

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), (iv) other income (expense), (v) income tax provision (benefit), (vi) severance and restructuring charges, (vii) acquisition related costs (viii) impairment of long lived assets, (ix) amortization of purchased intangibles, and (x) amortization of manufacturing profit in acquired inventory.

Non-GAAP net income (loss) per share is calculated by dividing non-GAAP net income (loss) by non-GAAP weighted-average shares outstanding (diluted). For purposes of calculating non-GAAP net income (loss) per share, the calculation of GAAP weighted-average shares outstanding (diluted) is adjusted to exclude share-based compensation, which for GAAP purposes is treated as proceeds assumed to be used to repurchase shares under the GAAP treasury stock method.

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

										Fiscal Year Ended June 30,	
	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	2018	2019
Net revenue	\$ 10,606	\$ 11,336	\$ 11,601	\$ 12,037	\$ 12,279	\$ 12,114	\$ 12,344	\$ 10,153	\$ 12,741	\$ 45,580	\$ 46,890
Cost of revenue	4,954	5,022	5,037	5,161	5,499	5,453	5,254	4,411	6,546	20,174	20,617
Gross profit	5,652	6,314	6,564	6,876	6,780	6,661	7,090	5,742	6,195	25,406	26,273
Operating expenses:											
Selling, general and administrative	3,831	4,173	4,242	4,099	4,271	4,159	3,867	3,554	4,473	16,345	15,851
Research and development	1,907	1,874	1,964	2,006	2,215	2,279	2,385	2,200	2,621	7,751	9,079
Restructuring charges	527	-	(21)	-	323	-	-	823	749	506	1,146
Acquisition related costs	-	-	-	-	-	-	-	410	643	-	410
Impairment of long-lived asset	-	-	-	-	-	-	-	275	-	-	275
Amortization of purchased intangible assets	-	-	-	-	-	-	-	-	144	-	-
Total operating expenses	6,265	6,047	6,185	6,105	6,809	6,438	6,252	7,262	8,630	24,602	26,761
Income (loss) from operations	(613)	267	379	771	(29)	223	838	(1,520)	(2,435)	804	(488)
Interest income (expense), net	(4)	(5)	(5)	(4)	(4)	60	91	89	56	(18)	236
Other income (expense), net	1	1	(1)	(9)	(10)	8	(12)	(1)	(43)	(8)	(15)
Income (loss) before income taxes	(616)	263	373	758	(43)	291	917	(1,432)	(2,422)	778	(267)
Provision (benefit) for income taxes	25	38	29	6	40	14	60	27	48	98	141
Net income (loss)	\$ (641)	\$ 225	\$ 344	\$ 752	\$ (83)	\$ 277	\$ 857	\$ (1,459)	\$ (2,470)	\$ 680	\$ (408)
Basic net income (loss) per share	\$ (0.04)	\$ 0.01	\$ 0.02	\$ 0.04	\$ (0.00)	\$ 0.01	\$ 0.04	\$ (0.06)	\$ (0.11)	\$ 0.04	\$ (0.02)
Diluted net income (loss) per share	\$ (0.04)	\$ 0.01	\$ 0.02	\$ 0.04	\$ (0.00)	\$ 0.01	\$ 0.04	\$ (0.06)	\$ (0.11)	\$ 0.04	\$ (0.02)
Basic weighted-average shares	17,867	18,073	18,210	18,536	19,323	22,091	22,270	22,621	22,913	18,171	21,580
Diluted weighted-average shares	17,867	18,739	19,118	19,738	19,323	23,442	23,304	22,621	22,913	19,158	21,580
<i>Non-GAAP Information:</i>											
Non-GAAP operating expenses	\$ 5,421	\$ 5,691	\$ 5,864	\$ 5,765	\$ 5,962	\$ 5,939	\$ 5,868	\$ 5,096	\$ 6,280	\$ 22,741	\$ 22,865
Non-GAAP net income (loss)	\$ 306	\$ 689	\$ 767	\$ 1,173	\$ 883	\$ 790	\$ 1,295	\$ 722	\$ 7	\$ 2,935	\$ 3,690
Non-GAAP basic net income (loss) per share	\$ 0.02	\$ 0.04	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.03	\$ 0.06	\$ 0.03	\$ 0.00	\$ 0.15	\$ 0.17
Non-GAAP diluted net income (loss) per share	\$ 0.02	\$ 0.04	\$ 0.04	\$ 0.06	\$ 0.04	\$ 0.03	\$ 0.05	\$ 0.03	\$ 0.00	\$ 0.15	\$ 0.16

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

	<u>Q1 FY18</u>	<u>Q2 FY18</u>	<u>Q3 FY18</u>	<u>Q4 FY18</u>	<u>Q1 FY19</u>	<u>Q2 FY19</u>	<u>Q3 FY19</u>	<u>Q4 FY19</u>	<u>Q1 FY20</u>	<u>Fiscal Year Ended June 30,</u>	
	<u>\$ (641)</u>	<u>\$ 225</u>	<u>\$ 344</u>	<u>\$ 752</u>	<u>\$ (83)</u>	<u>\$ 277</u>	<u>\$ 857</u>	<u>\$ (1,459)</u>	<u>\$ (2,470)</u>	<u>2018</u>	<u>2019</u>
GAAP net income (loss)	\$ (641)	\$ 225	\$ 344	\$ 752	\$ (83)	\$ 277	\$ 857	\$ (1,459)	\$ (2,470)	\$ 680	\$ (408)
Non-GAAP adjustments:											
Cost of revenue:											
Share-based compensation	13	13	14	13	17	23	22	23	24	53	85
Employer portion of withholding taxes on stock grants	-	-	-	-	-	-	-	-	1	-	-
Depreciation and amortization	62	53	53	49	48	45	51	53	67	217	197
Total adjustments to cost of revenue	75	66	67	62	65	68	73	76	92	270	282
Selling, general and administrative:											
Share-based compensation and related withholding taxes	212	239	237	236	400	337	213	491	459	924	1,441
Employer portion of withholding taxes on stock grants	2	3	4	4	6	2	4	-	5	13	12
Depreciation and amortization	45	46	47	46	46	48	50	48	54	184	192
Total adjustments to selling, general and administrative	259	288	288	286	452	387	267	539	518	1,121	1,645
Research and development:											
Share-based compensation	47	58	44	43	61	91	96	97	95	192	345
Employer portion of withholding taxes on stock grants	1	-	-	-	-	-	-	-	4	1	-
Depreciation and amortization	10	10	10	11	11	21	21	22	26	41	75
Total adjustments to research and development	58	68	54	54	72	112	117	119	125	234	420
Severance and restructuring charges	527	-	(21)	-	323	-	-	823	749	506	1,146
Acquisition related costs	-	-	-	-	-	-	-	410	643	-	410
Impairment of long-lived asset	-	-	-	-	-	-	-	275	-	-	275
Amortization of purchased intangible assets	-	-	-	-	-	-	-	-	144	-	-
Amortization of manufactured profit in acquired inventory	-	-	-	-	-	-	-	-	171	-	-
Total non-GAAP adjustments to operating expenses	844	356	321	340	847	499	384	2,166	2,350	1,861	3,896
Non-GAAP operating expenses	5,421	5,691	5,864	5,765	5,962	5,939	5,868	5,096	6,280	22,741	22,865
Interest expense (income), net	4	5	5	4	4	(60)	(91)	(89)	(56)	18	(236)
Other (income) expense, net	(1)	(1)	1	9	10	(8)	12	1	43	8	15
Provision (benefit) for income taxes	25	38	29	6	40	14	60	27	48	98	141
Total non-GAAP adjustments	947	464	423	421	966	513	438	2,181	2,477	2,255	4,098
Non-GAAP net income (loss)	\$ 306	\$ 689	\$ 767	\$ 1,173	\$ 883	\$ 790	\$ 1,295	\$ 722	\$ 7	\$ 2,935	\$ 3,690
Non-GAAP net income (loss) per share - diluted	\$ 0.02	\$ 0.04	\$ 0.04	\$ 0.06	\$ 0.04	\$ 0.03	\$ 0.05	\$ 0.03	\$ 0.00	\$ 0.15	\$ 0.16
<i>Reconciliation of non-GAAP operating expenses</i>											
GAAP operating expenses	6,265	6,047	6,185	6,105	6,809	6,438	6,252	7,262	8,630	24,602	26,761
Non-GAAP adjustments to operating expenses	(844)	(356)	(321)	(340)	(847)	(499)	(384)	(2,166)	(2,350)	(1,861)	(3,896)
Non-GAAP operating expenses	\$ 5,421	\$ 5,691	\$ 5,864	\$ 5,765	\$ 5,962	\$ 5,939	\$ 5,868	\$ 5,096	\$ 6,280	\$ 22,741	\$ 22,865
Denominator for GAAP net income (loss) per share - diluted	17,867	18,739	19,118	19,738	19,323	23,442	23,304	22,621	22,913	19,158	21,580
Non-GAAP adjustment	1,536	569	541	454	2,472	824	893	1,909	1,834	471	1,998
Denominator for non-GAAP net income (loss) per share - diluted	19,403	19,308	19,659	20,192	21,795	24,266	24,197	24,530	24,747	19,629	23,578

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

	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	June 30, 2018 2019	
Assets											
Current assets:											
Cash and cash equivalents	\$ 8,223	\$ 8,423	\$ 8,955	\$ 9,568	\$ 18,925	\$ 19,367	\$ 18,212	\$ 18,282	\$ 12,028	\$ 9,568	\$ 18,282
Accounts receivable, net	2,687	3,962	3,834	4,244	5,917	6,134	8,351	7,388	7,845	4,244	7,388
Inventories, net	7,258	7,061	7,378	8,439	8,032	9,352	9,809	10,509	12,423	8,439	10,509
Contract manufacturers' receivable	344	539	721	649	554	419	506	1,324	419	649	1,324
Prepaid expenses and other current assets	320	478	508	370	794	752	817	687	1,274	370	687
Total current assets	18,832	20,463	21,396	23,270	34,222	36,024	37,695	38,190	33,989	23,270	38,190
Property and equipment, net	1,152	1,113	1,058	1,036	1,031	1,184	1,353	1,199	1,351	1,036	1,199
Goodwill	9,488	9,488	9,488	9,488	9,488	9,488	9,488	9,488	12,458	9,488	9,488
Purchased intangible assets, net	-	-	-	-	-	-	-	-	1,768	-	-
Other assets	46	45	73	61	57	55	53	67	1,188	61	67
Total assets	\$ 29,518	\$ 31,109	\$ 32,015	\$ 33,855	\$ 44,798	\$ 46,751	\$ 48,589	\$ 48,944	\$ 50,754	\$ 33,855	\$ 48,944
Liabilities and stockholders' equity											
Current liabilities:											
Accounts payable	\$ 3,500	\$ 4,013	\$ 4,173	\$ 3,942	\$ 3,986	\$ 4,317	\$ 5,012	\$ 4,716	\$ 5,986	\$ 3,942	\$ 4,716
Line of credit	-	-	-	-	-	-	-	-	-	-	-
Accrued payroll and related expenses	1,815	2,664	2,125	2,808	1,972	2,731	1,808	2,060	2,588	2,808	2,060
Warranty reserve	129	121	113	99	92	106	110	116	108	99	116
Other current liabilities	3,223	2,708	3,406	2,877	3,765	3,325	3,956	4,580	6,296	2,877	4,580
Total current liabilities	8,667	9,506	9,817	9,726	9,815	10,479	10,886	11,472	14,978	9,726	11,472
Other non-current liabilities	429	383	332	316	283	256	228	206	384	316	206
Total liabilities	9,096	9,889	10,149	10,042	10,098	10,735	11,114	11,678	15,362	10,042	11,678
Commitments and contingencies											
Stockholders' equity:											
Common Stock	2	2	2	2	2	2	2	2	2	2	2
Additional paid-in capital	210,925	211,498	211,800	212,995	223,383	224,422	225,024	226,274	226,870	212,995	226,274
Accumulated deficit	(190,876)	(190,651)	(190,307)	(189,555)	(189,056)	(188,779)	(187,922)	(189,381)	(191,851)	(189,555)	(189,381)
Accumulated other comprehensive income	371	371	371	371	371	371	371	371	371	371	371
Total stockholders' equity	20,422	21,220	21,866	23,813	34,700	36,016	37,475	37,266	35,392	23,813	37,266
Total liabilities and stockholders' equity	\$ 29,518	\$ 31,109	\$ 32,015	\$ 33,855	\$ 44,798	\$ 46,751	\$ 48,589	\$ 48,944	\$ 50,754	\$ 33,855	\$ 48,944