

Color Kinetics Incorporated and Subsidiaries
Consolidated Balance Sheets
(In thousands, except per share data)

	March 31,	December 31,
	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 44,522	\$ 60,997
Investments	56,882	38,985
Restricted cash	500	500
Accounts receivable, net	12,755	11,480
Accounts receivable from related party	-	82
Inventory	8,963	6,805
Prepaid expenses and other current assets	<u>2,003</u>	<u>3,159</u>
Total current assets	125,625	122,008
PROPERTY AND EQUIPMENT—net	2,592	2,199
INTANGIBLE ASSETS—net	278	282
RESTRICTED CASH—Non-current portion	<u>464</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 128,959</u>	<u>\$ 124,489</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 5,354	\$ 3,690
Accrued expenses	2,347	2,238
Accrued compensation	1,999	3,073
Accrued warranty	986	1,007
Accrued restructuring	152	243
Deferred revenue	<u>1,464</u>	<u>195</u>
Total current liabilities	<u>12,302</u>	<u>10,446</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$0.001 par value	21	21
Additional paid-in capital	141,609	140,498
Accumulated other comprehensive loss	(107)	(112)
Accumulated deficit	<u>(24,866)</u>	<u>(26,364)</u>
Total stockholders' equity	<u>116,657</u>	<u>114,043</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 128,959</u>	<u>\$ 124,489</u>

Color Kinetics Incorporated
Consolidated Statements of Income
(In thousands, except per share data)

	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006		
	GAAP	SFAS 123R	Non-GAAP	GAAP	SFAS 123R	Non-GAAP
REVENUES:						
Lighting systems	\$ 16,966		\$ 16,966	\$ 13,098		\$ 13,098
OEM and licensing	<u>1,818</u>		<u>1,818</u>	<u>1,560</u>		<u>1,560</u>
Total revenues	18,784		18,784	14,658		14,658
COST OF REVENUES:						
Lighting systems	7,885	\$ (30)	7,855	6,099	\$ (19)	6,080
OEM and licensing	<u>553</u>	<u>-</u>	<u>553</u>	<u>540</u>	<u>-</u>	<u>540</u>
Total cost of revenues	<u>8,438</u>	<u>(30)</u>	<u>8,408</u>	<u>6,639</u>	<u>(19)</u>	<u>6,620</u>
GROSS PROFIT	<u>10,346</u>	<u>30</u>	<u>10,376</u>	<u>8,019</u>	<u>19</u>	<u>8,038</u>
OPERATING EXPENSES:						
Selling and marketing	4,561	(207)	4,354	3,755	(116)	3,639
Research and development	2,286	(149)	2,137	1,604	(124)	1,480
General and administrative	<u>3,264</u>	<u>(428)</u>	<u>2,836</u>	<u>3,091</u>	<u>(282)</u>	<u>2,809</u>
Total operating expenses	<u>10,111</u>	<u>(784)</u>	<u>9,327</u>	<u>8,450</u>	<u>(522)</u>	<u>7,928</u>
INCOME FROM OPERATIONS	235	814	1,049	(431)	541	110
INTEREST INCOME	1,263	-	1,263	562	-	562
EQUITY IN EARNINGS OF JOINT VENTURE	<u>-</u>	<u>-</u>	<u>-</u>	<u>57</u>	<u>-</u>	<u>57</u>
NET INCOME	<u>\$ 1,498</u>	<u>\$ 814</u>	<u>\$ 2,312</u>	<u>\$ 188</u>	<u>\$ 541</u>	<u>\$ 729</u>
EARNINGS PER SHARE:						
Basic	\$ 0.07	\$ 0.04	\$ 0.11	\$ 0.01	\$ 0.03	\$ 0.04
Diluted	\$ 0.07	\$ 0.04	\$ 0.10	\$ 0.01	\$ 0.03	\$ 0.04
WEIGHTED AVERAGE SHARES OUTSTANDING:						
Basic	21,312	21,312	21,312	18,410	18,410	18,410
Diluted	22,209	22,209	22,209	19,946	19,946	19,946

Color Kinetics Incorporated and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended March 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,498	\$ 188
Adjustments to reconcile net income to cash from operating activities:		
Depreciation and amortization	354	247
Stock-based compensation	821	547
Equity in earnings of joint venture	-	(57)
Common stock issued for services	13	23
Changes in assets and liabilities:		
Accounts receivable	(1,193)	(761)
Inventory	(2,158)	380
Prepaid expenses and other current assets	1,156	(1,233)
Accounts payable	1,664	688
Accrued expenses	(986)	(787)
Deferred revenue	1,269	24
Accrued restructuring	(91)	(95)
Cash flows from operating activities	<u>2,347</u>	<u>(836)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(35,057)	(6,768)
Maturities of investments	17,164	-
Purchases of property and equipment	(742)	(444)
Purchase of patent	-	(300)
Restricted cash	(464)	500
Cash flows from investing activities	<u>(19,099)</u>	<u>(7,012)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the exercise of stock options	139	179
Proceeds from issuance of common stock under the employee stock purchase plan	137	132
Cash flows from financing activities	<u>276</u>	<u>311</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>1</u>	<u>(2)</u>
DECREASE IN CASH AND EQUIVALENTS	(16,475)	(7,539)
CASH AND EQUIVALENTS—Beginning of period	<u>60,997</u>	<u>43,032</u>
CASH AND EQUIVALENTS—End of period	<u>\$ 44,522</u>	<u>\$ 35,493</u>