NETGEAR Reports Second Quarter 2005 Results

- Second quarter 2005 net revenue increased to $107.6 million, 21.7% year-over-year growth
- Second quarter 2005 non-GAAP net income increased to $8.3 million, as compared to $5.3 million in the comparable prior year quarter, 56.6% year over year growth
- Second quarter 2005 non-GAAP gross margin at 35.9%, and non-GAAP operating margin at 12.5%
- Second quarter 2005 non-GAAP diluted EPS of $0.25, as compared to $0.17 in the comparable prior year quarter, 47.1% year-over-year growth
- Company expects third quarter 2005 net revenue to be in the range of $113 million to $118 million, with non-GAAP operating margin in the range of 12.0% to 12.5%<br /><br />

SANTA CLARA, Calif., July 28 /PRNewswire-FirstCall/ -- NETGEAR, Inc. (Nasdaq: NTGR), a worldwide provider of technologically advanced, branded networking products, today reported financial results for the second quarter ended July 3, 2005.

Net revenue for the second quarter ended July 3, 2005 was $107.6 million, a 21.7% increase as compared to $88.4 million for the second quarter ended June 27, 2004. Revenue for the first quarter of 2005 was $109.0 million. Net revenue in the second quarter of 2005 derived from North America was $55.2 million; the Europe, Middle East and Africa, or EMEA, region was $ 40.4 million; and, the Asia Pacific region was $12.0 million. Net income, computed in accordance with GAAP, for the second quarter of 2005 was $8.3 million or $0.26 per basic share and $0.25 per diluted share. This net income was a 5.1% increase compared to net income of $7.9 million for the prior quarter or $0.25 per basic share and $0.24 per diluted share, and a 69.4% increase compared to net income of $4.9 million for the second quarter of 2004 or $0.16 per basic share and $0.15 per diluted share.

Non-GAAP gross margin in the second quarter of 2005 was 35.9%, as compared to 33.0% in the prior quarter and 32.1% in the year ago comparable quarter. Non-GAAP operating margin was 12.5% in the second quarter of 2005, as compared to 11.5% in the prior quarter and 8.9% in the year ago comparable quarter. In the second quarter of 2005, non-GAAP operating expenses were 23.4% of net revenue, as compared to 21.4% in the prior quarter and 23.2% in the year ago comparable quarter. Sales and marketing, research and development and general and administration expenses as a percentage of net revenue were 16.9%, 3.0% and 3.5%, as compared with 15.5%, 2.6% and 3.3% in the prior quarter, and 17.0%, 2.6% and 3.6% in the year ago comparable quarter.

Non-GAAP net income for the second quarter of 2005 was $8.3 million, a 56.6% increase compared to non-GAAP net income of $5.3 million for the second quarter of 2004. Non-GAAP net income for the second quarter of 2005 excludes non-cash, stock based compensation of $324,000, and also excludes a $325,000 net tax benefit from exercises of stock options. Non-GAAP net income for the second 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 second quarter of 2005, compared to $0.18 per basic share and $0.17 per diluted share in the second 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 had a strong second quarter driven by the success of some new products; such as, our RangeMax family of MIMO Wi-Fi products. The RangeMax pricing is attractive while providing our customers with innovative first-to-market technology. Gross and operating margins in the second quarter were the highest in NETGEAR's history. Given our strong financial performance, we invested in strengthening our sales and marketing staff in emerging markets such as Eastern Europe, Russia and India. We also ran significant in-store branding campaigns, such as sales associates training, point of sales material displays, and channel seed units in the established markets of the United States and Western Europe."

Lo continued, "NETGEAR introduced a record 17 new products in the second quarter. Our RangeMax line, which quickly became the #1 selling MIMO Wi-Fi products in the market, has been our most successful product introduction so far this year. We expect RangeMax sales volume to increase over the next few quarters as the product line benefits from positive product reviews and recommendations, numerous industry awards and NETGEAR's high brand recognition. Additionally, our industry design concept, Platinum II, which our RangeMax routers are based on, was bestowed the prestigious 2005 Industry Design Excellence Gold Award by the Industry Designers Society of America."

"We are also excited about our continuing sales penetration in the carrier market. In the second quarter, we shipped a new cable broadband gateway to Cox Communications, our newest customer in the service provider segment. We also introduced 3 new Voice over Internet (VoIP) products for 3 different operators: AT&T and AOL in the US, and Engin in
Australia. The carrier market has been and will continue to be an important growth area for us. Revenue in the second quarter from service providers represents approximately 9% of total revenues."

Jonathan Mather, Executive Vice President and Chief Financial Officer of NETGEAR, said, "Aside from our strong gross margin and operating margin improvements, we remained focused on managing our assets. NETGEAR reduced inventory in the quarter to $44.1 million with turns of 6.3, while maintaining planned channel levels. Cash and short-term investments were at $147.9 million compared to $138.6 million at the end of the first quarter of 2005. Days sales outstanding (DSO's) was 66 days in the second quarter of 2005 compared to 67 days in the first quarter of 2005. The U.S. retail channel inventory ended the second quarter of 2005 at 10.1 weeks, as compared to 7.5 weeks in the first quarter of 2005, and 9.2 weeks in the second quarter 2004. U.S. distribution channel inventory ended the second quarter of 2005 at 3.3 weeks, as compared to 4.3 weeks in the first quarter of 2005 and 4.3 weeks in the second quarter of 2004. European distribution channel inventory ended the second quarter of 2005 at approximately 3.9 weeks, as compared to 4.5 weeks in the first quarter of 2005. Asia Pacific distribution channel inventory ended the second quarter of 2005 at approximately 5.3 weeks, as compared to 4.6 weeks in the first quarter of 2005."

Looking forward, Mr. Lo stated, "We are optimistic, as we enter the seasonally stronger third quarter. Our confidence is based on NETGEAR's market-leading product line-up and anticipated back to school seasonal demand. We expect to benefit from sales momentum in both the US and in Europe along with continued gains in the Asia-Pacific region. We believe net revenue for the third quarter 2005 will be approximately $113 million to $118 million, with non-GAAP operating margin in the range of 12.0% to 12.5%. Finally, we expect the non-GAAP effective tax rate to be approximately 39%.""
ended April 3, 2005, filed with the Securities and Exchange Commission on May 13, 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 expenses 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 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.

NETGEAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three months ended</th>
<th></th>
<th>Six months ended</th>
<th></th>
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<td>55,841</td>
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<tr>
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<tr>
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<td>2,277</td>
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<td>18,174</td>
<td>15,048</td>
<td>35,103</td>
<td>29,816</td>
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<td>General and administrative</td>
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<td><strong>Other income (expense), net</strong></td>
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<td>206</td>
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### Non-GAAP Condensed Consolidated Statements of Operations

Excluding stock-based compensation and a tax benefit from stock option exercises that pertain to previously taken stock based compensation.

*(in thousands, except per share data)*

(Year Ended June 27, 2004)

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<tr>
<td><strong>deferred stock-based compensation</strong></td>
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<td></td>
<td>$ 141,970</td>
<td>$ 120,874</td>
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<tr>
<td><strong>Gross profit</strong></td>
<td>$ 38,639</td>
<td>$ 28,397</td>
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<td>$ 74,558</td>
<td>$ 55,923</td>
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<td><strong>Operating expenses:</strong></td>
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<td><strong>Research and development</strong></td>
<td>$ 3,207</td>
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<td><strong>Research and development</strong></td>
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<td><strong>Sales and marketing</strong></td>
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<td><strong>General and administrative</strong></td>
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<td><strong>Total operating expenses</strong></td>
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<td>$ 48,534</td>
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<td><strong>Interest income</strong></td>
<td>$ 897</td>
<td>$ 321</td>
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<td>$ 1,668</td>
<td>$ 544</td>
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<tr>
<td><strong>Other income (expense), net</strong></td>
<td>(780)</td>
<td>206</td>
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<td></td>
<td>(834)</td>
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<td>$ 16,475</td>
<td>$ 9,915</td>
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**Net income per share:**

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<tr>
<td>2005</td>
<td>$ 0.26</td>
<td>$ 0.25</td>
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<tr>
<td>2004</td>
<td>$ 0.18</td>
<td>$ 0.17</td>
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Weighted average shares outstanding for net income per share:

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<th>Diluted</th>
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<td>2005</td>
<td>32,146</td>
<td>33,716</td>
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<tr>
<td>2004</td>
<td>30,367</td>
<td>32,238</td>
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**NETGEAR, INC.**
outstanding for net income per share:

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<th>Basic</th>
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<th></th>
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<tbody>
<tr>
<td></td>
<td>32,146</td>
<td>30,367</td>
<td>31,901</td>
<td>29,951</td>
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<tr>
<td>Diluted</td>
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<td>32,238</td>
<td>33,480</td>
<td>32,348</td>
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NETGEAR, INC.

GAAP TO NON-GAAP RECONCILIATION
(in thousands, except per share data)
(Unaudited)

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<td>Non-GAAP</td>
<td>GAAP Excluded</td>
<td>Non-GAAP</td>
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<td>$107,576</td>
<td>$216,528</td>
<td>$216,528</td>
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<td>Cost of revenue:</td>
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<tr>
<td>Cost of revenue</td>
<td>68,937</td>
<td>-</td>
<td>141,970</td>
<td>-</td>
<td>141,970</td>
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<td>Amortization of</td>
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<tr>
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<td>38</td>
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<td>-</td>
<td>76</td>
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<tr>
<td>compensation</td>
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<td>68,937</td>
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<tr>
<td>Gross profit</td>
<td>38,601</td>
<td>(38)</td>
<td>38,639</td>
<td>74,482</td>
<td>(76)</td>
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Operating expenses:

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<td></td>
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<td>Non-GAAP</td>
<td>GAAP Excluded</td>
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<td>Research and development</td>
<td>3,207</td>
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<td>6,044</td>
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<td>6,044</td>
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<tr>
<td>Sales and marketing</td>
<td>18,174</td>
<td>-</td>
<td>35,103</td>
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<td>35,103</td>
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<tr>
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<tr>
<td>compensation:</td>
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Income from operations:

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<td>Non-GAAP</td>
<td>GAAP Excluded</td>
<td>Non-GAAP</td>
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<td>Interest income</td>
<td>897</td>
<td>-</td>
<td>1,668</td>
<td>-</td>
<td>1,668</td>
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<tr>
<td>Other expense</td>
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<td>(834)</td>
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<td>(685)</td>
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Provision for income taxes:

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<tbody>
<tr>
<td></td>
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<td>Non-GAAP</td>
<td>GAAP Excluded</td>
<td>Non-GAAP</td>
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<td>$8,300</td>
<td>$16,161</td>
<td>$314</td>
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</tbody>
</table>

Net income per share:

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$0.26</td>
<td>$0.26</td>
<td>$0.51</td>
<td>$0.52</td>
<td></td>
</tr>
<tr>
<td>Diluted</td>
<td>$0.25</td>
<td>$0.25</td>
<td>$0.48</td>
<td>$0.49</td>
<td></td>
</tr>
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</table>

Weighted average shares outstanding:

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>32,146</td>
<td>32,146</td>
<td>31,901</td>
<td>31,901</td>
<td></td>
</tr>
</tbody>
</table>
### NETGEAR, INC.
**GAAP TO NON-GAAP RECONCILIATION**
(in thousands, except per share data)
(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three months ended</th>
<th></th>
<th>Six months ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GAAP</td>
<td>Excluded</td>
<td>Non-GAAP</td>
<td>GAAP</td>
</tr>
<tr>
<td><strong>Net revenue</strong></td>
<td>$88,372</td>
<td>$-</td>
<td>$88,372</td>
<td>$176,797</td>
</tr>
<tr>
<td><strong>Cost of revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>59,975</td>
<td>-</td>
<td>59,975</td>
<td>120,874</td>
</tr>
<tr>
<td>Amortization of</td>
<td>40</td>
<td>40</td>
<td>-</td>
<td>82</td>
</tr>
<tr>
<td>deferred stock-based</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>**Total Cost of</td>
<td>60,015</td>
<td>40</td>
<td>59,975</td>
<td>120,956</td>
</tr>
<tr>
<td>revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>28,357</td>
<td>(40)</td>
<td>28,397</td>
<td>55,841</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and</td>
<td>2,277</td>
<td>-</td>
<td>2,277</td>
<td>4,620</td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and</td>
<td>15,048</td>
<td>-</td>
<td>15,048</td>
<td>29,816</td>
</tr>
<tr>
<td>marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and</td>
<td>3,213</td>
<td>-</td>
<td>3,213</td>
<td>6,395</td>
</tr>
<tr>
<td>administrative</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of</td>
<td>119</td>
<td>119</td>
<td>-</td>
<td>237</td>
</tr>
<tr>
<td>deferred stock-based</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and</td>
<td>189</td>
<td>189</td>
<td>-</td>
<td>377</td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>97</td>
<td>97</td>
<td>-</td>
<td>194</td>
</tr>
<tr>
<td>General and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>administrative</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>**Total operating</td>
<td>20,943</td>
<td>405</td>
<td>20,538</td>
<td>41,639</td>
</tr>
<tr>
<td>expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>**Income from</td>
<td>7,414</td>
<td>(445)</td>
<td>7,859</td>
<td>14,202</td>
</tr>
<tr>
<td>operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>321</td>
<td>-</td>
<td>321</td>
<td>544</td>
</tr>
<tr>
<td>Other income</td>
<td>206</td>
<td>-</td>
<td>206</td>
<td>103</td>
</tr>
<tr>
<td>**Income before</td>
<td>7,941</td>
<td>(445)</td>
<td>8,386</td>
<td>14,849</td>
</tr>
<tr>
<td>income taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for</td>
<td>3,066</td>
<td>-</td>
<td>3,066</td>
<td>5,824</td>
</tr>
<tr>
<td>income taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$4,875</td>
<td>$(445)</td>
<td>$5,320</td>
<td>$9,025</td>
</tr>
<tr>
<td><strong>Net income per share</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>$0.16</td>
<td>$0.18</td>
<td>$0.30</td>
<td>$0.33</td>
</tr>
<tr>
<td>Diluted</td>
<td>$0.15</td>
<td>$0.17</td>
<td>$0.28</td>
<td>$0.31</td>
</tr>
</tbody>
</table>

**Weighted average shares outstanding for net income per share**

<p>| Basic | 30,367 | 30,367 | 29,951 | 29,951 |
| Diluted | 32,238 | 32,238 | 32,348 | 32,348 |</p>
<table>
<thead>
<tr>
<th></th>
<th>July 3, 2005</th>
<th>December 31, 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 74,252</td>
<td>$ 65,052</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>73,686</td>
<td>76,663</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>77,982</td>
<td>82,203</td>
</tr>
<tr>
<td>Inventories</td>
<td>44,106</td>
<td>53,557</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>12,423</td>
<td>11,475</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>7,218</td>
<td>7,151</td>
</tr>
<tr>
<td>Total current assets</td>
<td>289,667</td>
<td>296,101</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>4,331</td>
<td>3,579</td>
</tr>
<tr>
<td>Goodwill, net</td>
<td>558</td>
<td>558</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 294,556</td>
<td>$ 300,238</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND STOCKHOLDERS' EQUITY** |             |                  |
| Current liabilities:             |             |                  |
| Accounts payable                 | $ 22,428    | $ 52,742         |
| Accrued employee compensation    | 5,983       | 5,534            |
| Other accrued liabilities        | 49,624      | 50,966           |
| Deferred revenue                 | 2,672       | 2,143            |
| Income taxes payable             | 918         | 3,659            |
| Total current liabilities        | 81,625      | 115,044          |

| Stockholders' equity:            |             |                  |
| Common stock                     | 32          | 31               |
| Additional paid-in capital       | 199,788     | 188,900          |
| Deferred stock-based compensation| (1,119)     | (1,882)          |
| Other comprehensive income (loss)| (83)        | (7)              |
| Retained earnings (accumulated deficit) | 14,313     | (1,848)          |
| Total stockholders' equity       | 212,931     | 185,194          |
| Total liabilities and stockholders' equity | $ 294,556 | $ 300,238       |