

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.

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

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

	<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>Q4 FY18</u>	<u>Q1 FY19</u>	<u>Fiscal Year Ended June 30,</u>	
										<u>2017</u>	<u>2018</u>
Net revenue	\$ 10,940	\$ 11,222	\$ 11,524	\$ 11,044	\$ 10,606	\$ 11,336	\$ 11,601	\$ 12,037	\$ 12,279	\$ 44,730	\$ 45,580
Cost of revenue	5,240	5,410	5,126	5,374	5,012	5,022	5,017	5,161	5,538	21,150	20,212
Gross profit	5,700	5,812	6,398	5,670	5,594	6,314	6,584	6,876	6,741	23,580	25,368
Operating expenses:											
Selling, general and administrative	3,842	3,873	4,414	3,674	3,986	4,173	4,241	4,099	4,472	15,803	16,499
Research and development	1,945	1,873	2,126	2,016	2,221	1,874	1,964	2,006	2,298	7,960	8,065
Total operating expenses	5,787	5,746	6,540	5,690	6,207	6,047	6,205	6,105	6,770	23,763	24,564
Income (loss) from operations	(87)	66	(142)	(20)	(613)	267	379	771	(29)	(183)	804
Interest income (expense), net	(7)	(6)	(5)	(5)	(4)	(5)	(5)	(4)	(4)	(23)	(18)
Other income (expense), net	(3)	4	2	(6)	1	1	(1)	(9)	(10)	(3)	(8)
Income (loss) before income taxes	(97)	64	(145)	(31)	(616)	263	373	758	(43)	(209)	778
Provision (benefit) for income taxes	7	23	17	21	25	38	29	6	40	68	98
Net income (loss)	\$ (104)	\$ 41	\$ (162)	\$ (52)	\$ (641)	\$ 225	\$ 344	\$ 752	\$ (83)	\$ (277)	\$ 680
Basic net income (loss) per share	\$ (0.01)	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.04)	\$ 0.01	\$ 0.02	\$ 0.04	\$ (0.00)	\$ (0.02)	\$ 0.04
Diluted net income (loss) per share	\$ (0.01)	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.04)	\$ 0.01	\$ 0.02	\$ 0.04	\$ (0.00)	\$ (0.02)	\$ 0.04
Basic weighted-average shares	17,254	17,347	17,522	17,686	17,867	18,073	18,210	18,536	19,323	17,451	18,171
Diluted weighted-average shares	17,254	17,703	17,522	17,686	17,867	18,739	19,118	19,738	19,323	17,451	19,158
<i>Non-GAAP Information:</i>											
Non-GAAP net income (loss)	\$ 265	\$ 444	\$ 484	\$ 388	\$ 306	\$ 689	\$ 767	\$ 1,173	\$ 883	\$ 1,581	\$ 2,935
Non-GAAP diluted net income (loss) per share	\$ 0.01	\$ 0.02	\$ 0.03	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.04	\$ 0.06	\$ 0.04	\$ 0.08	\$ 0.15

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

	<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>Q4 FY18</u>	<u>Q1 FY19</u>	<u>Fiscal Year Ended June 30,</u>	
										<u>2017</u>	<u>2018</u>
GAAP net income (loss)	\$ (104)	\$ 41	\$ (162)	\$ (52)	\$ (641)	\$ 225	\$ 344	\$ 752	\$ (83)	\$ (277)	\$ 680
Non-GAAP adjustments:											
Cost of revenue:											
Share-based compensation	11	13	12	12	13	13	14	13	17	48	53
Depreciation and amortization	89	84	87	84	62	53	53	49	48	344	217
Total adjustments to cost of revenue	<u>100</u>	<u>97</u>	<u>99</u>	<u>96</u>	<u>75</u>	<u>66</u>	<u>67</u>	<u>62</u>	<u>65</u>	<u>392</u>	<u>270</u>
Selling, general and administrative:											
Share-based compensation and related withholding taxes	149	162	169	203	212	239	237	236	400	683	924
Employer portion of withholding taxes on stock grants	-	5	4	2	2	3	4	4	6	11	13
Depreciation and amortization	54	56	56	48	45	46	47	46	46	214	184
Total adjustments to selling, general and administrative	<u>203</u>	<u>223</u>	<u>229</u>	<u>253</u>	<u>259</u>	<u>288</u>	<u>288</u>	<u>286</u>	<u>452</u>	<u>908</u>	<u>1,121</u>
Research and development:											
Share-based compensation	41	45	43	52	47	58	44	43	61	181	192
Employer portion of withholding taxes on stock grants	-	-	1	-	1	-	-	-	-	1	1
Depreciation and amortization	8	13	8	7	10	10	10	11	11	36	41
Total adjustments to research and development	<u>49</u>	<u>58</u>	<u>52</u>	<u>59</u>	<u>58</u>	<u>68</u>	<u>54</u>	<u>54</u>	<u>72</u>	<u>218</u>	<u>234</u>
Severance and restructuring charges	-	-	246	-	527	-	(21)	-	323	246	506
Total non-GAAP adjustments to operating expenses	<u>252</u>	<u>281</u>	<u>527</u>	<u>312</u>	<u>844</u>	<u>356</u>	<u>321</u>	<u>340</u>	<u>847</u>	<u>1,372</u>	<u>1,861</u>
Interest expense, net	7	6	5	5	4	5	5	4	4	23	18
Other (income) expense, net	3	(4)	(2)	6	(1)	(1)	1	9	10	3	8
Provision (benefit) for income taxes	<u>7</u>	<u>23</u>	<u>17</u>	<u>21</u>	<u>25</u>	<u>38</u>	<u>29</u>	<u>6</u>	<u>40</u>	<u>68</u>	<u>98</u>
Total non-GAAP adjustments	<u>369</u>	<u>403</u>	<u>646</u>	<u>440</u>	<u>947</u>	<u>464</u>	<u>423</u>	<u>421</u>	<u>966</u>	<u>1,858</u>	<u>2,255</u>
Non-GAAP net income (loss)	<u>\$ 265</u>	<u>\$ 444</u>	<u>\$ 484</u>	<u>\$ 388</u>	<u>\$ 306</u>	<u>\$ 689</u>	<u>\$ 767</u>	<u>\$ 1,173</u>	<u>\$ 883</u>	<u>\$ 1,581</u>	<u>\$ 2,935</u>
Non-GAAP net income (loss) per share - diluted	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.08</u>	<u>\$ 0.15</u>
Denominator for GAAP net income (loss) per share (diluted)	17,254	17,703	17,522	17,686	17,867	18,739	19,118	19,738	19,323	17,451	19,158
Non-GAAP adjustment	<u>692</u>	<u>700</u>	<u>1,811</u>	<u>2,177</u>	<u>1,536</u>	<u>569</u>	<u>541</u>	<u>454</u>	<u>2,472</u>	<u>1,381</u>	<u>471</u>
Denominator for non-GAAP net income (loss) per share (diluted)	<u>17,946</u>	<u>18,403</u>	<u>19,333</u>	<u>19,863</u>	<u>19,403</u>	<u>19,308</u>	<u>19,659</u>	<u>20,192</u>	<u>21,795</u>	<u>18,832</u>	<u>19,629</u>
GAAP operating expenses	\$ 5,787	\$ 5,746	\$ 6,540	\$ 5,690	\$ 6,207	\$ 6,047	\$ 6,205	\$ 6,105	\$ 6,770	\$ 23,763	\$ 24,564
Non-GAAP adjustments to operating expenses	<u>(252)</u>	<u>(281)</u>	<u>(527)</u>	<u>(312)</u>	<u>(844)</u>	<u>(356)</u>	<u>(321)</u>	<u>(340)</u>	<u>(847)</u>	<u>(1,372)</u>	<u>(1,861)</u>
Non-GAAP operating expenses	<u>\$ 5,535</u>	<u>\$ 5,465</u>	<u>\$ 6,013</u>	<u>\$ 5,378</u>	<u>\$ 5,363</u>	<u>\$ 5,691</u>	<u>\$ 5,884</u>	<u>\$ 5,765</u>	<u>\$ 5,923</u>	<u>\$ 22,391</u>	<u>\$ 22,703</u>

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

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2016</u>	<u>March 31,</u> <u>2017</u>	<u>June 30,</u> <u>2017</u>	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2017</u>	<u>March 31,</u> <u>2018</u>	<u>June 30,</u> <u>2018</u>	<u>September 30,</u> <u>2018</u>	<u>June 30,</u>	
										<u>2017</u>	<u>2018</u>
Assets											
Current assets:											
Cash and cash equivalents	\$ 6,097	\$ 6,698	\$ 7,389	\$ 8,073	\$ 8,223	\$ 8,423	\$ 8,955	\$ 9,568	\$ 18,925	\$ 8,073	\$ 9,568
Accounts receivable, net	3,189	2,866	2,827	3,432	2,687	3,962	3,834	4,244	5,917	3,432	4,244
Inventories, net	7,390	7,614	7,664	6,959	7,258	7,061	7,378	8,439	8,032	6,959	8,439
Contract manufacturers' receivable	286	366	314	476	344	539	721	649	554	476	649
Prepaid expenses and other current assets	479	566	536	440	320	478	508	370	794	440	370
Total current assets	17,441	18,110	18,730	19,380	18,832	20,463	21,396	23,270	34,222	19,380	23,270
Property and equipment, net	1,491	1,402	1,278	1,218	1,152	1,113	1,058	1,036	1,031	1,218	1,036
Goodwill	9,488	9,488	9,488	9,488	9,488	9,488	9,488	9,488	9,488	9,488	9,488
Other assets	49	47	49	46	46	45	73	61	57	46	61
Total assets	<u>\$ 28,469</u>	<u>\$ 29,047</u>	<u>\$ 29,545</u>	<u>\$ 30,132</u>	<u>\$ 29,518</u>	<u>\$ 31,109</u>	<u>\$ 32,015</u>	<u>\$ 33,855</u>	<u>\$ 44,798</u>	<u>\$ 30,132</u>	<u>\$ 33,855</u>
Liabilities and stockholders' equity											
Current liabilities:											
Accounts payable	\$ 2,825	\$ 2,280	\$ 2,719	\$ 2,717	\$ 3,500	\$ 4,013	\$ 4,173	\$ 3,942	\$ 3,986	\$ 2,717	\$ 3,942
Line of credit	-	-	-	-	-	-	-	-	-	-	-
Accrued payroll and related expenses	1,881	2,833	2,623	3,084	1,815	2,664	2,125	2,808	1,972	3,084	2,808
Warranty reserve	152	153	116	125	129	121	113	99	92	125	99
Other current liabilities	3,349	3,235	3,344	3,063	3,223	2,708	3,406	2,877	3,765	3,063	2,877
Total current liabilities	8,207	8,501	8,802	8,989	8,667	9,506	9,817	9,726	9,815	8,989	9,726
Long-term capital lease obligations											
Other non-current liabilities	447	440	449	455	429	383	332	316	283	455	316
Total liabilities	8,654	8,941	9,251	9,444	9,096	9,889	10,149	10,042	10,098	9,444	10,042
Commitments and contingencies											
Stockholders' equity:											
Common Stock	2	2	2	2	2	2	2	2	2	2	2
Additional paid-in capital	209,504	209,754	210,104	210,550	210,925	211,498	211,800	212,995	223,383	210,550	212,995
Accumulated deficit	(190,062)	(190,021)	(190,183)	(190,235)	(190,876)	(190,651)	(190,307)	(189,555)	(189,056)	(190,235)	(189,555)
Accumulated other comprehensive income	371	371	371	371	371	371	371	371	371	371	371
Total stockholders' equity	19,815	20,106	20,294	20,688	20,422	21,220	21,866	23,813	34,700	20,688	23,813
Total liabilities and stockholders' equity	<u>\$ 28,469</u>	<u>\$ 29,047</u>	<u>\$ 29,545</u>	<u>\$ 30,132</u>	<u>\$ 29,518</u>	<u>\$ 31,109</u>	<u>\$ 32,015</u>	<u>\$ 33,855</u>	<u>\$ 44,798</u>	<u>\$ 30,132</u>	<u>\$ 33,855</u>