

ECHELON CORPORATION
NON-GAAP CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
Excluding adjustments itemized below
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues	\$ 8,179	\$ 9,983	\$ 24,887	\$ 29,214
Cost of revenues	3,694	4,404	10,931	12,537
Gross profit.....	4,485	5,579	13,956	16,677
Operating Expenses:				
Product development.....	1,960	2,360	6,098	7,177
Sales and marketing	1,521	1,867	4,580	6,339
General and administrative	2,038	2,432	6,333	7,464
Total operating expenses	5,519	6,659	17,011	20,980
Non-GAAP loss from operations	(1,034)	(1,080)	(3,055)	(4,303)
Interest and other income (expense), net	(57)	184	241	564
Interest expense on lease financing obligations..	--	(5)	--	(385)
Non-GAAP loss before taxes	(1,091)	(901)	(2,814)	(4,124)
Income tax expense (benefit).....	23	(10)	80	64
Non-GAAP net loss	<u>\$ (1,114)</u>	<u>\$ (891)</u>	<u>\$ (2,894)</u>	<u>\$ (4,188)</u>
Non-GAAP net loss per share:				
Diluted	\$ (0.25)	\$ (0.20)	\$ (0.65)	\$ (0.95)
Shares used in computing net loss per share:				
Diluted	4,431	4,413	4,423	4,407
An itemized reconciliation between net earnings on a GAAP basis and non-GAAP basis is as follows:				
GAAP net loss	\$ (1,302)	\$ (1,047)	\$ (2,826)	\$ (7,634)
Stock-based compensation	188	156	250	109
Lumewave consideration adjustment	--	--	(318)	--
Lease termination charges	--	--	--	3,337
Total non-GAAP adjustments to earnings from operations	188	156	(68)	3,446
Income tax effect of reconciling items	--	--	--	--
Non-GAAP net loss	<u>\$ (1,114)</u>	<u>\$ (891)</u>	<u>\$ (2,894)</u>	<u>\$ (4,188)</u>