



July 29, 2004

NETGEAR Reports Second Quarter 2004 Results

- | **Second quarter 2004 net revenue increased to \$88.4 million; 28.1% year over year growth**
- | **Second quarter 2004 pro forma net income increased to \$5.3 million, as compared to \$2.2 in the comparable prior year quarter, 147% year over year growth**
- | **Second quarter 2004 pro forma diluted EPS of \$0.17 as compared to \$0.09 in the comparable prior year quarter, an 89% year over year growth.**
- | **Second quarter 2004 gross margin improved to 32.1% and pro forma operating margin to 8.9%**
- | **Company expects third quarter 2004 net revenue to be in the range of \$98 million to \$101 million, with pro forma operating margin in the range of 9.0% to 9.3%**

SANTA CLARA, Calif. - July 29, 2004 - NETGEAR, Inc. (NASDAQ: NTGR), a worldwide provider of technologically advanced, branded networking products, today reported financial results for the second quarter ended June 27, 2004.

Net revenue for the second quarter ended June 27, 2004 was \$88.4 million, a 28.1% increase compared to \$69.0 million for the second quarter ended June 29, 2003; net revenue was \$88.4 million in first quarter ended March 28, 2004. Net revenue in the second quarter of 2004 derived from North America was \$46.5 million, the Europe, Middle East and Africa region was \$32.6 million and the Asia Pacific region was \$9.3 million.

The Company improved its gross margin in the second quarter of 2004 to 32.1%, as compared to 27.6% in the year ago comparable quarter and 31.1% in the prior quarter. Pro forma operating margin was 8.9% in the second quarter of 2004, compared to 5.4% in the year ago comparable quarter and 8.2% in the prior quarter. In the second quarter of 2004, pro forma operating expenses were 23.2% of net revenue, and sales and marketing expenses were 17.0% of net revenue. Research and development expenses remained essentially flat from the prior quarter at approximately 2.6% of net revenue for the second quarter of 2004. General and administration costs were 3.6% of net revenue for the second quarter of 2004.

Net income, computed in accordance with U.S. Generally Accepted Accounting Principles, or GAAP, for the second quarter of 2004 was \$4.9 million or \$0.16 per basic share and \$0.15 per diluted share, compared to net income of \$11.5 million for the second quarter of 2003 or \$0.57 per basic share and \$0.48 per diluted share. Included in net income for the prior year quarter was a \$9.8 million reversal of a deferred tax valuation allowance. The year over year comparison of earnings per share takes into account an increase of approximately 8 million common shares outstanding reflecting the Company's IPO, which was completed in July 2003.

Pro forma net income, which excludes non-cash, stock-based compensation expense of \$445,000, for the second quarter of 2004 was \$5.3 million, a 147.1% increase over the pro forma net income of \$2.2 million for the second quarter of 2003, which excluded \$422,000 for stock-based compensation expense and the \$9.8 million reversal of deferred tax valuation allowance. Pro forma net income per share was \$0.18 per basic share and \$0.17 per diluted share in the second quarter of 2004, compared to \$0.11 per basic share and \$0.09 per diluted share in the second quarter of 2003. The accompanying schedules provide a reconciliation of net income computed on a GAAP basis to net income computed on a non-GAAP, or pro forma, basis.

Patrick Lo, Chairman and Chief Executive Officer of NETGEAR, commented, "This was another solid quarter for the business as demand for our wireless, broadband and Ethernet switching products worldwide remained strong. Our strength in the small business market helped offset a seasonally slower retail market. We expect our overall business momentum will continue as we enter the third quarter, which is typically more robust due to back-to-school demand in the retail market in the U.S. We expect that NETGEAR will experience better than industry growth as many of the products we introduced over the past two quarters continue to accelerate their sales momentum. The Company will also be introducing an impressive line-up of new products in the third quarter, which we expect will be well received, further powering our growth and market share gains in all regions in the quarters ahead."

Jonathan Mather, Chief Financial Officer of NETGEAR, said, "For the past four quarters as a public company NETGEAR has consistently met or exceeded our key financial metrics. In the second quarter of 2004, our gross margin again expanded, coming in at 32.1%, ahead of the 31.1% we achieved in the first quarter and well ahead of 27.6% in the year ago second quarter. We remain focused on further enhancing our revenue composition from a product, channel and geographic basis, and expect to benefit from additional improvements in gross margin. NETGEAR's cash on hand, including short-term investments, increased to \$111.2 million at the end of the second quarter of 2004 from \$89.5 million at the end of the first

quarter of 2004, primarily due to cash generated from operating activities."

Second quarter 2004 ending inventory was \$44.2 million, representing 5.4 turns, compared to \$39.1 million and 6.2 turns at the end of the first quarter of 2004. The increase is due to planned seasonal inventory stocking in advance of the back-to-school season in the U.S. Days sales outstanding (DSO's) improved to 69 days in the second quarter of 2004, compared to 71 days in the first quarter of 2004. European distribution channel inventory ended at approximately 4.4 weeks. The U.S. retail channel inventory is at 9.2 weeks. U.S. distribution channel inventory is at 4.3 weeks.

Looking forward, Mr. Lo added, "We remain very optimistic for our business prospects as we continue to execute on the vast opportunities in our core small business and home users markets. We are also excited about the initial successes we have had globally in the service provider market, including the recent addition of Strato, one of Germany's major Internet service providers, as a new customer. The international market continues to be a strong source of growth for NETGEAR. We believe that we continue to gain market share in Europe and our progress in Asia is encouraging, as evidenced by our 11% quarter over quarter growth there. We will be placing increased resources behind our efforts in our carrier and international businesses over the next few years given the significant opportunities. Overall, as we enter the seasonally stronger third quarter 2004 we expect net revenue to be in the range of approximately \$98 million to \$101 million, with pro forma operating income in the range of 9.0% to 9.3%. We also note that the third quarter of 2004 will contain 14 weeks compared to 13 weeks in the second quarter of 2004. Finally, we expect pro forma effective tax rate to remain about 37.0%."

Investor Conference Call / Webcast Details

NETGEAR will review second quarter 2004 results and discuss management's expectations for the third quarter 2004 today, July 29, 2004, at 5:30PM EDT (2:30PM PDT). The conference call-in will be available at www.netgear.com and by telephone at (973) 582-2745. A replay will be available from 8:30PM EDT (5:30PM PDT) on July 29 through midnight EDT (9:00PM PDT) on August 5 by telephone at (973) 341-3080. The confirmation identification for both the live call and the replay is 4960605.

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 others, regarding NETGEAR's expected revenue, earnings, operating income and tax rate, demand for products, and our prospects to gain market share internationally, especially in Europe and Asia. 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, the price/performance requirements of customers, the ability of NETGEAR to sell products incorporating 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.

