
Net revenue for the third quarter ended September 28, 2003 increased 18% or $11.4 million to $75.8 million, compared to $64.4 million for the quarter ended September 29, 2002. Revenue increased approximately 10% over the prior quarter of 2003 due to a strong increase in demand for Ethernet switching, broadband and wireless products. Reported net revenue in North America grew 8% to $46.2 million in the third quarter of 2003, compared to $42.8 million in the second quarter of 2003. Sales in North America were buoyant due to strong back-to-school seasonal promotions with the Company's resellers in the retail and e-commerce channels. The Europe, Middle East and Africa (EMEA) region achieved sequential net revenue growth of over 27% to $24.2 million in the third quarter of 2003 compared to $19.0 million in the second quarter of 2003, which the Company believes is due to significant market share gains. As expected, revenue derived from other regions, including the Asia Pacific, declined 25% sequentially to $5.4 million in the third quarter of 2003, compared to $7.2 million in that region's seasonally strong second quarter. Separately, the Company grew worldwide sales derived from the carrier channel due to increased shipments to Time Warner Cable in the U.S. and Telewest in the UK. In addition, initial shipments to Comcast in the U.S. started during the second half of the third quarter.

Net loss computed in accordance with United States Generally Accepted Accounting Principles, or GAAP, for the third quarter ended September 28, 2003 was $4.0 million, as compared to net income of $2.3 million for the quarter ended September 29, 2002. The Company had a net loss per basic and diluted share of $0.15 for the third quarter of 2003, as compared to net income of $0.12 per basic share and $0.10 per diluted share in the third quarter of 2002. Pro forma net income, which excludes certain charges described below, for the third quarter ended September 28, 2003 was $2.4 million, a 62% increase over the pro forma net income of $1.5 million for the quarter ended September 29, 2002. Pro forma net income per share was $0.09 per basic share and $0.08 per diluted share in the third quarter of 2003, compared to $0.07 per basic and diluted share in the third quarter of 2002. The pro forma net income for the third quarter of 2003 excludes the impact of an extinguishment of debt charge of $5.9 million and non-cash stock-based compensation expense of $516,000. The third quarter of 2002 pro forma net income excludes the impact of a $1.1 million benefit from net operating loss tax carry forwards (NOL's) utilized during the quarter and non-cash stock-based compensation expense of $262,000. The accompanying statements of operations provide a reconciliation of our net income (loss) computed on a GAAP basis to our net income computed on a non-GAAP, or pro forma, basis.

Unit shipments in all product categories, Ethernet switching, wireless, and wired routers and gateways, grew sequentially from the second quarter 2003 to the third quarter 2003. Ethernet switching products, primarily for small businesses grew 16% sequentially in units, and wireless products, including wireless cards, access points, routers, firewalls and home gateways, grew 25% sequentially in units. Wireless shipments increased from 628,000 nodes in the second quarter 2003 to nearly 800,000 nodes in the third quarter 2003. As expected, unit shipment growth of wired routers and firewalls was up 7% sequentially because of the ongoing accelerated adoption of more popular wireless technologies.

Patrick Lo, Chairman and Chief Executive Officer of NETGEAR, commented, "This was another strong quarter based on revenue and pro forma net income, new product introductions and increased channel penetration. Growth in the U.S. was driven by robust back-to-school seasonal demand, promotions and increased network infrastructure spending, along with an accelerated consumer adoption of wireless technologies. In Europe, our growth came from competitive market share gains due to our attractive consumer and small-business product offerings and strength of our distribution and retail networks. Finally, we expect to gain momentum in the Asia Pacific region as we leverage our partner relationships to penetrate these attractive, fast growing markets."

During the third quarter of 2003, NETGEAR introduced 12 new products. Among them were two powerful new Ethernet switches for the small business market. One switch enables businesses to manage their networks via simple screens on their preferred web browser. The other product is a 12-port Gigabit Layer 3 switch, which augments NETGEAR's 24 port offering introduced in the second quarter 2003. NETGEAR also introduced four industry first home products: a 108Mbps wireless 802.11g router and card, a USB 2.0 54Mbps wireless 802.11g card, and a DSL II modem gateway. The Company
has already experienced strong demand for all four of these products and believes these products will contribute significantly to its future revenue growth.

Jonathan Mather, Chief Financial Officer of NETGEAR, said, "We continue to achieve impressive growth in profitability, notwithstanding increased marketing and tech support costs related to our higher revenue base and additional expenses related to operating as a newly public company. Importantly, our gross margin reached 27.8% in the third quarter from 27.6% in the second quarter and from 25.1% in the year ago third quarter. Our balance sheet is strong with $75.7 million in cash and cash equivalents as of the end of the quarter, providing us the resources to execute upon the growth opportunities in front of us. We continue to manage our inventory closely, with quarter ending inventory at $33.4 million, representing 6.5 turns, compared to $40.2 million and 5 turns at the end of the second quarter. Day's sales outstanding (DSO's) increased slightly from 69 days in the second quarter to 71 days at the end of the third quarter due to the non-linearity of shipments experienced during the quarter. Channel inventory has been reduced in the third quarter from prior quarter, to 3.5 weeks in the U.S. distribution channel and 7.8 weeks in the U.S. retail channel."

Total operating expenses were 23% of net revenue in the third quarter of 2003, as compared to 21% of net revenue in the third quarter of 2002. Sales and marketing expenses increased to 16.4% of net revenue in the third quarter of 2003, from 13.1% of net revenue for the third quarter of 2002. The increase in sales and marketing expenses as a percentage of net revenue is due to additional channel and promotion activities in the third quarter of 2003, including joint print and TV advertising with retail stores. Research and development expenses decreased to 2.7% of net revenue for the quarter ended September 28, 2003, as compared to 3.7% of net revenue for the quarter ended September 29, 2002. While the spending for research and development has decreased as a percentage of net revenue, the Company continues to support new product developments, such as the following: Layer 3 switches, Gigabit switches, secured wireless and firewalls, 108Mbps wireless and home entertainment device network adapters.

Looking forward, Mr. Lo added, "We are entering the seasonally strong fourth quarter with high confidence in our outlook. Based on very positive initial bookings from our channel partners, we believe our current momentum will continue through the fourth quarter. Specifically, we expect revenues for the quarter ending December 31, 2003 will be in the range of $79 million to $81 million and operating income in the range of 5.8% to 6.2%.”

In the Investor Conference Call / Webcast Details

NETGEAR will review third quarter 2003 results and discuss management's expectations for the fourth quarter of 2003 and current views of the industry today, October 28, 2003, at 5PM EST. The conference call-in will be available at www.netgear.com and by telephone at (973) 582-2745. A replay will be available from 8PM EST on October 28 through midnight EST on Tuesday, November 4 at www.netgear.com and by telephone at (973) 341-3080. The confirmation identification for both the live call and the replay is 4222124.

About NETGEAR Inc.

NETGEAR (Nasdaq: NTGR) designs technologically advanced, branded networking products that address the specific needs of small business and home users. The Company's suite of approximately 100 products enables users to share Internet access, peripherals, files, digital multimedia content and applications among multiple personal computers and other Internet-enabled devices. NETGEAR is headquartered in Santa Clara, Calif. For more information, visit the company's Web site at www.netgear.com or call (408) 907-8000.

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Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995 for NETGEAR, Inc.: 

This release contains forward-looking statements. The forward-looking statements represent NETGEAR, Inc.'s expectations or beliefs concerning future events and include statements, among other, regarding NETGEAR's expected revenues and earnings, anticipated momentum in the Asia Pacific region, and revenues expected to result from sales of our new product
offerings. These statements are subject to risks and uncertainties. For example, our revenues could be less than expected if demand for our products is less than anticipated, we are unable to manufacture and distribute our products, or we are unable to collect receivables as they become due. Our earnings depend upon our revenues, as well as our ability to manage our costs, including the cost of developing new products and manufacturing and distributing our existing offerings. Other factors that could affect our forward-looking statements include without limitation, demand for our products, including our new 802.11g offerings, the price/performance requirements of customers, the ability of NETGEAR to sell products incorporating the technology, the impact and pricing of competing technologies, the introduction of alternative technological solutions and other risks detailed from time-to-time in NETGEAR's SEC filings and reports. NETGEAR undertakes no duty to update these forward-looking statements.