



October 26, 2006

NETGEAR® Reports Third Quarter 2006 Results

- | Third quarter 2006 net revenue increased to \$151.6 million, 36% year-over-year growth
- | Third quarter 2006 non-GAAP net income increased to \$11.9 million, as compared to \$9.1 million in the comparable prior year quarter, 31% year-over-year growth
- | Third quarter 2006 non-GAAP diluted EPS of \$0.35, as compared to \$0.27 in the prior year quarter, 30% year-over-year growth
- | Company expects fourth quarter 2006 net revenue to be in the range of \$153 million to \$160 million, with non-GAAP operating margin in the range of 11.0% to 12.0%

SANTA CLARA, Calif. – October 26, 2006 – NETGEAR, Inc. (NASDAQ: NTGR), a worldwide provider of technologically advanced, branded networking products, today reported financial results for the third quarter ended October 1, 2006.

Net revenue for the third quarter ended October 1, 2006 was \$151.6 million, a 36% increase as compared to \$111.3 million for the third quarter ended October 2, 2005, and an increase of 16% as compared to \$130.7 million in the second quarter of 2006. Net income, computed in accordance with GAAP, for the third quarter of 2006 was \$8.0 million or \$0.23 per diluted share. This net income was a 7% decrease compared to net income of \$8.6 million for the third quarter of 2005 or \$0.25 per diluted share, and a decrease of 18% compared to net income of \$9.8 million or \$0.29 per diluted share in the second quarter of 2006.

Non-GAAP gross margin in the third quarter of 2006 was 33.5%, as compared to 35.2% in the year ago comparable quarter, and 34.8% in the second quarter of 2006. Non-GAAP operating margin was 11.9% in the third quarter of 2006, as compared to 12.7% in the third quarter of 2005, and 11.2% in the second quarter of 2006. In the third quarter of 2006, non-GAAP operating expenses were 21.6% of net revenue, as compared to 22.5% in the year ago comparable quarter, and 23.6% in the prior quarter.

Non-GAAP net income for the third quarter of 2006 was \$11.9 million, a 31% increase compared to non-GAAP net income of \$9.1 million for the third quarter of 2005, and a 13% increase compared to non-GAAP net income of \$10.5 million for the second quarter of 2006. Non-GAAP net income for the third quarter excludes \$3.0 million of adjustments related to amortization of purchased intangibles and in-process research and development, as well as retention bonuses, net of taxes, related to the SkipJam acquisition, which closed on August 1, 2006. Retention bonuses of \$1.4 million are not included in the purchase price allocation but are period costs which will be charged to the statement of operations as incurred over a two year period from the date of the purchase. As these costs are not part of normal operations of NETGEAR, they are excluded from the non-GAAP statement of operations. Non-GAAP net income for the third quarter of 2006 also excludes non-cash, stock-based compensation, net of tax of \$910,000. Non-GAAP net income for the third quarter of 2005 excludes total net charges of \$510,000, including litigation reserves, net of taxes, of \$362,000, non-cash, stock based compensation of \$211,000, and a \$63,000 net tax benefit from exercises of stock options. 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 was \$0.35 per diluted share in the third quarter of 2006, compared to \$0.27 per diluted share in the third quarter of 2005 and \$0.30 per diluted share in the second 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, "We continue to execute on our business strategy and deliver impressive results in terms of revenue and net income growth, new product launches, market share growth, and the integration of our SkipJam acquisition. We are further differentiating ourselves from the market by consistently introducing both new product categories and improvements on already successful products. We launched a total of 10 new products in the third quarter, with the most important being NETGEAR's SSL VPN Concentrator 25 and Skype™ Wi-Fi Phone, which were both enthusiastically received by our channel partners and end customers. We expect to add an additional 12 new products in the fourth quarter, bringing the number of new products launched in 2006 to 50. Of note, our launch with BskyB in the UK was very successful based on initial reports of the number of BskyB's participating subscribers. Net revenue from service providers reached 23% of total revenue in the third quarter and we expect it to be around the same level in the fourth quarter."

Jonathan Mather, Executive Vice President and Chief Financial Officer of NETGEAR, said, "Healthy back-to-school sales activities in the U.S. enabled us to lower our retail channel inventory from 13.3 weeks to 10.6 weeks. We expect to further lower the US retail channel inventory after Christmas to slightly below 10 weeks. Demand was also strong across all channels in Europe and in the Asia Pacific outside of Australia, which is seasonally weak for the third quarter. We ended the third quarter 2006 with inventory at \$77.8 million, compared to \$69.3 million at the end of the second quarter 2006, and

\$46.9 million at the end of third quarter 2005. Ending inventory turns were 5.2, compared to 4.9 at the end of the second quarter 2006, and 6.2 at the end of the third quarter 2005. We continue to reduce inbound freight costs by utilizing more sea freight versus air freight, which contributes to the increase in 'in transit' inventory. Days sales outstanding (DSO) was 71 in the third quarter of 2006 compared to 74 days in the second quarter of 2006 and 73 days in the third quarter of 2005. Cash and short-term investments were \$151.1 million at the end of the third quarter of 2006 compared to \$158.9 million at the end of the second quarter of 2006, and \$152.6 million at the end of the third quarter of 2005. Deferred revenue increased to \$12.5 million at the end of the third quarter of 2006 as compared to \$6.9 million at the end of the prior quarter and \$4.7 million at the end of the third quarter of 2005."

The U.S. retail channel inventory ended the third quarter of 2006 at 10.6 weeks compared to 8.7 weeks in the third quarter of 2005 and 13.3 weeks in the second quarter of 2006. U.S. distribution channel inventory ended the third quarter of 2006 at 6.3 weeks, as compared to 4.1 weeks in the third quarter of 2005, and 4.7 weeks in the second quarter of 2006. European distribution channel inventory ended the third quarter of 2006 at approximately 3.8 weeks, as compared to approximately 3.5 weeks in the third quarter of 2005 and 6.1 weeks in the second quarter of 2006. Asia Pacific distribution channel inventory ended the third quarter of 2006 at approximately 4.3 weeks, as compared to approximately 5.0 weeks in the third quarter of 2005, and 5.1 weeks in the second 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 nine months 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 in a great position entering the fourth quarter. Our strategy of delivering technology innovations on a consistent basis is paying off for us as the NETGEAR brand is now synonymous for high performance broadband solutions for the small-office and home users worldwide. We are also excited about the prospect of bringing to market multimedia products that integrate SkipJam's powerful software for home entertainment. The networked digital home entertainment segment continues to grow and we expect to be a major player given our strong product portfolio. Specifically, we expect net revenue for the fourth quarter 2006 to be approximately \$153 million to \$160 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%."

Investor Conference Call / Webcast Details

NETGEAR will review the third quarter 2006 results and discuss management's expectations for the fourth quarter of 2006 today, Thursday, October 26, 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, November 2, 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 215895.

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.

©2006 NETGEAR, Inc. NETGEAR® and the NETGEAR Logo are trademarks or registered trademarks of NETGEAR, Inc. in the United States and/or other countries. Other brand and product names are trademarks or registered 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.

Contacts:

Doug Hagan
Director, Corporate Marketing
NETGEAR, Inc.
(408) 907-8053
doug.hagan@netgear.com

David Pasquale
Executive Vice President, Investor Relations
The Ruth Group
(646) 536-7006
dpasquale@theruthgroup.com

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 "Part II - Item 1A. Risk Factors", pages 30 through 39, in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2006, filed with the Securities and Exchange Commission on August 11, 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.

