assessment. The hearing for suspension was held and the Request for Suspension of payment was granted. On October 13, 2016, the Company filed its brief with the Provincial Tax Court. The hearing was held on October 24, 2016 and a decision favorable to the Company was issued by the Court. The Inland Revenue Agency has until May 8, 2017 to appeal the decision.

With regard to all tax years, it is too early to reasonably estimate any financial impact to the Company resulting from this litigation matter.

Via Vadis v. NETGEAR, Inc.

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

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

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

On February 6, 2015, the Company filed its motion to transfer venue from the Western District of Texas to the Northern District of California with the Court; on February 13, 2015, Via Vadis filed its opposition to the Company’s motion to transfer; and on February 20, 2015, the Company filed its reply brief on its motion to transfer. In early April 2015, the Company received the plaintiff’s infringement contentions, and on June 12, 2015, the defendants served invalidity contentions. On July 30, 2015 the Court granted the Company’s motion to transfer venue to the Northern District of California. In addition, the Company learned that Amazon and Blizzard filed petitions for the inter partes reviews (“IPRs”) for the patents in suit. On October 30, 2015, the Company and Via Vadis filed a joint stipulation requesting that the Court vacate all deadlines and enter a stay of all proceedings in the case pending the Patent Trial and Appeal Board’s final non-appealable decision on the IPRs initiated by Amazon and Blizzard. On November 2, 2015 the Court granted the requested stay. On March 8, 2016, the Patent Trial and Appeal Board issued written decisions instituting the IPRs jointly filed by Amazon and Blizzard.

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

Chrimar Systems, Inc. v NETGEAR, Inc.

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

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

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

On December 3, 2015, the Company filed with the Court a motion to transfer venue to the District Court for the Northern District of California and their memorandum of law in support thereof. On December 23, 2015, CMS filed its response to the Company’s motion to transfer, and, on January 8, 2016, the Company filed its reply brief in support of its motion to transfer venue. On January 15, 2016, the Court granted the Company’s motion to transfer venue to the District Court for the Northern District of California. The initial case management conference in the Northern District of California occurred on May 13, 2016, and on August 19, 2016, the parties exchanged preliminary claim constructions and extrinsic evidence. On August 26, 2016, the Company and three defendants in other Northern District of California CMS cases (Juniper Networks, Inc., Ruckus Wireless, Inc., and Fortinet, Inc.) submitted motions to stay their cases. The defendants in part argued that stays were appropriate pending the resolution of the currently-pending IPRs of the patents-in-suit before the Patent Trial and Appeal Board (PTAB), including four IPR Petitions filed by Juniper. On September 9, 2016, CMS submitted its opposition to the motions to stay the cases. On September 26, 2016, the Court ordered the cases stayed in their entirety, until the PTAB reaches institution decisions with respect to Juniper’s four pending IPR petitions. Juniper’s four IPR petitions were instituted by the PTAB in January 2017, and the Company subsequently moved to join the IPR petitions as an “understudy” to Juniper, only assuming a more active role in the petitions in the event Juniper settles with CMS. The Northern District of California CMS cases remain stayed in their entirety by the Court.

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

Tessera v. NETGEAR, Inc.

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

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

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

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

The claim construction hearing for the Investigation is scheduled for December 1, 2016; the evidentiary hearing is scheduled for March 27 - 31, 2017; and the target date for completion of the Investigation is October 24, 2017.

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

Discovery in the ITC case is ongoing. The Company stipulated to certain facts regarding its importation and inventory of Broadcom-based products in return for various relief from discovery, such as reduced depositions and discovery responses.

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

Symbology v. NETGEAR, Inc.

On June 7, 2016, the Company and numerous other companies were sued in the Eastern District of Texas by a non-practicing entity named Symbology Innovations, LLC (“Symbology”). The lawsuit alleges infringement of three patents: U.S. Patent Nos. 8,424,752 (the ‘752 Patent); 8,651,369 (the ‘369 Patent); and 8,936,190 (the ‘190 Patent) (collectively “Patents in Suit”). The Patents in Suit are all entitled “System and method for presenting information about an object on a portable electronic device”, and the complaint targets the Company’s use of QR codes. In total, Symbology has filed approximately 50 lawsuits against 50 companies alleging infringement of the Patents in Suit.

The alleged infringers Symbology is targeting are advertisers using QR codes. The plaintiff generally is alleging that the Patents in Suit cover the use of QR codes to display content from a website, such as using a mobile phone to scan the QR code, whereby the phone gets the URL from the QR code and fetches the associated web page and then displays it on the mobile phone.

The Company was served with the complaint on July 8, 2016. On August 29, 2016, the Company received Symbology’s Preliminary Infringement Contentions and Disclosures. On September 12, 2016 the Company filed its Answer to the Complaint, denying the allegations of infringement and asserting numerous affirmative defenses.

On September 30, 2016, the Company received Symbology’s Initial Disclosures. On October 3, 2016, the Company filed a Motion to Transfer the case from the Eastern District of Texas to the Northern District of California, and on October 10, 2016, the Company filed its Initial Disclosures and initial technical document production. Without admitting any wrongdoing or violation of law and to avoid the distraction and expense of continued litigation and the uncertainty of a jury verdict on the merits, on January 2, 2017, the Company and Symbology settled the lawsuit for a one-time payment from the Company to Symbology in return for a license to the Company to the Symbology patents and applications that are currently owned by Symbology. The lawsuit against the Company was dismissed with prejudice on January 23, 2017. The settlement did not have a material financial impact to the Company.

e.Digital v. NETGEAR, Inc.

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

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

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

Rothschild Patent Imaging v. NETGEAR, Inc.

On December 9, 2016, a non-practicing entity named Rothschild Patent Imaging filed a patent infringement lawsuit against the Company in the U.S. District Court, Eastern District of Texas. RPI asserts infringement of U.S. Patent Nos. 8,204,437, 8,437,797, and 8,594,722, each entitled "Wireless Image Distribution System and Method."

In its complaint, RPI alleges that its patents cover the wireless transmission of images from a mobile capturing device (e.g., security camera) to a user mobile device (e.g., smartphone) based on some pairing criterion between the capturing device and the user mobile device (e.g., proximate location, use of same user account). RPI specifically identifies the Company's "Arlo Q and Arlo Q Plus cameras" of infringing claim 1 of the '437 Patent, claim 6 of the '797 Patent, and claims 1 and 5 of the '722 Patent.

The answer was originally due on January 12, 2017, but the Company received an extension until February 13, 2017 to answer the Complaint, and on that date the Company answered the complaint by denying the infringement allegations, asserting various affirmative defenses, and bringing declaratory judgment counterclaims of non-infringement and invalidity of the patents in suit.

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

Script Security Solutions v. NETGEAR, Inc.

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

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

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

The answer was originally due on January 12, 2017, but the Company received an extension until February 21, 2017 to answer the Complaint. On that date, the Company answered the complaint by submitting a motion to dismiss the complaint because of Script's failure to properly and sufficiently state a claim for relief.

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

IP Indemnification Claims

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

Environmental Regulation

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

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

Note 9. Stockholders' Equity

Common Stock Repurchase Programs

On October 21, 2008, October 17, 2014 and July 21, 2015, the Company's Board of Directors authorized management to repurchase up to 6.0 million , 3.0 million and 3.0 million shares of the Company's outstanding common stock, respectively, which, at the time of authorization, were incremental to the remaining shares under the share repurchase programs. Under the authorizations, the Company may repurchase shares of its common stock, depending on market conditions, in the open market or through privately negotiated transactions. 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. As of December 31, 2016 , both share repurchase programs authorized prior to July 2015 have been completed and there were 1.3 million shares remaining in the Company's buyback program. The Company repurchased, reported based on trade date, approximately 0.9 million shares of common stock at a cost of $38.3 million during the year ended December 31, 2016 . During the years ended December 31, 2015 and December 31, 2014 , the Company repurchased and retired, reported based on trade date, approximately 3.8 million shares of common stock at a cost of $117.7 million and approximately 2.8 million shares of common stock at a cost of $90.6 million , respectively.

The Company repurchased, as reported based on trade date, approximately 0.1 million shares of common stock at a cost of $4.7 million , under a repurchase program to help administratively facilitate the withholding and subsequent remittance of personal income and payroll taxes for individuals receiving RSUs during the year ended December 31, 2016 . Similarly, during the years ended December 31, 2015 and December 31, 2014 , the Company repurchased approximately 85,000 shares of common stock at a cost of $2.6 million and 82,000 shares of common stock at a cost of $2.6 million , respectively, under the same program to help facilitate tax withholding for 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.

Accumulated Other Comprehensive Income (Loss)

The following table sets forth the changes in accumulated other comprehensive income by component during the years ended December 31, 2016 , 2015 and 2014 :

	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on derivatives	Estimated tax benefit (provision)	Total
		(In thousands)		
Balance as of December 31, 2013	$ 6	$ 65	$ (2)	$ 69
Other comprehensive income (loss) before reclassifications	(14)	292	5	283
Less: Amount reclassified from accumulated other comprehensive income	—	314	—	314
Net current period other comprehensive loss	(14)	(22)	5	(31)
Balance as of December 31, 2014	$ (8)	$ 43	$ 3	$ 38
Other comprehensive income (loss) before reclassifications	(56)	453	21	418
Less: Amount reclassified from accumulated other comprehensive income	—	453	—	453
Net current period other comprehensive loss	(56)	—	21	(35)
Balance as of December 31, 2015	$ (64)	$ 43	$ 24	$ 3
Other comprehensive income before reclassifications	33	3,007	(572)	2,468
Less: Amount reclassified from accumulated other comprehensive income	—	820	(287)	533
Net current period other comprehensive income	33	2,187	(285)	1,935
Balance as of December 31, 2016	$ (31)	$ 2,230	$ (261)	$ 1,938

The following tables provide details about significant amounts reclassified out of each component of accumulated other comprehensive income for the years ended December 31, 2016 , 2015 and 2014 :

	Year Ended December 31,					
	2016		2015		2014	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from AOCI	Affected Line Item in the Statements of Operations	Amount Reclassified from AOCI	Affected Line Item in the Statements of Operations	Amount Reclassified from AOCI	Affected Line Item in the Statements of Operations
			(In thousands)			
Gains (losses) on cash flow hedge:						
Foreign currency forward contracts	$ 1,100	Net revenue	$ 462	Net revenue	$ 459	Net revenue
Foreign currency forward contracts	(6)	Cost of revenue	6	Cost of revenue	4	Cost of revenue
Foreign currency forward contracts	(274)	Operating expenses	(15)	Operating expenses	(149)	Operating expenses
	820	Total before tax	453	Total before tax	314	Total before tax
	(287)	Tax impact	—	Tax impact [1]	—	Tax impact [1]
	$ 533	Total, net of tax	$ 453	Total, net of tax	$ 314	Total, net of tax

[1] Under the Company's 2015 and 2014 tax structure, all hedging gains and losses from derivative contracts were ultimately borne by a legal entity in a jurisdiction with no income tax.

Note 10. Employee Benefit Plans

2003 Stock Plan

In April 2003, the Company adopted the 2003 Stock Plan (the “2003 Plan”). The 2003 Plan provided for the granting of stock options to employees and consultants of the Company. During the second quarter of 2013, the Company's 2003 Stock Plan expired. No further equity awards can be granted under the 2003 Plan. Outstanding awards under the 2003 Stock Plan remain subject to the terms and conditions of the 2003 plan.

2006 Long Term Incentive Plan

In April 2006, the Company adopted the 2006 Long Term Incentive Plan (the “2006 Plan”). The 2006 Plan provides for the granting of stock options, stock appreciation rights, restricted stock, performance awards and other stock awards, to eligible directors, employees and consultants of the Company. The Company's 2006 Plan expired on April 13, 2016 by its terms. No further equity awards can be granted under the 2006 Plan. Outstanding awards under the 2006 Stock Plan remain subject to the terms and conditions of the 2006 plan.

2016 Equity Incentive Plan

In April 2016, the Company's Board of Directors adopted the 2016 Equity Incentive Plan (the "2016 Plan") which was approved by the Company's stockholders at the 2016 Annual Meeting of Stockholders on June 3, 2016. The 2016 Plan provides for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units to eligible directors, employees and consultants of the Company. Award vesting periods for this plan are generally four years . The maximum aggregate number of shares that may be issued under the 2016 Plan is 2.5 million Shares, plus (i) any shares that were available for grant under the Company’s 2006 Plan as of immediately prior to the 2006 Plan's expiration by its terms, which was 699,827 shares, plus (ii) any shares granted under the 2006 Plan that expire, are forfeited to or repurchased by the Company. As of December 31, 2016 , approximately 3.1 million shares were reserved for future grants under the 2016 Plan.

Options granted under the 2016 Plan may be either incentive stock options or nonstatutory stock options. Incentive stock options (“ISO”) may be granted only to Company employees (including officers and directors who are also employees). Nonstatutory stock options (“NSO”) may be granted to Company employees, directors and consultants. Options may be granted for periods of up to ten years and at prices no less than the estimated fair value of the common stock on the date of grant. In addition, the exercise price of an ISO granted to a 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. Options granted under the 2016 Plan generally vest over four years, the first tranche at the end of twelve months and the remaining shares underlying the option vesting monthly over the remaining three years .

Stock Appreciation Rights may be granted under the 2016 Plan subject to the terms specified by the plan administrator, provided that the term of any such right may not exceed ten years from the date of grant. The exercise price may not be less than the fair market value of the Company’s common stock on the date of grant.

Restricted stock awards may be granted under the 2016 Plan subject to the terms specified by the plan administrator. The period over which any restricted award may fully vest is generally no less than three years . Restricted stock awards are nonvested stock awards that may include grants of restricted stock or grants of restricted stock units. Restricted stock awards are rights to acquire or purchase shares that generally are subject to transferability and forfeitability restrictions for a specified period. Restricted stock has the same voting rights as other common stock and is considered to be currently issued and outstanding. Restricted stock units do not have the voting rights of common stock, and the shares underlying the restricted stock units are not considered issued and outstanding. The Company expenses the cost of the restricted stock awards, which is determined to be the fair market value of the shares at the date of grant, ratably over the period during which the restrictions lapse.

Performance units and performance shares are awards that result in a payment to a participant only if specified performance objectives or other vesting provisions are achieved during a specified performance period. Each performance unit will have an initial value established by the Administrator on or before the grant date. Each performance share will have an initial value equal to the fair market value of a share on the grant date. The plan administrator will determine the number of performance awards that will be granted and will establish the performance goals and other conditions for payment of such performance awards. The period of measuring the achievement of performance goals will be specified by an award agreement.

Other stock or cash awards may be granted under the 2016 Plan subject to the terms specified by the plan administrator.

Any shares subject to restricted stock, restricted stock units, performance units, or performance shares awarded under the 2016 Plan will be counted against the shares available for issuance under the 2016 Plan as one and fifty-eight hundredths (1.58) shares for every one share subject to such awards. Any shares of common stock subject to an award that is forfeited, settled in cash, expires or is otherwise settled without the issuance of shares shall again be available for awards under the 2016 Plan. Additionally, any shares that are tendered by a participant of the 2016 Plan or retained by the Company as full or partial payment to the Company for the purchase of an award or to satisfy tax withholding obligations in connection with an award shall no longer again be made available for issuance under the 2016 Plan.

Employee Stock Purchase Plan

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 common stock. Prior to February 16, 2016, employees could purchase stock semi-annually at a price equal to 85% of the fair market value on the purchase date. As the price of the shares was determined at the purchase date, the Company recognized expense based on the 15% discount at purchase. Beginning February 16, 2016, 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. The fair value of the shares offered under the ESPP is estimated at grant using a Black-Scholes option valuation model. In April 2016, the Company approved an amendment to the plan to increase the number of shares of common stock authorized for sale under the plan by 1.0 million shares to a total of 2.0 million shares. For the years ended December 31, 2016 , 2015 , and 2014 , the Company recognized ESPP compensation expense of $1.3 million , $0.5 million and $0.5 million , respectively. Employees purchased 0.1 million shares of common stock at an average exercise price of $31.47 in fiscal 2016. As of December 31, 2016 , 1.0 million shares were reserved for future issuance under the ESPP.

Option Activity

Stock option activity during the year ended December 31, 2016 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)	(In dollars)	(In years)	(In thousands)
Outstanding as of December 31, 2015	2,461	$ 30.08		
Granted	328	39.53		
Exercised	(888)	31.25		
Cancelled	(15)	34.13		
Expired	(2)	34.23		
Outstanding as of December 31, 2016	1,884	$ 31.14	5.88	$ 43,724
As of December 31, 2016				
Vested and expected to vest	1,811	$ 30.93	5.76	$ 42,413
Exercisable Options	1,236	$ 28.71	4.47	$ 31,690

The aggregate intrinsic values in the table above represent the total pre-tax intrinsic values (the difference between the Company's closing stock price on the last trading day of 2016 and the exercise price, multiplied by the number of shares underlying the in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2016 . This amount changes based on the fair market value of the Company's stock. Total intrinsic value of options exercised for the year ended December 31, 2016 , 2015 , and 2014 was $14.5 million , $11.4 million and $3.4 million , respectively.

The total fair value of options vested during the years ended December 31, 2016 , 2015 , and 2014 was $4.2 million , $6.5 million and $10.0 million , respectively.

The following table summarizes significant ranges of outstanding and exercisable stock options as of December 31, 2016 :

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price Per Share	Shares Exercisable	Weighted-Average Exercise Price Per Share
	(In thousands)	(In years)	(In dollars)	(In thousands)	(In dollars)
$10.69 - $28.79	417	2.35	$ 19.81	416	$ 19.78
$29.76 - $32.21	377	7.06	31.29	205	31.30
$32.30 - $32.55	385	6.79	32.51	264	32.51
$33.15 - $39.53	703	6.84	37.01	349	34.88
$40.01 - $40.01	2	5.09	40.01	2	40.01
$10.69 - $40.01	1,884	5.88	$ 31.14	1,236	$ 28.71

RSU Activity

RSU activity during the year ended December 31, 2016 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)	(In dollars)	(In years)	(In thousands)
Outstanding as of December 31, 2015	964	$ 31.63		
Granted	479	41.19		
Vested	(345)	31.40		
Cancelled	(102)	33.04		
Outstanding as of December 31, 2016	996	$ 36.22	1.36	$ 54,131

Total intrinsic value of RSUs, or the release date fair value of RSUs, vested during the years ended December 31, 2016 , 2015 and 2014 was $15.4 million , $8.9 million and $9.0 million , respectively. The total fair value or RSUs, or the grant date fair value of RSUs, vested during the years ended December 31, 2016 , 2015 and 2014 was $10.8 million , $8.8 million and $8.4 million , respectively.

Valuation and Expense Information

The Company measures stock-based compensation at the grant date based on the estimated fair value of the award. Estimated compensation cost relating to RSUs is based on the closing fair market value of the Company's common stock on the date of grant. The fair value of Employee Stock Purchase Plan ("ESPP") is based on the 15% discount at purchase, since the price of the shares is determined at the purchase date. The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton option valuation model that uses the assumptions noted in the following table. The estimated expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk free interest rate is based on the implied yield currently available on U.S. Treasury securities with a remaining term commensurate with the estimated expected term. Expected volatility is based on historical volatility over the most recent period commensurate with the estimated expected term.

The following table sets forth the weighted-average assumptions used to estimate the fair value option grants during the years ended December 31, 2016 , 2015 and 2014 and purchase rights granted under the ESPP commencing February 16, 2016 and August 16, 2016 during the year ended December 31, 2016:

	Year Ended December 31,					
	2016	2015	2014	2016	2015	2014
	Stock Options			ESPP		
Expected life (in years)	4.4	4.5	4.5	0.5	N/A	N/A
Risk-free interest rate	1.28%	1.44%	1.43%	0.43%	N/A	N/A
Expected volatility	35.4%	39.3%	42.6%	38.3%	N/A	N/A
Dividend yield	—	—	—	—	N/A	N/A

The weighted average estimated fair value of options granted during the years ended December 31, 2016 , 2015 and 2014 was $12.28 , $10.83 and $12.04 , respectively.

The following table sets forth stock-based compensation expense resulting from stock options, restricted stock awards, and the Employee Stock Purchase Plan included in the Company's consolidated statements of operations:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Cost of revenue	$ 1,740	$ 1,566	$ 2,037
Research and development	4,075	3,451	4,916
Sales and marketing	5,065	5,022	6,168
General and administrative	8,069	6,786	6,893
Total	$ 18,949	$ 16,825	$ 20,014

The Company recognizes these compensation costs net of the estimated forfeitures on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years .

Total stock-based compensation cost capitalized in inventory was less than $0.5 million in the years ended December 31, 2016 , 2015 and 2014 .

As of December 31, 2016 , $5.9 million of unrecognized compensation cost related to stock options, adjusted for estimated forfeitures, is expected to be recognized over a weighted-average period of 2.5 years. As of December 31, 2016 , $22.4 million of unrecognized compensation cost related to unvested RSUs, adjusted for estimated forfeitures, is expected to be recognized over a weighted-average period of 2.4 years.

401(k) Plan

In April 2000, the Company adopted the NETGEAR 401(k) Plan to which employees may contribute up to 100% of salary subject to the legal maximum. In the first quarter of 2012, the Company began matching 50% of contributions for employees that remain active with the Company through the end of the fiscal year, up to a maximum of $6,000 in employee contributions. During the years ended December 31, 2016 , 2015 and 2014 the Company recognized $1.0 million , $0.9 million and $1.0 million , respectively, in expenses related to the 401(k) match.

Note 11. Segment Information

Operating segments are components of an enterprise about which separate financial information is available and is regularly evaluated by management, namely the Chief Operating Decision Maker ("CODM") of an organization, in order to determine operating and resource allocation decisions. By this definition, the Company has identified its CEO as the CODM and operates in three specific business units: retail, commercial, and service provider. The retail business unit consists of high performance, dependable and easy-to-use whole home WiFi networking solutions and Smart connected products. The commercial business unit consists of business networking, storage and security solutions that bring enterprise class functionality down to small and medium-sized businesses at an affordable price. The service provider business unit consists of made-to-order and retail-proven whole home networking hardware and software solutions, including 4G LTE hotspots sold to service providers for sale to their subscribers. Each business unit contains leadership focused on the product development efforts, both from a product marketing and engineering standpoint, to service the unique needs of these customer segments. The Company believes this structure enables it to better focus its efforts on the Company's core customer segments and allows it to be more nimble and opportunistic as a company overall.

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

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

	Year Ended December 31,		
	2016	2015	2014
	(In thousands, except percentage data)		
Net revenue:			
Retail	$ 763,549	$ 614,367	$ 508,100
Commercial	290,836	264,846	305,677
Service provider	273,913	421,482	579,738
Total net revenues	$ 1,328,298	$ 1,300,695	$ 1,393,515
Contribution income:			
Retail	$ 104,454	$ 85,231	$ 76,266
Retail contribution margin	*13.7%*	*13.9%*	*15.0%*
Commercial	73,734	53,393	70,810
Commercial contribution margin	*25.4%*	*20.2%*	*23.2%*
Service Provider	44,615	39,151	47,547
Service Provider contribution margin	*16.3%*	*9.3%*	*8.2%*
Total segment contribution income	222,803	177,775	194,623
Corporate and unallocated costs	(69,140)	(54,501)	(53,581)
Amortization of intangibles (1)	(16,733)	(16,969)	(17,573)
Stock-based compensation expense	(18,949)	(16,825)	(20,014)
Restructuring and other charges	(3,881)	(6,398)	(2,209)
Acquisition-related expense (2)	—	—	(8)
Losses on inventory commitments due to restructuring	—	(407)	—
Litigation reserves, net	(73)	2,682	1,011
Goodwill impairment charges	—	—	(74,196)
Interest income	1,163	295	253
Other income (expense), net	(121)	(88)	2,455
Income before income taxes	$ 115,069	$ 85,564	$ 30,761

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

(2) These acquisition-related charges were expensed in the period incurred and reported in the Company's consolidated statements of operations within cost of revenue and operating expenses.

Operations by Geographic Area

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

The following table shows net revenue by geography for the year ended December 31, 2016 , 2015 and 2014 :

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
United States (U.S.)	$ 855,796	$ 779,361	$ 750,933
Americas (excluding U.S.)	27,852	18,385	19,957
United Kingdom (U.K.)	52,375	103,649	154,503
EMEA (excluding U.K.)	193,030	218,065	267,384
APAC	199,245	181,235	200,738
Total net revenue	$ 1,328,298	$ 1,300,695	$ 1,393,515

Long-lived assets by Geographic Area

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

	As of		
	December 31, 2016	December 31, 2015	December 31, 2014
	(In thousands)		
United States	$ 9,542	$ 9,832	$ 12,453
Canada	2,745	3,586	4,375
EMEA	210	468	657
China	5,219	6,562	10,786
APAC (excluding China)	1,757	1,936	1,423
Total property and equipment, net	$ 19,473	$ 22,384	$ 29,694

Significant Customers

Two customers, one wholly within the retail business unit and the other one primarily within the retail business unit, accounted for 17% and 12% of net revenue in the year ended December 31, 2016 , respectively. One customer accounted for 15% of net revenue, wholly within the retail business unit, in the year ended December 31, 2015. No customers accounted for 10% or more of net revenue in the year ended December 31, 2014 .

Note 12. Fair Value Measurements

The Company determines the fair values of its financial instruments based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. The fair value hierarchy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015 :

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

(1) Included in short-term investments on the Company's consolidated balance sheets.
(2) Included in prepaid expenses and other current assets on the Company's consolidated balance sheets.

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

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

	As of December 31, 2015			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In thousands)			
Assets:				
Cash equivalents: money-market funds	$ 10,976	$ 10,976	$ —	$ —
Available-for-sale securities: U.S. treasuries [1]	94,993	94,993	—	—
Available-for-sale securities: certificates of deposit [1]	147	147	—	—
Trading securities: mutual funds [1]	1,181	1,181	—	—
Foreign currency forward contracts [2]	3,205	—	3,205	—
Total assets measured at fair value	$ 110,502	$ 107,297	$ 3,205	$ —

(1) Included in short-term investments on the Company's consolidated balance sheets.
(2) Included in prepaid expenses and other current assets on the Company's consolidated balance sheets.

	As of December 31, 2015			
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In thousands)			
Liabilities:				
Foreign currency forward contracts (3)	$ 451	$ —	$ 451	$ —
Total liabilities measured at fair value	$ 451	$ —	$ 451	$ —

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

The Company's investments in cash equivalents and available-for-sale securities are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company enters into foreign currency forward contracts with only those counterparties that have long-term credit ratings of A-/A3 or higher. The Company's foreign currency forward contracts are classified within Level 2 of the fair value hierarchy as they are valued using pricing models that take into account the contract terms as well as currency rates and counterparty credit rates. The Company verifies the reasonableness of these pricing models using observable market data for related inputs into such models. Additionally, the Company includes an adjustment for non-performance risk in the recognized measure of fair value of derivative instruments. As of December 31, 2016 and 2015 , the adjustment for non-performance risk did not have a material impact on the fair value of the Company's foreign currency forward contracts. The carrying value of non-financial assets and liabilities measured at fair value in the financial statements on a recurring basis, including accounts receivable and accounts payable, approximate fair value due to their short maturities.

Note 13. Restructuring and Other Charges

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

No significant restructuring and other charges or benefits were recognized during the last two fiscal quarters of 2016. Restructuring and other charges recognized in the second quarter of 2016 related primarily to severance as headcount reductions occurred within the commercial business unit. The headcount reductions were implemented in line with channel shift and changing buying behaviors being experienced for the commercial business unit products. Restructuring and other charges recognized in the first quarter of 2016, and the first and second quarter of 2015 respectively related to actions to resize the service provider business unit and supporting functions. The actions were taken to match the reduced revenue outlook and to concentrate resources on LTE Advanced and long-term profitable accounts. Charges incurred in these periods primarily related to severance, other one-time termination benefits and other associated costs attributable to the restructuring actions announced in February 2015 and January 2016, respectively. Amounts attributable to lease contract termination charges will be paid over the remaining lease term until January 2022 . During the year ended December 31, 2014, the Company recognized a charge of $1.4 million relating primarily to expenses associated with the early termination of a lease agreement in Canada and $0.8 million primarily relating to one-time separation charges associated with the departure of the retail business unit general manager.

The following tables provide a summary of accrued restructuring and other charges activity for the years ended December 31, 2016 , 2015 and 2014 :

	Employee termination charges	Lease contract termination and other charges	Total
		(In thousands)	
Balance as of December 31, 2013	$ 821	$ 202	$ 1,023
Additions	904	1,330	2,234
Cash payments	(1,387)	(1,530)	(2,917)
Adjustments	(22)	(2)	(24)
Balance as of December 31, 2014	316	—	316
Additions [1]	4,689	1,257	5,946
Cash payments	(4,992)	(4)	(4,996)
Balance as of December 31, 2015	13	1,253	1,266
Additions [1]	3,128	629	3,757
Cash payments	(2,941)	(480)	(3,421)
Adjustments	(194)	—	(194)
Balance as of December 31, 2016	$ 6	$ 1,402	$ 1,408

(1) Total restructuring and other charges recognized in the Company's consolidated statements of operations for the year ended December 31, 2016 and 2015 included non-cash charges and adjustments, net of $0.3 million and $0.5 million . These amounts have been excluded from the table above.

QUARTERLY FINANCIAL DATA

(In thousands, except per share amounts)

(Unaudited)

The following table presents unaudited quarterly financial information for each of the Company's last eight quarters. This information has been derived from the Company's unaudited financial statements and has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K. In the opinion of management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to state fairly the quarterly results.

	December 31, 2016	October 2, 2016	July 3, 2016	April 3, 2016
Net revenue	$ 367,929	$ 338,458	$ 311,655	$ 310,256
Gross profit	$ 110,710	$ 103,122	$ 97,788	$ 100,565
Provision for income taxes	$ 11,754	$ 9,144	$ 9,427	$ 8,893
Net income	$ 22,109	$ 21,119	$ 16,034	$ 16,589
Net income per share—basic	$ 0.67	$ 0.64	$ 0.49	$ 0.51
Net income per share—diluted	$ 0.65	$ 0.62	$ 0.48	$ 0.50
	December 31, 2015	**September 27, 2015**	**June 28, 2015**	**March 29, 2015**
Net revenue	$ 360,863	$ 341,893	$ 288,782	$ 309,157
Gross profit	$ 105,416	$ 96,327	$ 77,656	$ 88,280
Provision for income taxes	$ 8,927	$ 10,780	$ 7,258	$ 10,015
Net income	$ 21,807	$ 15,099	$ 3,667	$ 8,011
Net income per share—basic	$ 0.68	$ 0.47	$ 0.11	$ 0.23
Net income per share—diluted	$ 0.66	$ 0.47	$ 0.11	$ 0.23

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2016 . In making this assessment, our management used the criteria established in *Internal Control—Integrated Framework (2013)* , issued by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2016 . The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fourth quarter of fiscal year 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 Exchange Act were effective as of the end of the period covered by this Annual Report on Form 10-K to ensure that information required to be disclosed by us 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 SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Item 9B. ***Other Information***

None.

PART III

Certain information required by Part III is incorporated herein by reference from our proxy statement related to our 2017 Annual Meeting of Stockholders, which we intend to file no later than 120 days after the end of the fiscal year covered by this Form 10-K.

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by this Item concerning our directors, executive officers, standing committees and procedures by which stockholders may recommend nominees to our Board of Directors, is incorporated by reference to the sections of our Proxy Statement under the headings "Information Concerning the Nominees and Incumbent Nominees," "Board and Committee Meetings," "Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance," and to the information contained in the section captioned “Executive Officers of the Registrant” included under Part I of this Annual Report on Form 10-K.

We have adopted a Code of Ethics that applies to our Chief Executive Officer and senior financial officers, as required by the SEC. The current version of our Code of Ethics can be found on our Internet site at http://www.netgear.com. Additional information required by this Item regarding our Code of Ethics is incorporated by reference to the information contained in the section captioned “Corporate Governance Policies and Practices” in our Proxy Statement.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of our Code of Ethics by posting such information on our website at http://www.netgear.com within four business days following the date of such amendment or waiver.

Item 11. *Executive Compensation*

The information required by this Item is incorporated by reference to the sections of our Proxy Statement under the headings “Compensation Discussion and Analysis,” “Executive Compensation,” “Director Compensation,” “Fiscal Year 2016 Director Compensation,” “Compensation Committee Interlocks and Insider Participation,” and “Report of the Compensation Committee of the Board of Directors.”

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The additional information required by this Item is incorporated by reference to the information contained in the section captioned “Equity Compensation Plan Information” in our Proxy Statement.

The additional information required by this Item is incorporated by reference to the information contained in the section captioned “Security Ownership of Certain Beneficial Owners and Management” in our Proxy Statement.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item is incorporated by reference to the information contained in the section captioned “Election of Directors” and “Related Party Transactions” in our Proxy Statement.

Item 14. *Principal Accounting Fees and Services*

The information required by this Item related to audit fees and services is incorporated by reference to the information contained in the section captioned “Ratification of Appointment of Independent Registered Public Accounting Firm” appearing in our Proxy Statement.

PART IV

Item 15. ***Exhibits, Financial Statement Schedule***

(a) The following documents are filed as part of this report:

(1) Financial Statements.

(2) Financial Statement Schedule.

The following financial statement schedule of NETGEAR, Inc. for the fiscal years ended December 31, 2016 , 2015 and 2014 is filed as part of this Form 10-K and should be read in conjunction with the consolidated financial statements of NETGEAR, Inc.

Schedule II—Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
		(In thousands)		
Allowance for doubtful accounts:				
Year ended December 31, 2016	$ 1,255	$ 60	$ (60)	$ 1,255
Year ended December 31, 2015	1,255	35	(35)	1,255
Year ended December 31, 2014	1,255	189	(189)	1,255
Allowance for sales returns and warranty:				
Year ended December 31, 2016	$ 72,609	$ 109,494	$ (110,077)	$ 72,026
Year ended December 31, 2015	62,376	105,987	(95,754)	72,609
Year ended December 31, 2014	66,221	97,546	(101,391)	62,376
Allowance for price protection:				
Year ended December 31, 2016	$ 2,125	$ 12,239	$ (9,884)	$ 4,480
Year ended December 31, 2015	1,806	7,467	(7,148)	2,125
Year ended December 31, 2014	4,273	7,534	(10,001)	1,806

(3) Exhibits.

The exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this report.

Item 16. ***Form 10-K Summary***

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, State of California, on the 24th day of February 2017.

NETGEAR, INC.

By: /s/ PATRICK C.S. LO

Patrick C.S. Lo

Chairman of the Board and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Patrick C.S. Lo and Christine M. Gorjanc, and each of them, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/S/ PATRICK C.S. LO **Patrick C.S. Lo**	Chairman of the Board and Chief Executive Officer *(Principal Executive Officer)*	February 24, 2017
/S/ CHRISTINE M. GORJANC **Christine M. Gorjanc**	Chief Financial Officer *(Principal Financial and Accounting Officer)*	February 24, 2017
/S/ JOCELYN CARTER-MILLER **Jocelyn Carter-Miller**	Director	February 24, 2017
/S/ RALPH E. FAISON **Ralph E. Faison**	Director	February 24, 2017
/S/ JEF GRAHAM **Jef Graham**	Director	February 24, 2017
/S/ GREGORY J. ROSSMANN **Gregory J. Rossmann**	Director	February 24, 2017
/S/ BARBARA V. SCHERER **Barbara V. Scherer**	Director	February 24, 2017
/S/ JULIE A. SHIMER **Julie A. Shimer**	Director	February 24, 2017
/S/ GRADY K. SUMMERS **Grady K. Summers**	Director	February 24, 2017
/S/ THOMAS H. WAECHTER **Thomas H. Waechter**	Director	February 24, 2017

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed Herewith
2.1	Asset Purchase Agreement, dated as of January 28, 2013, by and among the registrant, NETGEAR Holdings Limited, NETGEAR International Limited, NETGEAR Canada Limited, NETGEAR Australia PTY, LTD, Sierra Wireless, Inc., Sierra Wireless, Inc., Sierra Wireless America, Inc. and Sierra Wireless (Australia) PTY LTD	10-K	2/26/2013	10.35	
3.1	Amended and Restated Certificate of Incorporation of the registrant	S-1	7/30/2003	3.3	
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the registrant	10-Q	7/31/2015	3.2	
3.3	Amended and Restated Bylaws of the registrant	8-K	1/31/2017	3.2	
4.1	Form of registrant's common stock certificate	S-1	7/30/2003	4.1	
10.1	Form of Indemnification Agreement for directors and officers	S-1	7/30/2003	10.1	
10.2#	2003 Stock Plan and forms of agreements thereunder, as amended	10-K	2/26/2013	10.3	
10.3#	2016 Equity Incentive Plan and forms of agreements thereunder	S-8	6/3/2016	99.1	
10.4#	2003 Employee Stock Purchase Plan, as amended	S-8	6/3/2016	99.2	
10.5#	Amended and Restated 2006 Long-Term Incentive Plan and forms of agreements thereunder	S-8	6/6/2014	4.3	
10.6#	NETGEAR, Inc. Deferred Compensation Plan	8-K	4/5/2013	10.1	
10.7#	NETGEAR, Inc. Executive Bonus Plan, as amended and restated April 1, 2013	DEF14A	4/16/2013	Appendix A	
10.8*	Warehousing Agreement, dated July 5, 2001, between the registrant and APL Logistics Americas, Ltd.	S-1	7/30/2003	10.25	
10.9*	Distribution Operation Agreement, dated April 27, 2001, between the registrant and DSV Solutions B.V. (formerly Furness Logistics BV)	S-1	7/30/2003	10.26	
10.10*	Distribution Operation Agreement, dated December 1, 2001, between the registrant and Kerry Logistics (Hong Kong) Limited	S-1	7/30/2003	10.27	
10.11	Office Lease, dated as of September 25, 2007, by and between the registrant and BRE/Plumeria, LLC	8-K	9/27/2007	10.1	
10.11a	First Amendment to Office Lease, dated as of April 23, 2008, by and between the registrant and BRE/Plumeria, LLC	10-Q	5/9/2008	10.1	
10.11b	Second Amendment to Office Lease, dated June 25, 2015, by and between the registrant and KBSII/Plumeria, LLC	10-K	2/19/2016	10.11B	
10.12#	Offer Letter, dated December 3, 1999, between the registrant and Patrick C.S. Lo	S-1	7/30/2003	10.5	
10.12a#	Amendment to Offer Letter, dated December 23, 2008, between the registrant and Patrick C.S. Lo	10-K	3/4/2009	10.51	
10.13#	Offer Letter, dated December 9, 1999, between the registrant and Mark G. Merrill	S-1	7/30/2003	10.8	
10.13a#	Amendment to Offer Letter, dated December 28, 2008, between the registrant and Mark G. Merrill	10-K	3/4/2009	10.52	
10.14#	Employment Agreement, dated November 4, 2002, between the registrant and Michael F. Falcon	S-1	7/30/2003	10.1	
10.14a#	Amendment to Employment Agreement, dated December 29, 2008, between the registrant and Michael F. Falcon	10-K	3/4/2009	10.49	
10.15#	Employment Agreement, dated November 16, 2005, between the registrant and Christine M. Gorjanc	8-K	11/22/2005	10.32	
10.15a#	Amendment to Employment Agreement, dated December 31, 2008, between the registrant and Christine M. Gorjanc	10-K	3/4/2009	10.50	
10.15b#	Amendment #2 to Employment Agreement, dated September 21, 2009, between the registrant and Christine M. Gorjanc	8-K	9/21/2009	10.1	
10.16#	Change of Control and Severance Agreement, dated October 5, 2009, between the registrant and Andrew W. Kim	10-Q	5/6/2014	10.1	
10.17#	Employment Agreement, dated July 8, 2013, between the registrant and John P. McHugh	8-K	7/11/2013	10.1	
10.18#	Amendment to Employment Agreement, dated October 20, 2015, between the registrant and Michael A. Werdann	10-K	2/19/2016	10.21	
10.19#	Form of Senior Vice President Change of Control and Severance Agreement				X
21.1	List of subsidiaries and affiliates				X
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm				X
24.1	Power of Attorney (included on signature page)				X
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) / 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) / 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	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				X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X

101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X

#	Indicates management contract or compensatory plan or arrangement.
*	Confidential treatment has been granted as to certain portions of this Exhibit.

NETGEAR, INC .

CHANGE OF CONTROL AND SEVERANCE AGREEMENT

This Agreement is entered into as of _______________, 201_, (the " ***Effective Date*** ") by and between **NETGEAR, Inc.** (the " ***Company*** "), and ___________ (" ***Executive*** ").

1. Duties and Scope of Employment .

(a) Positions and Duties . As of the Effective Date, Executive is serving as Senior Vice President of the Company. Executive will render such business and professional services in the performance of his duties, consistent with Executive's position within the Company, as shall reasonably be assigned to him by the Company's Chief Executive Officer and/or Board of Directors (the " ***Board*** "). The period of Executive's employment under this Agreement is referred to herein as the " ***Employment Term*** ."

(b) Obligations . During the Employment Term, Executive will perform his duties faithfully and to the best of his ability and will devote his full business efforts and time to the Company. For the duration of the Employment Term, Executive agrees not to actively engage in any other employment, occupation or consulting activity for any direct or indirect remuneration without the prior approval of the Board.

2. At-Will Employment . The parties agree that Executive's employment with the Company will be "at-will" employment and may be terminated at any time with or without cause or notice. Executive understands and agrees that neither his job performance nor promotions, commendations, bonuses or the like from the Company give rise to or in any way serve as the basis for modification, amendment, or extension, by implication or otherwise, of his employment with the Company.

3. Compensation .

(a) Base Salary . During the Employment Term, the Company will pay Executive as compensation for his services a base salary at the annualized rate of _________________ (the " ***Base Salary*** "). The Base Salary will be paid periodically in accordance with the Company's normal payroll practices and be subject to the usual, required withholding. Executive's salary will be reviewed by the Company from time to time (but no more frequently than annually), and may be subject to adjustment based upon various factors including, but not limited to, Executive's performance and the Company's profitability. Any adjustment to Executive's salary shall be in the sole discretion of the Company.

(b) MBO Bonus . Executive will be eligible to receive an annual target bonus of up to Fifty percent (50%) per year based upon the Company's achievement of various financial and/or other goals established by the Board. All MBO bonuses will be subject to applicable withholding and taxes. Executive's annual bonus will be paid no later than March 15 th of the year following the year in which Executive's annual bonus was earned.

(c) Equity Awards . Executive has been and in the future may be granted (i) options to purchase shares of the Company's common stock under the Company's 2016 Equity Incentive Plan (the " ***2016 Plan*** ") (the " ***Options*** "); and (ii) awards of restricted stock units, each unit representing the right to receive a share of Company common stock on the date it becomes vested (the " ***RSU Awards*** "). The Options will be subject to the terms, definitions and provisions of the 2016 Plan and the stock option agreement(s) by and between Executive and the Company (the " ***Option Agreement(s)*** "), which are incorporated herein by reference. The RSU Awards will be subject to the terms, definitions and provisions of the 2016 Plan and the RSU Award grant agreement(s) between Executive and the Company (the " ***RSU Agreement(s)*** "), which are incorporated herein by reference. Executive shall also be subject to the Company's Director and Officer stock ownership guidelines, which is also incorporated by reference hereto.

4. Employee Benefits . During the Employment Term, Executive will be entitled to participate in the employee benefit plans currently and hereafter maintained by the Company of general applicability to other senior executives of the Company, including, without limitation, the Company's group medical, dental, vision, and disability plans. The Company reserves the right to cancel or change the benefit plans and programs it offers to its employees at any time.

5. Expenses . The Company will reimburse Executive for reasonable travel, entertainment or other expenses incurred by Executive in the furtherance of or in connection with the performance of Executive's duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time.

6. Severance .

(a) Involuntary Termination . If Executive's employment with the Company terminates other than voluntarily, or for death, disability or for "Cause" (as defined in Paragraph 9 of this Agreement), and Executive signs and does not revoke a standard release of claims (as described further in Section 6(b) below) with the Company, then Executive shall be entitled to receive severance payments at Executive's final base salary rate, less applicable withholding, until twenty-six (26) weeks after the date of termination without Cause. Severance payments will be made in accordance with the Company's normal payroll procedures. During the period in which Executive is receiving severance payments, Company will reimburse Executive and his family for COBRA premiums, assuming Executive remains eligible during the entire Severance Period. In addition, if Executive's employment terminates other than voluntarily or for "Cause" (as defined herein), Executive will be entitled to continue to have all stock options, restricted stock awards and all other equity awards vest during the twelve month period immediately following the date of such termination.

(b) Timing of Release . The receipt of any severance benefits pursuant to Section 6(a) will be subject to Executive signing and not revoking a standard release of claims agreement (the " ***Release*** "), and provided that such Release is effective within sixty (60) days following the termination of employment or such earlier period as required by the Release. To become effective, the Release must be executed by the Executive and any revocation periods (as required by statute, regulation, or otherwise) must have expired without the Executive having revoked the Release. In addition, no severance will be paid or provided until the Release actually becomes effective.

7. Voluntary Termination; Termination for Cause . If Executive's employment with the Company terminates voluntarily by Executive or for Cause by the Company, then all vesting of Options, RSU Awards, and all other options and restricted stock awards granted to Executive will terminate immediately and all payments of compensation by the Company to Executive hereunder and all obligations with respect thereto (including, without limitations, with respect to base salary, bonuses, employee benefits, relocation and temporary living reimbursements and other expense reimbursements) will terminate immediately (except as to amounts already earned).

8. Change of Control/Good Reason .

(a) If within one year following any Change of Control (as defined below) Executive's employment is terminated without Cause or voluntarily by Executive for Good Reason, Executive will receive two years acceleration of any unvested portion of all Options and all RSU Awards.

(b) For purposes of this Agreement, a " ***Change of Control*** " of the Company shall be deemed to have occurred if at any time after the Effective Date:

(i) any "person" (as such term is used to Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the " ***Exchange Act*** ")), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the company or (B) the combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of directors; or

(ii) the Company (A) is party to a merger, consolidation or exchange of securities which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to hold at least 50% of the combined voting power of the voting securities of the Company, the surviving entity or a parent of the surviving entity outstanding immediately after such merger, consolidation or exchange, or (B) sells or disposes of all or substantially all of the Company's assets (or any transaction having similar effect is consummated), or (C) the individuals constituting the Board immediately prior to such merger, consolidation, exchange, sale or disposition shall cease to constitute at least 50% of the Board, unless the election of each director who was not a director prior to such merger, consolidation, exchange, sale or disposition was approved by a vote of at least two-thirds of the directors then in office who were directors prior to such merger, consolidation, exchange, sale or disposition.

(c) For purposes of this Agreement, " ***Good Reason*** " means any of the following conditions, which condition(s) remain(s) in effect 10 days after written notice to the Board from you of such condition(s):

(i) a material decrease in your target annual compensation; or

(ii) a material, adverse change in your authority, responsibilities or duties, as measured against your authority, responsibilities or duties immediately prior to such change.

(iii) notwithstanding the foregoing, for the purposes of this Agreement, in no event will you have Good Reason to resign due merely to a change of title or a change in your reporting caused by a change of control or discontinuance or modification of any duties and responsibilities solely related to the operation of a public company.

9. Definition of Cause. For purposes of this Agreement, " ***Cause*** " is defined as (i) an act of dishonesty made by Executive in connection with Executive's responsibilities as an employee, (ii) Executive's conviction of, or plea of nolo contendere to, a felony, (iii) Executive's gross misconduct, or (iv) Executive's continued violation of his employment duties after Executive has received a written demand for performance from the Company which specifically sets forth the factual basis for the Company's belief that Executive has not substantially performed his duties.

10. Confidential Information. Executive agrees to enter into the Company's standard Confidential Information and Invention Assignment Agreement (the " ***Confidential Information Agreement*** ") upon commencing employment hereunder, and to abide by its terms during and after his employment with the Company.

11. Non-Solicitation. Until the date one (1) year after the termination of Executive's employment with the Company for any reason, Executive agrees and acknowledges that Executive's right to receive the severance payments set forth in Section 6 (to the extent Executive is otherwise entitled to such payments) shall be conditioned upon Executive not either directly or indirectly soliciting, inducing, attempting to hire, recruiting, encouraging, taking away, hiring any employee of the Company or causing an employee to leave his or her employment either for Executive or for any other entity or person.

12. Assignment. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors and legal representatives of Executive upon Executive's death and (b) any successor of the Company. Any such successor of the Company will be deemed substituted for the company under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of the rights of Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance or other disposition of Executive's right to compensation or other benefits will be null and void.

13. Notices. All notices, requests, demands and other communications called for hereunder shall be in writing and shall be deemed given (i) on the date of delivery if delivered personally, (ii) one (1) day after being sent by a well established commercial overnight service, or

(iii) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successors at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Company:

NETGEAR, Inc.
350 East Plumeria Drive
San Jose, CA 95134
Attn : Legal Department

If to Executive:

at the last residential address known by the Company.

14. Severability . In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement will continue in full force and effect without said provision.

15. Arbitration .

(a) General . In consideration of Executive's service to the Company, its promise to arbitrate all employment related disputes and Executive's receipt of the compensation, pay raises and other benefits paid to Executive by the Company, at present and in the future, Executive agrees that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from Executive's service to the Company under the Agreement or otherwise or the termination of Executive's service with the Company, including any breach of this Agreement, shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the " ***Rules*** ") and pursuant to California law. Disputes which Executive agrees to arbitrate, and thereby agrees to wave any right to a trial by jury, include any statutory claims under state or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, claims of harassment, discrimination or wrongful termination and any statutory claims. Executive further understands that this Agreement to arbitrate also applies to any disputes that the Company may have with Executive.

(b) Procedure . Executive agrees that any arbitration will be administered by the American Arbitration Association (" ***AAA*** ") and that a neutral arbitrator will be selected in a manner consistent with its National Rules for the Resolution of Employment Disputes. The arbitration proceedings will allow for discovery according to the rules set forth in the California Code of Civil Procedure. Executive agrees that the arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. Executive agrees that the arbitrator shall issue a written decision on the merits. Executive also agrees that the arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. The Parties understand that the Arbitrator shall issue a written decision in support of his award. Executive understands the Company will pay for any administrative or hearing fees charged by the arbitrator or AAA except that Executive shall pay the first $200.00 of any filing fees associated with any arbitration Executive initiates. Executive agrees that the arbitrator shall administer and conduct any arbitration in a manner consistent with the Rules and that to the extent that the AAA's National Rules for the Resolution of Employment Disputes conflict with the Rules, the Rules shall take precedence.

(c) Remedy. Except as provided by the Rules, arbitration shall be the sole, exclusive and final remedy for any dispute between Executive and the Company. Accordingly, except as provided for by the Rules, neither Executive nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator shall not order or require the Company to adopt a policy not otherwise required by law which the Company has not adopted.

(d) Availability of Injunctive Relief. In addition to the right under the Rules to petition the court for provisional relief, Executive agrees that any party may also petition the court for injunctive relief where either party alleges or claims a violation of this Agreement or the Confidentiality Agreement or any other agreement regarding trade secrets, confidential information, nonsolicitation or Labor Code §2870. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorneys fees.

(e) Administrative Relief. Executive understands that this Agreement does not prohibit Executive from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers' compensation board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim.

(f) Voluntary Nature of Agreement. Executive acknowledges and agrees that Executive is executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. Executive further acknowledges and agrees that Executive has carefully read this Agreement and that Executive has asked any questions needed for Executive to understand the terms, consequences and binding effect of this Agreement and fully understand it, including that Executive is waiving Executive's right to a jury trial. Finally, Executive agrees that Executive has been provided an opportunity to seek the advice of an attorney of Executive's choice before signing this Agreement.

17. Integration. This Agreement, together with the 2016 Plan, Option Agreement(s), RSU Agreement(s) and the Confidential Information Agreement represents the entire agreement and understanding between the parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral. No waiver, alteration, or modification of any

of the provisions of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto.

18. Tax Withholding . All payments made pursuant to this Agreement will be subject to withholding of applicable taxes.

19. Governing Laws . This Agreement will be governed by the laws of the State of California.

20. Section 409A .

(a) Notwithstanding anything to the contrary in this Agreement, no Deferred Payments (as defined below) shall be payable until Executive has a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the " ***Code*** ") and the final regulations and official guidance thereunder (" ***Section 409A*** "). Similarly, no severance payable to Executive, if any, pursuant to this Agreement that would otherwise be exempt from Section 409 pursuant to Treasury Regulation Section 1.409A-1(b)(9) shall be payable until Executive has a "separation from service" within the meaning of Section 409A.

(b) Any severance payments or benefits under this Agreement that would be considered Deferred Payments will be paid on, or, in the case of installments, will not commence until, the sixtieth (60 th) day following Executive's separation from service, or, if later, such time as required by Section 20(c). Any installment payments that would have been made to Executive during the sixty (60) day period immediately following Executive's separation from service but for the preceding sentence will be paid to Executive on the sixtieth (60 th) day following the Executive's separation from service and the remaining payments shall be made as provided in this Agreement.

(c) Further, if Executive is a "specified employee" within the meaning of Section 409A at the time of Executive's separation from service (other than due to death), and the severance payments and benefits payable to Executive, if any, pursuant to the Agreement, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A (together, the " ***Deferred Payments*** "), such Deferred Payments that are otherwise payable within the first six (6) months following Executive's separation from service will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Executive's separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following Executive's separation from service but prior to the six (6) month anniversary of Executive's separation from service (or any later delay date), then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive's death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under the Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(d) Any amount paid under this Agreement that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Payments for purposes the Agreement. Any severance payment that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit shall not constitute Deferred Payments for purposes of the Agreement. For purposes of this section (d), " ***Section 409A Limit*** " will mean the lesser of two (2) times: (i) Executive's annualized compensation based upon the annual rate of pay paid to Executive during the taxable year preceding the taxable year of Executive's separation from service as determined under Treasury Regulation Section 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Executive's employment is terminated.

(e) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided under the Agreement will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Executive and the Company agree to work together in good faith to consider amendments to the Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Section 409A.

21. Acknowledgment . Executive acknowledges that he has had the opportunity to discuss this matter with and obtain advice from his private attorney, has had sufficient time to, and has carefully read and fully understands all the provisions of this Agreement, and is knowingly and voluntarily entering into this Agreement.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by their duly authorized officers, as of the day and year first above written.

COMPANY:
NETGEAR, INC.

_________________ Date:

EXECUTIVE:

_________________ Date:

Exhibit 21.1

Subsidiaries and Affiliates of the Registrant

NETGEAR, INC.
INFRANT TECHNOLOGIES LLC
NETGEAR INTERNATIONAL, INC.
NETGEAR AUSTRIA GMBH
NETGEAR Belgium BVBA
NETGEAR DEUTSCHLAND GMBH
NETGEAR DO BRASIL PRODUTOS ELECTRONICS LTDA
NETGEAR FRANCE SAS
NETGEAR HOLDINGS LTD (IRELAND)
NETGEAR INTERNATIONAL LTD
NETGEAR ASIA PTE. LIMITED (SINGAPORE BRANCH)
NETGEAR HONG KONG LIMITED
NETGEAR NEW ZEALAND
NETGEAR POLAND SP ZOO
NETGEAR SWITZERLAND GMBH
NETGEAR U.K. LTD
Netgear (Beijing) Network Technology Co., Ltd
Netgear Australia Pty Ltd.
NTGR CYPRUS LTD
NETGEAR Italy Srl
NETGEAR JAPAN GK
NETGEAR NETHERLANDS B.V.
NETGEAR TAIWAN CO LTD
NETGEAR TECHNOLOGIES PRIVATE LIMITED (INDIA)
Netgear Denmark ApS
NETGEAR MEXICO S. DE R.L.
Netgear Asia Holding Ltd
SKIPJAM CORP
Avaak, Inc.
Netgear Research India Pvt. Ltd.
Netgear Canada Ltd.
NETGEAR RUSSIA LLC
NETGEAR (Beijing) Trading Co. Ltd.
Placemeter Inc.
Placemeter France SAS

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-107718, 333-136892, 333-136895, 333-151638, 333-160869, 333-168349, 333-181892, 333-196579 and 333-211795) of NETGEAR, Inc. of our report dated February 24, 2017 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
San Jose, California
February 24, 2017

EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K 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: February 24, 2017

/s/ PATRICK C.S. LO

Patrick C.S. Lo
Chairman and
Chief Executive Officer
NETGEAR, Inc.

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Christine M. Gorjanc, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 24, 2017

/s/ CHRISTINE M. GORJANC

Christine M. Gorjanc

Chief Financial Officer

NETGEAR, Inc.

EXHIBIT 32.1

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 Annual Report of NETGEAR, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2016 , 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 (“Section 906”), 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: February 24, 2017

By: /s/ PATRICK C.S. LO
Patrick C.S. Lo
Chairman and
Chief Executive Officer

This certification accompanies the Form 10-K 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-K), irrespective of any general incorporation language contained in such filing.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL 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 Annual Report of NETGEAR, Inc. (the "Company") on Form 10-K for the year ended December 31, 2016 , as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christine M. Gorjanc, 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 ("Section 906"), that:

(1) The Report fully complies with the requirements of Section 13(a) 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: February 24, 2017

By: /s/ CHRISTINE M. GORJANC
Christine M. Gorjanc
Chief Financial Officer
NETGEAR, Inc.

This certification accompanies the Form 10-K 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-K), irrespective of any general incorporation language contained in such filing.