

ATHEROS COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share data)

| | Three Months Ended | | Year Ended | |
|---|--------------------|-----------------|------------------|------------------|
| | December 31, | | December 31, | |
| | 2005 | 2004 | 2005 | 2004 |
| Net revenue | \$ 53,078 | \$ 41,653 | \$ 183,485 | \$ 169,607 |
| Cost of goods sold | <u>28,300</u> | <u>23,106</u> | <u>102,389</u> | <u>91,321</u> |
| Gross profit | 24,778 | 18,547 | 81,096 | 78,286 |
| Operating expenses: | | | | |
| Research and development | 12,575 | 10,837 | 46,696 | 41,462 |
| Sales and marketing | 4,510 | 3,423 | 17,225 | 14,907 |
| General and administrative | 2,569 | 2,091 | 9,769 | 8,523 |
| Stock-based compensation | <u>344</u> | <u>660</u> | <u>1,856</u> | <u>3,718</u> |
| Total operating expenses | 19,998 | 17,011 | 75,546 | 68,610 |
| Income from operations | 4,780 | 1,536 | 5,550 | 9,676 |
| Interest income, net | 1,494 | 808 | 4,854 | 2,089 |
| Income tax benefit (provision) | <u>6,809</u> | <u>(188)</u> | <u>6,284</u> | <u>(941)</u> |
| Net income | <u>\$ 13,083</u> | <u>\$ 2,156</u> | <u>\$ 16,688</u> | <u>\$ 10,824</u> |
| Basic earnings per share | <u>\$ 0.27</u> | <u>\$ 0.05</u> | <u>\$ 0.34</u> | <u>\$ 0.25</u> |
| Diluted earnings per share | <u>\$ 0.24</u> | <u>\$ 0.04</u> | <u>\$ 0.31</u> | <u>\$ 0.21</u> |
| Shares used in computing basic earnings per share | <u>49,241</u> | <u>47,508</u> | <u>48,747</u> | <u>42,886</u> |
| Shares used in computing diluted earnings per share | <u>53,673</u> | <u>53,465</u> | <u>53,543</u> | <u>51,981</u> |
| Non-GAAP net income (*) | <u>\$ 5,892</u> | <u>\$ 2,816</u> | <u>\$ 11,009</u> | <u>\$ 14,542</u> |
| Shares used in computing non-GAAP basic earnings per share (*) | <u>49,241</u> | <u>47,508</u> | <u>48,747</u> | <u>42,886</u> |
| Shares used in computing non-GAAP diluted earnings per share (*) | <u>53,673</u> | <u>53,465</u> | <u>53,543</u> | <u>51,981</u> |
| Non-GAAP basic earnings per share (*) | <u>\$ 0.12</u> | <u>\$ 0.06</u> | <u>\$ 0.23</u> | <u>\$ 0.34</u> |
| Non-GAAP diluted earnings per share (*) | <u>\$ 0.11</u> | <u>\$ 0.05</u> | <u>\$ 0.21</u> | <u>\$ 0.28</u> |

**Reconciliation of GAAP Net Income to
Non-GAAP Net Income**

| | Three Months Ended | | Year Ended | |
|---------------------------------|--------------------|-----------------|------------------|------------------|
| | December 31, | | December 31, | |
| | 2005 | 2004 | 2005 | 2004 |
| GAAP net income | \$ 13,083 | \$ 2,156 | \$ 16,688 | \$ 10,824 |
| Stock-based compensation | 344 | 660 | 1,856 | 3,718 |
| Income tax benefit | <u>(7,535)</u> | <u>-</u> | <u>(7,535)</u> | <u>-</u> |
| Non-GAAP net income | <u>\$ 5,892</u> | <u>\$ 2,816</u> | <u>\$ 11,009</u> | <u>\$ 14,542</u> |

(*) To supplement our consolidated financial statements presented in accordance with GAAP, we have shown above a non-GAAP measure of net income, which is adjusted from results based on GAAP to exclude stock-based compensation and income tax benefits. This non-GAAP measure is provided to enhance the user's overall understanding of our historical financial performance. Specifically, we believe the non-GAAP results provide useful information to both management and investors by excluding stock-based compensation expenses and income tax benefits.

ATHEROS COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands)

| | December 31, | |
|--|------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| ASSETS | | |
| Current assets: | | |
| Cash, cash equivalents and marketable securities | \$173,645 | \$154,485 |
| Accounts receivable, net | 28,381 | 29,750 |
| Inventory | 20,475 | 15,215 |
| Deferred income taxes and other current assets | <u>9,111</u> | <u>3,611</u> |
| Total current assets | 231,612 | 203,061 |
| Property and equipment, net | 5,557 | 2,757 |
| Deferred income taxes and other assets | <u>2,010</u> | <u>545</u> |
| | <u>\$239,179</u> | <u>\$206,363</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | \$41,213 | \$33,022 |
| Long-term liabilities | 1,000 | 301 |
| Stockholders' equity | <u>196,966</u> | <u>173,040</u> |
| | <u>\$239,179</u> | <u>\$206,363</u> |