



July 27, 2006

NETGEAR® Reports Second Quarter 2006 Results

- | Second quarter 2006 net revenue increased to \$130.7 million, 21.5% year-over-year growth
- | Second quarter 2006 non-GAAP net income increased to \$10.5 million, as compared to \$8.3 million in the comparable prior year quarter, 26.5% year-over-year growth
- | Second quarter 2006 non-GAAP diluted EPS of \$0.30, as compared to \$0.25 in the prior year quarter, 20.0% year-over-year growth
- | Company expects third quarter 2006 net revenue to be in the range of \$138 million to \$143 million, with non-GAAP operating margin in the range of 11.0% to 12.0%

SANTA CLARA, Calif. – July 27, 2006 – NETGEAR, Inc. (NASDAQ: NTGR), a worldwide provider of technologically advanced, branded networking products, today reported financial results for the second quarter ended July 2, 2006.

Net revenue for the second quarter ended July 2, 2006 was \$130.7 million, a 21.5% increase as compared to \$107.6 million for the second quarter ended July 3, 2005, and an increase of 2.7% as compared to \$127.3 million in the first quarter of 2006. Net income, computed in accordance with GAAP, for the second quarter of 2006 was \$9.8 million or \$0.29 per diluted share. This net income was an 18.1% increase compared to net income of \$8.3 million for the second quarter of 2005 or \$0.25 per diluted share, and relatively flat compared to net income of \$9.9 million or \$0.29 per diluted share in the first quarter of 2006.

Non-GAAP gross margin in the second quarter of 2006 was 34.8%, as compared to 35.9% in the year ago comparable quarter, and 35.1% in the first quarter of 2006. Non-GAAP operating margin was 11.2% in the second quarter of 2006, as compared to 12.5% in the second quarter of 2005, and 12.4% in the first quarter of 2006. In the second quarter of 2006, non-GAAP operating expenses were 23.6% of net revenue, as compared to 23.4% in the year ago comparable quarter, and 22.7% in the prior quarter.

Non-GAAP net income for the second quarter of 2006 was \$10.5 million, a 26.5% increase compared to non-GAAP net income of \$8.3 million for the second quarter of 2005, and relatively flat compared to non-GAAP net income of \$10.5 million for the first quarter of 2006. Non-GAAP net income for the second quarter of 2006 excludes non-cash, stock-based compensation, net of tax of \$622,000. 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 first quarter of 2006 excludes non-cash, stock-based compensation, net of tax of \$672,000. Non-GAAP net income was \$0.30 per diluted share in the second quarter of 2006, compared to \$0.25 per diluted share in the second quarter of 2005 and \$0.31 per diluted share in the first quarter of 2006. 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, "This was another strong quarter for us. We benefited from increased demand across all three regions, maintaining the considerable business momentum we have established on a global basis. The strongest growth for us came from broadband gateways sold to service providers and our RangeMax™ line of wireless routers, including the newly introduced RangeMax NEXT draft 11n products. Our technology advantage, ease of use, and industrial design continues to be cited by major reviewers at many influential media outlets around the world in reviews of our RangeMax NEXT draft 11n products. We successfully introduced another 17 products, including 8 RangeMax NEXT draft 11n products. Key new service providers added in the second quarter include British Sky Broadcasting Limited and AOL in the UK. In line with this momentum, service provider revenue increased to 15% as a percentage of total revenue, compared to 9% in the first quarter of 2006."

Jonathan Mather, Executive Vice President and Chief Financial Officer of NETGEAR, said, "We proactively took on higher inventory levels in order to put more product on lower cost sea freight to satisfy our third quarter requirements. Retail channel inventory in the U.S. was higher than normal due to anticipated demand for the Back to School season, especially for our new RangeMax NEXT line of products. We expect the U.S. retail channel inventory level to return to normal levels by the end of the third quarter. We ended the second quarter 2006 with inventory at \$69.3 million with ending inventory turns of 4.9, compared to \$44.9 million with ending inventory turns of 7.4 at the end of the first quarter 2006, and \$44.1 million with ending inventory turns of 6.3 at the end of the second quarter 2005. Days sales outstanding (DSO) was 74 in the second quarter of 2006 compared to 77 days in the first quarter of 2006 and 66 days in the second quarter of 2005. Cash and short-term investments were \$158.9 million at the end of the second quarter of 2006 compared to \$178.0 million at the end of the first quarter of 2006, and \$147.9 million at the end of the second quarter of 2005. Deferred revenue decreased to \$6.9 million at the end of the second quarter of 2006 as compared to \$7.7 million at the end of the prior quarter and

increased from \$2.7 million at the end of the second quarter of 2005."

The U.S. retail channel inventory ended the second quarter of 2006 at 13.3 weeks compared to 10.1 weeks in the second quarter of 2005 and 9.3 weeks in the first quarter of 2006. U.S. distribution channel inventory ended the second quarter of 2006 at 4.7 weeks, as compared to 3.3 weeks in the second quarter of 2005, and 5.0 weeks in the first quarter of 2006. European distribution channel inventory ended the second quarter of 2006 at approximately 6.1 weeks, as compared to approximately 3.9 weeks in the second quarter of 2005 and 5.2 weeks in the first quarter of 2006. Asia Pacific distribution channel inventory ended the second quarter of 2006 at approximately 5.1 weeks, as compared to approximately 5.3 weeks in the second quarter of 2005, and 4.1 weeks in the first quarter of 2006.

Net revenue by geography comprises gross revenue less such items as marketing incentives paid to customers, sales returns and price protection, which reduce gross revenue. In the fourth quarter of 2005, we refined our methodology for allocating marketing incentives that reduce gross revenue and now allocate them on a specific identification basis to the geography to which they relate. Previously marketing incentives were allocated based on each geography's gross revenue as a percentage of total gross revenue. For the first and second quarters of 2006, net revenue by geography was reported by using this refined methodology and historical periods were updated to be comparable and consistent with the revised methodology. The following table shows net revenue by geography both under this revised methodology and under our prior methodology for the periods indicated:



Looking forward, Mr. Lo added, "We are very optimistic entering the second half of the year. Our product line-up and channel of distribution are at their strongest in the company's ten year history. We continue to bring significant advances in wireless and broadband applications to small-office and home users globally. There is a high level of energy across NETGEAR riding the momentum of the new products introduced and new account relationships established in the second quarter. On top of the exciting 17 new products introduced in the second quarter, we expect to introduce at least 12 additional new products in the third quarter. We also recently started to supply our Smart Switches to Korean Telecom for their wireless broadband implementation. Specifically, we expect net revenue for the third quarter 2006 will be approximately \$138 million to \$143 million, with non-GAAP operating margin in the range of 11.0% to 12.0%. Finally, we expect the non-GAAP effective tax rate to be approximately 39.5%."

Recent Comments from Key Media Outlets:

BusinessWeek, "NETGEAR has carved out valuable territory in the war for the digital living room. It's long been a leading provider of wireless routers for consumers and small businesses ... And the company is rapidly expanding its sights to new kinds of products..."

PC Magazine, "When it comes to performance, the (NETGEAR) WNR854T did better than all of its draft-n cohorts."

CNET, "...satisfying maximum throughput, a slick design, simple setup, comprehensive documentation, and tight security capabilities."

Investor Conference Call / Webcast Details

NETGEAR will review the second quarter 2006 results and discuss management's expectations for the third quarter of 2006 today, Thursday, July 27, 2006 at 5:00 p.m. EST (2:00 p.m. PST). The dial-in number for the live audio call is (201) 689-8560. A live webcast of the conference call will be available on NETGEAR's website at www.netgear.com. A replay of the call will be available 2 hours following the call through 11:59 p.m. EST (8:59 p.m. PST) on Thursday, August 3, 2006 by telephone at (201) 612-7415 and via the web at www.netgear.com. The account number to access the phone replay is 3055 and the conference ID number is 206304.

About NETGEAR, Inc.

NETGEAR® (Nasdaq: NTGR) designs technologically advanced, branded networking products that address the specific needs of small and medium 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 <http://www.netgear.com> or call (408) 907-8000.

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trademarks of their respective holders. Information is subject to change without notice. All rights reserved. Maximum wireless signal rate derived from IEEE Standard 802.11 specifications. Actual data throughput will vary. Network conditions and environmental factors, including volume of network traffic, building materials and construction, and network overhead, lower actual data throughput.

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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 manufacturing and distributing 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 "1A. Risk Factors", pages 23 through 32, in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2006, filed with the Securities and Exchange Commission on May 12, 2006. 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.



