

LANTRONIX, INC.**Non-GAAP Financial Information**

Lantronix believes that the presentation of non-GAAP financial information, when presented in conjunction with the corresponding GAAP measures, provides important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations. Management uses the aforementioned non-GAAP measures to monitor and evaluate ongoing operating results and trends to gain an understanding of our comparative operating performance. The non-GAAP financial measures disclosed by the Company should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations of the non-GAAP financial measures to the financial measures calculated in accordance with GAAP should be carefully evaluated. The non-GAAP financial measures used by the Company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. The Company has provided reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

Non-GAAP net income (loss) consists of net income (loss) excluding (i) non-GAAP adjustments to operating expenses, (ii) interest income (expense), (iii) other income (expense), (iv) income tax provision (benefit), and (v) severance and restructuring charges.

Lantronix, Inc.
Unaudited GAAP Consolidated Statements of Operations
(In thousands, except per share data)

											Fiscal Year Ended June 30,	
	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	2015	2016
Net revenue	\$ 11,536	\$ 10,735	\$ 10,444	\$ 10,231	\$ 10,573	\$ 9,540	\$ 9,964	\$ 10,515	\$ 10,940	\$ 11,222	\$ 42,946	\$ 40,592
Cost of revenue	5,937	5,565	5,735	5,411	5,506	4,951	5,186	5,571	5,240	5,410	22,648	21,214
Gross profit	5,599	5,170	4,709	4,820	5,067	4,589	4,778	4,944	5,700	5,812	20,298	19,378
Operating expenses:												
Selling, general and administrative	4,075	3,992	3,914	4,060	3,725	3,814	3,469	3,388	3,842	3,873	16,041	14,396
Research and development	1,744	1,782	1,619	1,778	1,671	1,716	1,744	1,779	1,945	1,873	6,923	6,910
Total operating expenses	5,819	5,774	5,533	5,838	5,396	5,530	5,213	5,167	5,787	5,746	22,964	21,306
Income (loss) from operations	(220)	(604)	(824)	(1,018)	(329)	(941)	(435)	(223)	(87)	66	(2,666)	(1,928)
Interest income (expense), net	(5)	(3)	(4)	(5)	(6)	(9)	(8)	(9)	(7)	(6)	(17)	(32)
Other income (expense), net	(21)	1	(5)	(5)	19	28	-	14	(3)	4	(30)	61
Income (loss) before income taxes	(246)	(606)	(833)	(1,028)	(316)	(922)	(443)	(218)	(97)	64	(2,713)	(1,899)
Provision (benefit) for income taxes	16	26	6	10	15	6	13	29	7	23	58	63
Net income (loss)	\$ (262)	\$ (632)	\$ (839)	\$ (1,038)	\$ (331)	\$ (928)	\$ (456)	\$ (247)	\$ (104)	\$ 41	\$ (2,771)	\$ (1,962)
Basic net income (loss) per share	\$ (0.02)	\$ (0.04)	\$ (0.06)	\$ (0.07)	\$ (0.02)	\$ (0.06)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ (0.19)	\$ (0.13)
Diluted net income (loss) per share	\$ (0.02)	\$ (0.04)	\$ (0.06)	\$ (0.07)	\$ (0.02)	\$ (0.06)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ (0.19)	\$ (0.13)
Basic weighted-average shares	14,787	14,874	14,942	15,012	15,103	15,160	15,225	15,554	17,254	17,347	14,904	15,260
Diluted weighted-average shares	14,787	14,874	14,942	15,012	15,103	15,160	15,225	15,554	17,254	17,703	14,904	15,260
<i>Non-GAAP Information</i>												
Non-GAAP operating expenses	\$ 5,494	\$ 5,434	\$ 5,226	\$ 5,551	\$ 5,107	\$ 4,932	\$ 4,723	\$ 4,918	\$ 5,535	\$ 5,465	\$ 21,705	\$ 19,680
Non-GAAP net income (loss)	\$ 264	\$ (99)	\$ (357)	\$ (575)	\$ 124	\$ (196)	\$ 189	\$ 121	\$ 265	\$ 444	\$ (767)	\$ 238

Lantronix Inc.
Unaudited Reconciliation of Non-GAAP Adjustments
(In thousands, except per share data)

	<u>Q1 FY15</u>	<u>Q2 FY15</u>	<u>Q3 FY15</u>	<u>Q4 FY15</u>	<u>Q1 FY16</u>	<u>Q2 FY16</u>	<u>Q3 FY16</u>	<u>Q4 FY16</u>	<u>Q1 FY17</u>	<u>Q2 FY17</u>	<u>Fiscal Year Ended June 30,</u>	
											<u>2015</u>	<u>2016</u>
GAAP net income (loss)	\$ (262)	\$ (632)	\$ (839)	\$ (1,038)	\$ (331)	\$ (928)	\$ (456)	\$ (247)	\$ (104)	\$ 41	\$ (2,771)	\$ (1,962)
Non-GAAP adjustments:												
Cost of revenue:												
Share-based compensation	20	16	17	16	18	20	14	11	11	13	69	63
Depreciation and amortization	139	149	143	140	146	127	120	84	89	84	571	477
Total adjustments to cost of revenue	159	165	160	156	164	147	134	95	100	97	640	540
Selling, general and administrative:												
Share-based compensation and related withholding taxes	174	195	189	187	171	182	131	148	149	162	745	632
Employer portion of withholding taxes on stock grants	-	-	-	-	2	2	-	-	-	5	-	4
Depreciation and amortization	65	63	52	37	51	65	55	56	54	56	217	227
Total adjustments to selling, general and administrative	239	258	241	224	224	249	186	204	203	223	962	863
Research and development:												
Share-based compensation	61	54	44	42	44	50	41	40	41	45	201	175
Employer portion of withholding taxes on stock grants	-	6	-	-	-	-	-	-	-	-	6	-
Depreciation and amortization	25	22	22	21	21	13	16	5	8	13	90	55
Total adjustments to research and development	86	82	66	63	65	63	57	45	49	58	297	230
Severance charges	-	-	-	-	-	286	-	-	-	-	-	286
Restructuring charges	-	-	-	-	-	-	247	-	-	-	-	247
Total non-GAAP adjustments to operating expenses	325	340	307	287	289	598	490	249	252	281	1,259	1,626
Non-GAAP operating expenses	5,494	5,434	5,226	5,551	5,107	4,932	4,723	4,918	5,535	5,465	21,705	19,680
Interest expense, net	5	3	4	5	6	9	8	9	7	6	17	32
Other income (expense), net	21	(1)	5	5	(19)	(28)	-	(14)	3	(4)	30	(61)
Provision (benefit) for income taxes	16	26	6	10	15	6	13	29	7	23	58	63
Total non-GAAP adjustments	526	533	482	463	455	732	645	368	369	403	2,004	2,200
Non-GAAP net income (loss)	<u>\$ 264</u>	<u>\$ (99)</u>	<u>\$ (357)</u>	<u>\$ (575)</u>	<u>\$ 124</u>	<u>\$ (196)</u>	<u>\$ 189</u>	<u>\$ 121</u>	<u>\$ 265</u>	<u>\$ 444</u>	<u>\$ (767)</u>	<u>\$ 238</u>
<i>Reconciliation of non-GAAP operating expenses</i>												
GAAP operating expenses	5,819	5,774	5,533	5,838	5,396	5,530	5,213	5,167	5,787	5,746	22,964	21,306
Non-GAAP adjustments to operating expenses	(325)	(340)	(307)	(287)	(289)	(598)	(490)	(249)	(252)	(281)	(1,259)	(1,626)
Non-GAAP operating expenses	<u>\$ 5,494</u>	<u>\$ 5,434</u>	<u>\$ 5,226</u>	<u>\$ 5,551</u>	<u>\$ 5,107</u>	<u>\$ 4,932</u>	<u>\$ 4,723</u>	<u>\$ 4,918</u>	<u>\$ 5,535</u>	<u>\$ 5,465</u>	<u>\$ 21,705</u>	<u>\$ 19,680</u>

Lantronix, Inc.
Unaudited GAAP Condensed Consolidated Balance Sheets
(In thousands)

	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,	June 30,	
	2014	2014	2015	2015	2015	2015	2016	2016	2016	2016	2015	2016
Assets												
Current assets:												
Cash and cash equivalents	\$ 6,283	\$ 5,407	\$ 5,598	\$ 4,989	\$ 4,718	\$ 4,562	\$ 4,056	\$ 5,962	\$ 6,097	\$ 6,698	\$ 4,989	\$ 5,962
Accounts receivable, net	3,543	2,634	2,631	2,658	2,970	2,343	3,131	3,164	3,189	2,866	2,658	3,164
Inventories, net	8,545	9,296	8,740	9,503	8,988	7,861	7,275	6,584	7,390	7,614	9,503	6,584
Contract manufacturers' receivable	581	393	486	369	365	482	321	369	286	366	369	369
Prepaid expenses and other current assets	356	595	493	400	315	615	568	580	479	566	400	580
Total current assets	19,308	18,325	17,948	17,919	17,356	15,863	15,351	16,659	17,441	18,110	17,919	16,659
Property and equipment, net	1,490	1,432	1,311	1,471	1,476	1,684	1,593	1,569	1,491	1,402	1,471	1,569
Goodwill	9,488	9,488	9,488	9,488	9,488	9,488	9,488	9,488	9,488	9,488	9,488	9,488
Other assets	104	99	95	93	60	56	54	63	49	47	93	63
Total assets	<u>\$ 30,390</u>	<u>\$ 29,344</u>	<u>\$ 28,842</u>	<u>\$ 28,971</u>	<u>\$ 28,380</u>	<u>\$ 27,091</u>	<u>\$ 26,486</u>	<u>\$ 27,779</u>	<u>\$ 28,469</u>	<u>\$ 29,047</u>	<u>\$ 28,971</u>	<u>\$ 27,779</u>
Liabilities and stockholders' equity												
Current liabilities:												
Accounts payable	\$ 4,984	\$ 4,265	\$ 4,032	\$ 3,633	\$ 2,922	\$ 2,575	\$ 2,527	\$ 2,721	\$ 2,825	\$ 2,280	\$ 3,633	\$ 2,721
Line of credit	-	-	-	700	700	700	700	-	-	-	700	-
Accrued payroll and related expenses	1,823	1,694	1,676	1,685	1,800	1,655	1,435	1,817	1,881	2,833	1,685	1,817
Warranty reserve	120	111	111	163	127	142	139	138	152	153	163	138
Other current liabilities	3,206	3,302	3,614	3,849	3,790	3,575	3,513	2,922	3,349	3,235	3,849	2,922
Total current liabilities	10,133	9,372	9,433	10,030	9,339	8,647	8,314	7,598	8,207	8,501	10,030	7,598
Long-term capital lease obligations	-	-	8	152	138	150	134	116	102	87	152	116
Other non-current liabilities	98	75	93	80	308	310	324	347	345	353	80	347
Total liabilities	10,231	9,447	9,534	10,262	9,785	9,107	8,772	8,061	8,654	8,941	10,262	8,061
Commitments and contingencies												
Stockholders' equity:												
Common Stock	1	1	1	2	2	2	2	2	2	2	2	2
Additional paid-in capital	205,268	205,638	205,888	206,326	206,543	206,860	207,046	209,297	209,504	209,754	206,326	209,297
Accumulated deficit	(185,481)	(186,113)	(186,952)	(187,990)	(188,321)	(189,249)	(189,705)	(189,952)	(190,062)	(190,021)	(187,990)	(189,952)
Accumulated other comprehensive income	371	371	371	371	371	371	371	371	371	371	371	371
Total stockholders' equity	20,159	19,897	19,308	18,709	18,595	17,984	17,714	19,718	19,815	20,106	18,709	19,718
Total liabilities and stockholders' equity	<u>\$ 30,390</u>	<u>\$ 29,344</u>	<u>\$ 28,842</u>	<u>\$ 28,971</u>	<u>\$ 28,380</u>	<u>\$ 27,091</u>	<u>\$ 26,486</u>	<u>\$ 27,779</u>	<u>\$ 28,469</u>	<u>\$ 29,047</u>	<u>\$ 28,971</u>	<u>\$ 27,779</u>