NETGEAR Reports First Quarter 2005 Results

- First quarter 2005 net revenue increased to $109.0 million, 23% year-over-year growth
- First quarter 2005 non-GAAP net income increased to $8.2 million, as compared to $4.6 million in the comparable prior year quarter, 78% year over year growth
- First quarter 2005 non-GAAP Gross Margin at 33.0%, and non-GAAP operating margin at 11.5%.
- First quarter 2005 non-GAAP diluted EPS of $0.25, as compared to $0.14 in the comparable prior year quarter, 79% year-over-year growth
- Company expects second quarter 2005 net revenue to be in the range of $108.0 million to $110.0 million, with non-GAAP operating margin in the range of 11.3% to 11.5%

SANTA CLARA, Calif. - April 28, 2005 - NETGEAR, Inc. (NASDAQ: NTGR), a worldwide provider of technologically advanced, branded networking products, today reported financial results for the first quarter ended April 3, 2005.

Net revenue for the first quarter ended April 3, 2005 was $109.0 million, a 3.7% increase as compared to $105.1 million for the fourth quarter of 2004, and a 23.3% increase as compared to $88.4 million for the first quarter ended March 28, 2004. Net revenue in the first quarter of 2005 derived from North America was $51.1 million, the Europe, Middle East and Africa, or EMEA, region was $47.0 million, and the Asia Pacific region was $10.9 million.

Non-GAAP gross margin in the first quarter of 2005 was 33.0%, as compared to 32.9% in the prior quarter and 31.1% in the year ago comparable quarter. Non-GAAP operating margin was 11.5% in the first quarter of 2005, as compared to 11.4% in the prior quarter and 8.2% in the year ago comparable quarter. In the first quarter of 2005, non-GAAP operating expenses were 21.4% of net revenue, as compared to 21.4% in the prior quarter and 22.9% in the year ago comparable quarter. Sales and marketing, research and development and general and administration expenses as a percentage of net revenue were 15.5%, 2.6% and 3.3%, as compared with 15.5%, 2.4% and 3.5% in the prior quarter, and 16.7%, 2.6% and 3.6% in the year ago comparable quarter.

Net income, computed in accordance with GAAP, for the first quarter of 2005 was $7.9 million or $0.25 per basic share and $0.24 per diluted share, compared to net income of $4.2 million for the first quarter of 2004 or $0.14 per basic share and $0.13 per diluted share.

Non-GAAP net income for the first quarter of 2005 was $8.2 million, a 78% increase compared to non-GAAP net income of $4.6 million for the first quarter of 2004. Non-GAAP net income for the first quarter of 2005 excludes non-cash, stock based compensation of $361,000, and also excludes a $48,000 net tax benefit from exercises of stock options. Non-GAAP net income for the first quarter of 2004 excludes non-cash, stock-based compensation of $445,000. Non-GAAP net income per share was $0.26 per basic share and $0.25 per diluted share in the first quarter of 2005, compared to $0.16 per basic share and $0.14 per diluted share in the first quarter of 2004. The accompanying schedules provide a reconciliation of net income computed on a GAAP basis to net income computed on a non-GAAP basis.

Patrick Lo, Chairman and Chief Executive Officer of NETGEAR, commented, "We are very pleased with our strong results for the first quarter, which provide significant momentum for the year. We again achieved new heights in quarterly revenue, gross margin and operating margin in the first quarter, with continued growth in our net revenue and operating margin on a sequential quarterly basis. More importantly, we achieved this in a seasonally slow quarter, thus continuing what we believe to be a trend of worldwide market share gains."

Mr. Lo continued, "We introduced an all time high 13 new products during the quarter, with excellent market reception for our new RangeMax? Wi-Fi MIMO products and our latest Smart Switch addition. NETGEAR is directly benefiting from customers' continued search for ways to increase wireless speed and range in their homes and businesses. Our RangeMax Wireless Router is fully compatible with 802.11b, 802.11g and Super G devices and is capable of boosting performance of any existing 802.11b/g and Super G clients by up to 50 percent, making it one of the most effective solutions on the market today. Our RangeMax product family has already received the Mobile Focus Award from Laptop Magazine as the best wireless networking product for 2005. We expect that the excitement these products have generated will carry over into coming quarters. Finally, we also expanded shipments of our Voice over Internet Protocol (VoIP) products in the first quarter."

Jonathan Mather, Executive Vice President and Chief Financial Officer of NETGEAR, said, "We continue to execute on our business and achieve impressive efficiencies. As a percentage of net revenue, we held sales and marketing costs in line
with the prior quarter, while actually reducing general and administration costs, despite the sequential gain in net revenue. We remained focused on managing our inventory in the quarter, which led to a return to more normalized channel levels and improved inventory turns to 6.2. Cash and short-term investments were at $138.6 million compared to $141.7 million at the end of fourth quarter of 2004. We were able to pay vendors early in order to earn favorable discounts. Our actions led to a reduction in our accounts payable balance to $25.4 million at the end of the first quarter compared to $52.7 million at the end of the fourth quarter 2004."

First quarter 2005 ending inventory was $47 million, representing 6.2 turns, compared to $53.6 million and 5.3 turns at the end of the fourth quarter of 2004. Days sales outstanding (DSO's) was 67 days in the first quarter of 2005 compared to 70 days in the fourth quarter of 2004. The U.S. retail channel inventory ended the first quarter of 2005 at 7.5 weeks, as compared to 9.3 weeks in the fourth quarter of 2004, and 7.2 weeks in the first quarter of 2004. U.S. distribution channel inventory ended the first quarter of 2005 at 4.3 weeks, as compared to 5.6 weeks in the fourth quarter of 2004 and 6.2 weeks in the first quarter of 2004. European distribution channel inventory ended the first quarter of 2005 at approximately 4.5 weeks, as compared to 5.4 weeks in the fourth quarter of 2004. Asia Pacific distribution channel inventory ended the first quarter of 2005 at approximately 4.6 weeks."

Looking forward, Mr. Lo added, "We are in a great position entering the second quarter, even though it is the industry's seasonally slowest quarter. We expect to build on the sales momentum generated by our RangeMax products in the first quarter, with another 13 new products planned for the second quarter. These planned launches include additional Smart Switch products, more Layer 2 switches, more Gbit switches and most exciting of all, our new home storage product, the Storage Central. This enables customers to store tremendous amounts of multimedia contents (photos, songs, videos, etc.) with automatic back-ups and easy storage space expansion. Additionally, we expect our relationship with Trend Micro will be a sales driver over the next couple of quarters, as we promote the use of Trend Micro's security threat management software with our firewalls, especially the very successful VPN Firewall 200 model introduced in the fourth quarter last year. Taking all of these exciting developments into consideration, we believe net revenue for the second quarter 2005 will be approximately $108.0 million to $110.0 million, with non-GAAP operating margin in the range of 11.3% to 11.5%. Finally, we expect the non-GAAP effective tax rate to be approximately 38.5%."

Investor Conference Call / Webcast Details

NETGEAR will review first quarter 2005 results and discuss management's expectations for the second quarter of 2005 today, Thursday, April 28, 2005 at 5:30PM EDT (2:30PM PDT). The conference call will be available at www.netgear.com and by telephone at (913) 981-4901. A replay of the call will be available from 8:30PM EDT (5:30 PDT) on Thursday, April 28, 2005, through midnight EDT (9:00PM PDT) on Thursday, May 5, 2005 by telephone at (719) 457-0820 and via the web at http://www.netgear.com. The confirmation identification for both the live call and the replay is 3544950.

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 product offerings enable 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 press release
contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. 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 on both a GAAP and non-GAAP basis, anticipated new product offerings, current and future demand for the Company's existing and anticipated new products, willingness of consumers to purchase and use the Company's products, and ability to increase distribution and market share for the Company's products domestically and worldwide. These statements are based on management's current expectations and are subject to certain risks and uncertainties, including, without limitation, the following: future demand for the Company's products may be lower than anticipated; consumers may choose not to adopt the Company's new product offerings or adopt competing products; the Company may be unsuccessful or experience delays in the manufacturing and distributing of its new and existing products; telecommunications service providers may choose to utilize competing products; the Company may be unable to collect receivables as they become due; the Company may fail to manage costs, including the cost of developing new products and manufacturing and distribution of its existing offerings; channel inventory information reported is estimated based on the average number of weeks of inventory on hand on the last Saturday of the quarter, as reported by certain of NETGEAR's customers. Further information on potential risk factors that could affect NETGEAR and its business are detailed in the Company's periodic filings with the Securities and Exchange Commission, including, but not limited to, those risks and uncertainties listed in the section entitled “Risk Factors Affecting Future Results”, pages 26 through 35, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 16, 2005. NETGEAR undertakes no obligation to release publicly any revisions to any forward-looking statements contained herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Use of Non-GAAP Financial Information:

To supplement our consolidated financial statements presented on a GAAP basis, NETGEAR uses non-GAAP measures of operating results, net income and income per share, which are adjusted to exclude certain costs, expenses, losses and tax benefits we believe appropriate to enhance an overall understanding of our past financial performance and also our prospects for the future. These adjustments to our current period GAAP results are made with the intent of providing both management and investors a more complete understanding of NETGEAR's underlying operational results and trends and our marketplace performance. For example, the non-GAAP results are an indication of our baseline performance before gains, losses or other charges that are considered by management to be outside of our core operating results. In addition, these adjusted non-GAAP results are among the primary indicators management uses as a basis for our planning and forecasting of future periods. The presentation of this additional information is not meant to be considered in isolation or as a substitute for net income or diluted net income per share prepared in accordance with generally accepted accounting principles in the United States.