

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,		
	<u>Q1 FY19</u>	<u>Q2 FY19</u>	<u>Q3 FY19</u>	<u>Q4 FY19</u>	<u>Q1 FY20</u>	<u>Q2 FY20</u>	<u>Q3 FY20</u>	<u>Q4 FY20</u>	<u>Q1 FY21</u>	<u>2019</u>	<u>2020</u>
Net revenue	\$ 12,279	\$ 12,114	\$ 12,344	\$ 10,153	\$ 12,741	\$ 13,228	\$ 16,512	\$ 17,397	\$ 17,146	\$ 46,890	\$ 59,878
Cost of revenue	5,499	5,453	5,254	4,411	6,546	6,451	9,135	10,846	8,907	20,617	32,978
Gross profit	6,780	6,661	7,090	5,742	6,195	6,777	7,377	6,551	8,239	26,273	26,900
Operating expenses:											
Selling, general and administrative	4,271	4,159	3,867,000	3,554,000	4,473	4,871	5,558	4,680	4,899	15,851	19,582
Research and development	2,215	2,279	2,385	2,200	2,621	2,336	2,724	2,010	2,572	9,079	9,691
Restructuring, severance and related charges	323	-	-	823	749	354	2,263	478	92	1,146	3,844
Acquisition-related costs	-	-	-	410	643	353	1,250	38	-	410	2,284
Impairment of long-lived asset	-	-	-	275	-	-	-	-	-	275	-
Amortization of purchased intangible assets	-	-	-	-	144	151	801	941	882	-	2,037
Total operating expenses	6,809	6,438	6,252	7,262	8,630	8,065	12,596	8,147	8,445	26,761	37,438
Income (loss) from operations	(29)	223	838	(1,520)	(2,435)	(1,288)	(5,219)	(1,596)	(206)	(488)	(10,538)
Interest income (expense), net	(4)	60	91	89	56	(16)	(83)	(90)	(85)	236	(133)
Other income (expense), net	(10)	8	(12)	(1)	(43)	(10)	129	1	39	(15)	77
Income (loss) before income taxes	(43)	291	917	(1,432)	(2,422)	(1,314)	(5,173)	(1,685)	(252)	(267)	(10,594)
Provision (benefit) for income taxes	40	14	60	27	48	37	43	16	50	141	144
Net income (loss)	\$ (83)	\$ 277	\$ 857	\$ (1,459)	\$ (2,470)	\$ (1,351)	\$ (5,216)	\$ (1,701)	\$ (302)	\$ (408)	\$ (10,738)
Basic net income (loss) per share	\$ (0.00)	\$ 0.01	\$ 0.04	\$ (0.06)	\$ (0.11)	\$ (0.06)	\$ (0.19)	\$ (0.06)	\$ (0.01)	\$ (0.02)	\$ (0.42)
Diluted net income (loss) per share	\$ (0.00)	\$ 0.01	\$ 0.04	\$ (0.06)	\$ (0.11)	\$ (0.06)	\$ (0.19)	\$ (0.06)	\$ (0.01)	\$ (0.02)	\$ (0.42)
Basic weighted-average shares	19,323	22,091	22,270	22,621	22,913	23,145	27,048	28,046	28,371	21,580	25,281
Diluted weighted-average shares	19,323	23,442	23,304	22,621	22,913	23,145	27,048	28,046	28,371	21,580	25,281
<i>Non-GAAP Information:</i>											
Non-GAAP operating expenses	\$ 5,962	\$ 5,939	\$ 5,868	\$ 5,096	\$ 6,280	\$ 6,231	\$ 6,986	\$ 5,624	\$ 6,820	\$ 22,865	\$ 25,121
Non-GAAP net income (loss)	\$ 883	\$ 790	\$ 1,295	\$ 722	\$ 7	\$ 667	\$ 611	\$ 1,191	\$ 1,654	\$ 3,690	\$ 2,476
Non-GAAP basic net income (loss) per share	\$ 0.05	\$ 0.03	\$ 0.06	\$ 0.03	\$ 0.00	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.06	\$ 0.17	\$ 0.10
Non-GAAP diluted net income (loss) per share	\$ 0.04	\$ 0.03	\$ 0.05	\$ 0.03	\$ 0.00	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.05	\$ 0.16	\$ 0.09

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

	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Fiscal Year Ended June 30,	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	2019	2020
GAAP net income (loss)	(83)	277	857	(1,459)	(2,470)	(1,351)	(5,216)	(1,701)	(302)	(408)	(10,738)
Non-GAAP adjustments:											
Cost of revenue:											
Share-based compensation	17	23	22	23	24	48	70	85	58	85	227
Employer portion of withholding taxes on stock grants	-	-	-	-	1	-	1	-	-	-	2
Depreciation and amortization	48	45	51	53	67	73	149	179	177	197	468
Total adjustments to cost of revenue	65	68	73	76	92	121	220	264	235	282	697
Selling, general and administrative:											
Costs associated with the investigation	-	-	-	-	-	-	-	-	-	-	-
Separation costs associated with the former CEO and CFO	-	-	-	-	-	-	-	-	-	-	-
Consulting fees for former CEO and CFO	-	-	-	-	-	-	-	-	-	-	-
Costs associated with the contested proxy	-	-	-	-	-	-	-	-	-	-	-
Share-based compensation and related withholding taxes	400	337	213	491	459	778	939	783	445	1,441	2,959
Employer portion of withholding taxes on stock grants	6	2	4	-	5	1	3	12	5	12	21
Depreciation and amortization	46	48	50	48	54	53	81	69	55	192	257
Total adjustments to selling, general and administrative	452	387	267	539	518	832	1,023	864	505	1,645	3,237
Research and development:											
Share-based compensation	61	91	96	97	95	113	123	122	100	345	453
Employer portion of withholding taxes on stock grants	-	-	-	-	4	1	3	2	6	-	10
Depreciation and amortization	11	21	21	22	26	30	39	27	33	75	122
Total adjustments to research and development	72	112	117	119	125	144	165	151	139	420	585
Restructuring, severance and related charges	323	-	-	823	749	354	2,263	478	92	1,146	3,844
Litigation settlement cost (recovery)	-	-	-	-	-	-	75	-	-	-	75
Acquisition related costs	-	-	-	410	643	353	1,250	38	-	410	2,284
Impairment of long-lived asset	-	-	-	275	-	-	-	-	-	275	-
Amortization of purchased intangible assets	-	-	-	-	144	151	801	941	882	-	2,037
Amortization of manufacturing profit in acquired inventory	-	-	-	-	171	-	33	51	7	-	255
Total non-GAAP adjustments to operating expenses	847	499	384	2,166	2,350	1,834	5,610	2,523	1,625	3,896	12,317
Non-GAAP operating expenses	5,962	5,939	5,868	5,096	6,280	6,231	6,986	5,624	6,820	22,865	25,121
Interest expense (income), net	4	(60)	(91)	(89)	(56)	16	83	90	85	(236)	133
Other (income) expense, net	10	(8)	12	1	43	10	(129)	(1)	(39)	15	(77)
Provision (benefit) for income taxes	40	14	60	27	48	37	43	16	50	141	144
Total non-GAAP adjustments	966	513	438	2,181	2,477	2,018	5,827	2,892	1,956	4,098	13,214
Non-GAAP net income (loss)	\$ 883	\$ 790	\$ 1,295	\$ 722	\$ 7	\$ 667	\$ 611	\$ 1,191	\$ 1,654	\$ 3,690	\$ 2,476
Non-GAAP net income (loss) per share - diluted	\$ 0.04	\$ 0.03	\$ 0.05	\$ 0.03	\$ 0.00	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.05	\$ 0.16	\$ 0.09
<i>Reconciliation of non-GAAP operating expenses</i>											
GAAP operating expenses	6,809	6,438	6,252	7,262	8,630	8,065	12,596	8,147	8,445	26,761	37,438
Non-GAAP adjustments to operating expenses	(847)	(499)	(384)	(2,166)	(2,350)	(1,834)	(5,610)	(2,523)	(1,625)	(3,896)	(12,317)
Non-GAAP operating expenses	\$ 5,962	\$ 5,939	\$ 5,868	\$ 5,096	\$ 6,280	\$ 6,231	\$ 6,986	\$ 5,624	\$ 6,820	\$ 22,865	\$ 25,121
Denominator for GAAP net income (loss) per share - diluted	19,323	23,442	23,304	22,621	22,913	23,145	27,048	28,046	28,371	21,580	25,281
Non-GAAP adjustment	2,472	824	893	1,909	1,834	1,848	1,641	1,959	1,833	1,998	1,603
Denominator for non-GAAP net income (loss) per share - diluted	21,795	24,266	24,197	24,530	24,747	24,993	28,689	30,005	30,204	23,578	26,884

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

	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	June 30, 2019	June 30, 2020
Assets											
Current assets:											
Cash and cash equivalents	\$ 18,925	\$ 19,367	\$ 18,212	\$ 18,282	\$ 12,028	\$ 9,347	\$ 6,977	\$ 7,691	\$ 7,709	\$ 18,282	\$ 7,691
Restricted Cash						6,000					
Accounts receivable, net	5,917	6,134	8,351	7,388	7,845	9,379	11,958	11,411	12,345	7,388	11,411
Inventories, net	8,032	9,352	9,809	10,509	12,423	11,024	15,246	13,781	13,888	10,509	13,781
Contract manufacturers' receivable	554	419	506	1,324	419	373	434	337	551	1,324	337
Prepaid expenses and other current assets	794	752	817	687	1,274	1,307	2,043	1,290	1,690	687	1,290
Total current assets	34,222	36,024	37,695	38,190	33,989	37,430	36,658	34,510	36,183	38,190	34,510
Property and equipment, net	1,031	1,184	1,353	1,199	1,351	1,412	1,594	1,587	1,555	1,199	1,587
Goodwill	9,488	9,488	9,488	9,488	12,458	12,458	15,813	15,810	15,810	9,488	15,810
Purchased intangible assets, net				-	1,768	1,615	13,387	12,449	11,567	-	12,449
Deferred tax assets				-						-	-
Other assets	57	55	53	67	1,188	2,040	3,225	3,577	3,215	67	3,577
Total assets	\$ 44,798	\$ 46,751	\$ 48,589	\$ 48,944	\$ 50,754	\$ 54,955	\$ 70,677	\$ 67,933	\$ 68,330	\$ 48,944	\$ 67,933
Liabilities and stockholders' equity											
Current liabilities:											
Accounts payable	\$ 3,986	\$ 4,317	\$ 5,012	\$ 4,716	\$ 5,986	\$ 5,065	\$ 6,164	\$ 5,331	\$ 6,676	\$ 4,716	\$ 5,331
Accrued payroll and related expenses	1,972	2,731	1,808	2,060	2,588	2,248	3,519	2,658	2,390	2,060	2,658
Short-term debt	-	-	-	-	-	1,472	1,472	1,472	1,472	-	1,472
Other current liabilities	3,857	3,431	4,066	4,696	6,404	5,337	6,896	6,308	6,339	4,696	6,308
Total current liabilities	9,815	10,479	10,886	11,472	14,978	14,122	18,051	15,769	16,877	11,472	15,769
Long-term debt	-	-	-	-	-	4,418	4,050	3,682	3,314	-	3,682
Other non-current liabilities	283	256	228	206	384	1,137	1,631	1,962	1,640	206	1,962
Total liabilities	10,098	10,735	11,114	11,678	15,362	19,677	23,732	21,413	21,831	11,678	21,413
Commitments and contingencies											
Stockholders' equity:											
Common Stock	2	2	2	2	2	2	3	3	3	2	3
Additional paid-in capital	223,383	224,422	225,024	226,274	226,870	228,107	244,989	246,265	246,546	226,274	246,265
Accumulated deficit	(189,056)	(188,779)	(187,922)	(189,381)	(191,851)	(193,202)	(198,418)	(200,119)	(200,421)	(189,381)	(200,119)
Accumulated other comprehensive income	371	371	371	371	371	371	371	371	371	371	371
Total stockholders' equity	34,700	36,016	37,475	37,266	35,392	35,278	46,945	46,520	46,499	37,266	46,520
Total liabilities and stockholders' equity	\$ 44,798	\$ 46,751	\$ 48,589	\$ 48,944	\$ 50,754	\$ 54,955	\$ 70,677	\$ 67,933	\$ 68,330	\$ 48,944	\$ 67,933