

COLOR KINETICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31,	
	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 29,198	\$ 5,686
Short-term investments	26,022	-
Restricted cash	604	479
Accounts receivable, net of allowance for doubtful accounts of approximately \$429 and \$270 in 2004 and 2003, respectively	5,346	4,015
Accounts receivable from related parties	31	30
Inventory	4,730	5,024
Prepaid expenses and other current assets	1,572	429
Total current assets	67,503	15,663
PROPERTY AND EQUIPMENT—at cost:		
Computer equipment	1,768	1,503
Furniture and fixtures	800	625
Tooling	1,119	874
Test equipment	63	-
Leasehold improvements	1,040	997
Total	4,790	3,999
Less—accumulated depreciation and amortization	(3,643)	(2,934)
Property and equipment—net	1,147	1,065
INVESTMENT IN JOINT VENTURE	574	289
RESTRICTED CASH—Long-term portion	1,000	1,100
TOTAL ASSETS	\$ 70,224	\$ 18,117
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,681	\$ 1,483
Accounts payable to related party	48	21
Accrued expenses	1,458	812
Accrued compensation	1,731	1,471
Accrued restructuring	405	426
Accrued warranty	860	404
Deferred revenue	379	387
Total current liabilities	6,562	5,004
ACCRUED RESTRUCTURING	628	1,034
COMMITMENTS AND CONTINGENCIES	-	-
REDEEMABLE CONVERTIBLE PREFERRED STOCK, at liquidation value	-	47,999
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Common stock, \$0.001 par value—authorized, 100,000 shares; issued and outstanding 17,900 and 2,804 shares in 2004 and 2003, respectively	18	3
Additional paid-in capital	97,059	304
Accumulated other comprehensive income	(105)	14
Accumulated deficit	(33,938)	(36,241)
Total stockholders' equity (deficiency)	63,034	(35,920)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	\$ 70,224	\$ 18,117

COLOR KINETICS INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Quarter Ended December 31,		Year Ended December 31,	
	2004	2003	2004	2003
	Unaudited			
REVENUES (1):				
Lighting systems	\$ 9,668	\$ 6,686	\$ 34,435	\$ 26,197
OEM and licensing	<u>1,045</u>	<u>1,012</u>	<u>5,715</u>	<u>2,652</u>
Total revenues	10,713	7,698	40,150	28,849
COST OF REVENUES:				
Lighting systems	4,739	3,362	16,777	13,286
OEM and licensing	<u>532</u>	<u>643</u>	<u>3,075</u>	<u>1,490</u>
Total cost of revenues	<u>5,271</u>	<u>4,005</u>	<u>19,852</u>	<u>14,776</u>
GROSS PROFIT	<u>5,442</u>	<u>3,693</u>	<u>20,298</u>	<u>14,073</u>
OPERATING EXPENSES:				
Selling and marketing	2,338	1,815	8,514	7,615
Research and development	1,021	617	3,512	2,466
General and administrative (2)	1,830	1,178	6,741	4,608
Restructuring	<u>-</u>	<u>-</u>	<u>-</u>	<u>161</u>
Total operating expenses	<u>5,189</u>	<u>3,610</u>	<u>18,767</u>	<u>14,850</u>
INCOME (LOSS) FROM OPERATIONS	<u>253</u>	<u>83</u>	<u>1,531</u>	<u>(777)</u>
INTEREST INCOME (EXPENSE), Net:				
Interest income	260	9	518	50
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Total interest income, net	<u>260</u>	<u>9</u>	<u>518</u>	<u>47</u>
EQUITY IN EARNINGS OF JOINT VENTURE	<u>113</u>	<u>(42)</u>	<u>334</u>	<u>3</u>
NET INCOME (LOSS)	<u>\$ 626</u>	<u>\$ 50</u>	<u>\$ 2,383</u>	<u>\$ (727)</u>
EARNINGS (LOSS) PER SHARE:				
Basic	\$ 0.03	\$ 0.02	\$ 0.22	\$ (0.26)
Diluted	\$ 0.03	\$ 0.00	\$ 0.14	\$ (0.26)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	17,895	2,790	10,906	2,790
Diluted	19,700	12,672	17,487	2,790
(1) Includes revenues from related parties as follows:				
Lighting systems	\$ 1,504	\$ 1,081	\$ 4,442	\$ 4,913
OEM and licensing	<u>-</u>	<u>149</u>	<u>-</u>	<u>269</u>
Total related party revenues	<u>\$ 1,504</u>	<u>\$ 1,230</u>	<u>\$ 4,442</u>	<u>\$ 5,182</u>
(2) Includes stock-based compensation as follows:	<u>\$ 7</u>	<u>\$ 22</u>	<u>\$ 346</u>	<u>\$ 76</u>

COLOR KINETICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 2,383	\$ (727)
Adjustments to reconcile net income (loss) to cash from operating activities:		
Depreciation and amortization	709	873
Stock-based compensation	346	76
Equity in earnings of joint venture	(334)	(3)
Changes in current assets and liabilities:		
Accounts receivable	(1,332)	(899)
Inventory	294	(1,502)
Prepaid expenses and other current assets	(1,143)	(113)
Restricted cash	(25)	676
Accounts payable	225	(42)
Accrued expenses	1,362	465
Deferred revenue	(8)	181
Accrued restructuring	(427)	(386)
Cash flows from operating activities	<u>2,050</u>	<u>(1,401)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short-term investments	(26,044)	-
Purchase of property and equipment	(791)	(519)
Cash flows from investing activities	<u>(26,835)</u>	<u>(519)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments under equipment note payable and line of credit	-	(100)
Proceeds from the exercise of stock options	115	13
Proceeds from issuance of redeemable convertible preferred stock - net of issuance costs	13,003	-
Proceeds from issuance of common stock—net of issuance costs	<u>35,227</u>	<u>-</u>
Cash flows from financing activities	48,345	(87)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(48)	4
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	23,512	(2,003)
CASH AND EQUIVALENTS—Beginning of period	<u>5,686</u>	<u>7,689</u>
CASH AND EQUIVALENTS—End of period	<u>\$ 29,198</u>	<u>\$ 5,686</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 3</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Conversion of redeemable convertible preferred stock	<u>\$ 61,082</u>	<u>\$ -</u>