NETGEAR® Reports Record Second Quarter 2011 Results

Second quarter 2011 net revenue of $291.2 million, as compared to $195.9 million in the comparable prior year quarter, 49% year-over-year growth

Second quarter 2011 non-GAAP net income of $24.7 million, as compared to $13.7 million in the comparable prior year quarter, 80% year-over-year growth

Second quarter 2011 non-GAAP diluted earnings per share of $0.65, as compared to $0.38 in the comparable prior year quarter, 71% year-over-year growth

Company expects third quarter 2011 net revenue to be in the range of $290 million to $300 million, with non-GAAP operating margin in the range of 11% to 12%

SAN JOSE, Calif., July 28, 2011 /PRNewswire/ -- NETGEAR, Inc. (NASDAQGM: NTGR), a global networking company that delivers innovative products to consumers, businesses and service providers, today reported financial results for the second quarter ended July 3, 2011.

Net revenue for the second quarter ended July 3, 2011 was $291.2 million, as compared to $195.9 million for the second quarter ended June 27, 2010, and as compared to $278.8 million in the first quarter ended April 3, 2011. Net income, computed in accordance with GAAP, for the second quarter of 2011 was $20.6 million, or $0.54 per diluted share. This compared to GAAP net income of $10.5 million, or $0.29 per diluted share, for the second quarter of 2010, and to GAAP net income of $21.2 million, or $0.57 per diluted share, in the first quarter of 2011.

Gross margin on a non-GAAP basis in the second quarter of 2011 was 31.7%, as compared to 36.3% in the year ago comparable quarter, and 32.1% in the first quarter of 2011. Non-GAAP operating margin was 11.9% in the second quarter of 2011, as compared to 13.1% in the second quarter of 2010, and 12.6% in the first quarter of 2011. Non-GAAP net income was $0.65 per diluted share in the second quarter of 2011, as compared to non-GAAP net income of $0.38 per diluted share in the second quarter of 2010, and non-GAAP net income of $0.65 per diluted share in the first quarter of 2011.

The differences between GAAP and non-GAAP financial measures include adjustments, net of any tax effect, for amortization of purchased intangibles, stock-based compensation, restructuring charges, acquisition related compensation and transitional expenses, impact to cost of sales from acquisition accounting adjustments to inventory, and litigation reserves. The accompanying schedules provide a reconciliation of financial measures computed on a GAAP basis to financial measures computed on a non-GAAP basis.

Patrick Lo, Chairman and Chief Executive Officer of NETGEAR, commented, "For the second quarter of 2011, we are extremely pleased with our year-over-year growth in all three geographic regions, especially sequential double digit growth in the Americas and APAC. We continue to carry positive momentum out of a very strong first quarter, and our new products continue to exceed our expectations and enable us to gain market share. Q2 2011 also marks another quarter of record revenue. Q2 2011 was powered by triple digit revenue growth from service providers, which accounted for approximately 37% of the Company's total revenue in the second quarter 2011, as compared to 16% in the prior year quarter and 29% in the first quarter of 2011. This includes revenue from our CNS division, which we acquired from Westell in mid-April 2011. Our service provider revenue in Q2 also benefited from a one-time $10 million order from a major service provider customer."

"We introduced another 17 new products in Q2 2011 as we continue to build on our new product momentum. Notable new products include the compact WiFi repeater/booster for home use, the stackable 48 port Gigabit Smart Switch with 10Gig uplinks, and the mini travel router for the Asian market."

Christine Gorjanc, Chief Financial Officer of NETGEAR, said, "We ended the second quarter of 2011 with $277.9 million in cash, cash equivalents and short-term investments, compared to $231.0 million at the end of the second quarter of 2010, and $279.2 million at the end of the first quarter of 2011. Our net inventory ended at $137.8 million, compared to $125.7 million at the end of the second quarter of 2010, and $140.1 million at the end of the first quarter of 2011."

As we previously announced, beginning this quarter, the Company's business is now managed in three specific business units: retail, commercial, and service provider. Each business unit is managed by a Senior Vice President/General Manager. We believe this new structure enables us to better focus our efforts on our core customer segments and allows us to be more nimble and opportunistic as a company overall. The Company has included financial information specific to these business
Looking forward, Mr. Lo added, "We believe the third quarter 2011 will present sequential increase in market demand due to back to school for both our retail and commercial business units. However, we believe our service provider revenue will be down from Q2 which benefited from a one-time $10 million order. In the third quarter of 2011, we intend to roll out 20 new products to continue our momentum in innovation. For the third quarter of 2011, we expect net revenue in the range of approximately $290 million to $300 million, with non-GAAP operating margin to be in the range of 11% to 12%."
Use of Non-GAAP Financial Information:

To supplement our consolidated financial statements presented on a GAAP basis, NETGEAR uses non-GAAP financial measures, which are adjusted to exclude certain expenses and tax benefits, where applicable. We believe non-GAAP financial measures are 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 financial measures prepared in accordance with generally accepted accounting principles in the United States.