

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) share-based compensation and the employer portion of withholding taxes on stock grants, (ii) depreciation and amortization, (iii) 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 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	2016	2017
Net revenue	\$ 10,573	\$ 9,540	\$ 9,964	\$ 10,515	\$ 10,940	\$ 11,222	\$ 11,524	\$ 11,044	\$ 10,606	\$ 11,336	\$ 11,601	\$ 40,592	\$ 44,730
Cost of revenue	5,506	4,951	5,186	5,571	5,240	5,410	5,126	5,374	5,012	5,022	5,017	21,214	21,150
Gross profit	5,067	4,589	4,778	4,944	5,700	5,812	6,398	5,670	5,594	6,314	6,584	19,378	23,580
Operating expenses:													
Selling, general and administrative	3,725	3,814	3,469	3,388	3,842	3,873	4,414	3,674	3,986	4,173	4,241	14,396	15,803
Research and development	1,671	1,716	1,744	1,779	1,945	1,873	2,126	2,016	2,221	1,874	1,964	6,910	7,960
Total operating expenses	5,396	5,530	5,213	5,167	5,787	5,746	6,540	5,690	6,207	6,047	6,205	21,306	23,763
Income (loss) from operations	(329)	(941)	(435)	(223)	(87)	66	(142)	(20)	(613)	267	379	(1,928)	(183)
Interest income (expense), net	(6)	(9)	(8)	(9)	(7)	(6)	(5)	(5)	(4)	(5)	(5)	(32)	(23)
Other income (expense), net	19	28	-	14	(3)	4	2	(6)	1	1	(1)	61	(3)
Income (loss) before income taxes	(316)	(922)	(443)	(218)	(97)	64	(145)	(31)	(616)	263	373	(1,899)	(209)
Provision (benefit) for income taxes	15	6	13	29	7	23	17	21	25	38	29	63	68
Net income (loss)	\$ (331)	\$ (928)	\$ (456)	\$ (247)	\$ (104)	\$ 41	\$ (162)	\$ (52)	\$ (641)	\$ 225	\$ 344	\$ (1,962)	\$ (277)
Basic net income (loss) per share	\$ (0.02)	\$ (0.06)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.04)	\$ 0.01	\$ 0.02	\$ (0.13)	\$ (0.02)
Diluted net income (loss) per share	\$ (0.02)	\$ (0.06)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.04)	\$ 0.01	\$ 0.02	\$ (0.13)	\$ (0.02)
Basic weighted-average shares	15,103	15,160	15,225	15,554	17,254	17,347	17,522	17,686	17,867	18,073	18,210	15,260	17,451
Diluted weighted-average shares	15,103	15,160	15,225	15,554	17,254	17,703	17,522	17,686	17,867	18,739	19,118	15,260	17,451

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

	<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>Q3 FY17</u>	<u>Q4 FY17</u>	<u>Q1 FY18</u>	<u>Q2 FY18</u>	<u>Q3 FY18</u>	<u>Fiscal Year Ended June 30,</u>	
												<u>2016</u>	<u>2017</u>
GAAP net income (loss)	\$ (331)	\$ (928)	\$ (456)	\$ (247)	\$ (104)	\$ 41	\$ (162)	\$ (52)	\$ (641)	\$ 225	\$ 344	\$ (1,962)	\$ (277)
Non-GAAP adjustments:													
Cost of revenue:													
Share-based compensation	18	20	14	11	11	13	12	12	13	13	14	63	48
Depreciation and amortization	146	127	120	84	89	84	87	84	62	53	53	477	344
Total adjustments to cost of revenue	164	147	134	95	100	97	99	96	75	66	67	540	392
Selling, general and administrative:													
Share-based compensation and related withholding taxes	171	182	131	148	149	162	169	203	212	239	237	632	683
Employer portion of withholding taxes on stock grants	2	2	-	-	-	5	4	2	2	3	4	4	11
Depreciation and amortization	51	65	55	56	54	56	56	48	45	46	47	227	214
Total adjustments to selling, general and administrative	224	249	186	204	203	223	229	253	259	288	288	863	908
Research and development:													
Share-based compensation	44	50	41	40	41	45	43	52	47	58	44	175	181
Employer portion of withholding taxes on stock grants	-	-	-	-	-	-	1	-	1	-	-	-	1
Depreciation and amortization	21	13	16	5	8	13	8	7	10	10	10	55	36
Total adjustments to research and development	65	63	57	45	49	58	52	59	58	68	54	230	218
Severance and restructuring charges	-	286	247	-	-	-	246	-	527	-	(21)	533	246
Total non-GAAP adjustments to operating expenses	289	598	490	249	252	281	527	312	844	356	321	1,626	1,372
Interest expense, net	6	9	8	9	7	6	5	5	4	5	5	32	23
Other (income) expense, net	(19)	(28)	-	(14)	3	(4)	(2)	6	(1)	(1)	1	(61)	3
Provision (benefit) for income taxes	15	6	13	29	7	23	17	21	25	38	29	63	68
Total non-GAAP adjustments	455	732	645	368	369	403	646	440	947	464	423	2,200	1,858
Non-GAAP net income (loss)	\$ 124	\$ (196)	\$ 189	\$ 121	\$ 265	\$ 444	\$ 484	\$ 388	\$ 306	\$ 689	\$ 767	\$ 238	\$ 1,581

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

	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2016		2017
Assets														
Current assets:														
Cash and cash equivalents	\$ 4,718	\$ 4,562	\$ 4,056	\$ 5,962	\$ 6,097	\$ 6,698	\$ 7,389	\$ 8,073	\$ 8,223	\$ 8,423	\$ 8,955	\$ 5,962	\$ 8,073	
Accounts receivable, net	2,970	2,343	3,131	3,164	3,189	2,866	2,827	3,432	2,687	3,962	3,834	3,164	3,432	
Inventories, net	8,988	7,861	7,275	6,584	7,390	7,614	7,664	6,959	7,258	7,061	7,378	6,584	6,959	
Contract manufacturers' receivable	365	482	321	369	286	366	314	476	344	539	721	369	476	
Prepaid expenses and other current assets	315	615	568	580	479	566	536	440	320	478	508	580	440	
Total current assets	17,356	15,863	15,351	16,659	17,441	18,110	18,730	19,380	18,832	20,463	21,396	16,659	19,380	
Property and equipment, net	1,476	1,684	1,593	1,569	1,491	1,402	1,218	1,218	1,152	1,113	1,058	1,569	1,218	
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	9,488	
Other assets	60	56	54	63	49	47	49	46	46	45	73	63	46	
Total assets	\$ 28,380	\$ 27,091	\$ 26,486	\$ 27,779	\$ 28,469	\$ 29,047	\$ 29,545	\$ 30,132	\$ 29,518	\$ 31,109	\$ 32,015	\$ 27,779	\$ 30,132	
Liabilities and stockholders' equity														
Current liabilities:														
Accounts payable	\$ 2,922	\$ 2,575	\$ 2,527	\$ 2,721	\$ 2,825	\$ 2,280	\$ 2,719	\$ 2,717	\$ 3,500	\$ 4,013	\$ 4,173	\$ 2,721	\$ 2,717	
Line of credit	700	700	700	-	-	-	-	-	-	-	-	-	-	
Accrued payroll and related expenses	1,800	1,655	1,435	1,817	1,881	2,833	2,623	3,084	1,815	2,664	2,125	1,817	3,084	
Warranty reserve	127	142	139	138	152	153	116	125	129	121	113	138	125	
Other current liabilities	3,790	3,575	3,513	2,922	3,349	3,235	3,344	3,063	3,223	2,708	3,406	2,922	3,063	
Total current liabilities	9,339	8,647	8,314	7,598	8,207	8,501	8,802	8,989	8,667	9,506	9,817	7,598	8,989	
Long-term capital lease obligations	138	150	134	116	102	87	71	59	44	28	11	116	59	
Other non-current liabilities	308	310	324	347	345	353	378	396	385	355	321	347	396	
Total liabilities	9,785	9,107	8,772	8,061	8,654	8,941	9,251	9,444	9,096	9,889	10,149	8,061	9,444	
Commitments and contingencies														
Stockholders' equity:														
Common Stock	2	2	2	2	2	2	2	2	2	2	2	2	2	
Additional paid-in capital	206,543	206,860	207,046	209,297	209,504	209,754	210,104	210,550	210,925	211,498	211,800	209,297	210,550	
Accumulated deficit	(188,321)	(189,249)	(189,705)	(189,952)	(190,062)	(190,021)	(190,183)	(190,235)	(190,876)	(190,651)	(190,307)	(189,952)	(190,235)	
Accumulated other comprehensive income	371	371	371	371	371	371	371	371	371	371	371	371	371	
Total stockholders' equity	18,595	17,984	17,714	19,718	19,815	20,106	20,294	20,688	20,422	21,220	21,866	19,718	20,688	
Total liabilities and stockholders' equity	\$ 28,380	\$ 27,091	\$ 26,486	\$ 27,779	\$ 28,469	\$ 29,047	\$ 29,545	\$ 30,132	\$ 29,518	\$ 31,109	\$ 32,015	\$ 27,779	\$ 30,132	