

Color Kinetics Incorporated
Condensed Consolidated Balance Sheets
(Unaudited and in thousands, except per share data)

	<u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 37,964	\$ 43,032
Investments	21,673	14,137
Restricted cash	693	100
Accounts receivable, net	12,312	7,813
Accounts receivable from related party	183	249
Inventory	6,823	7,159
Prepaid expenses and other current assets	<u>1,333</u>	<u>1,436</u>
Total current assets	80,981	73,926
PROPERTY AND EQUIPMENT—net	1,816	1,026
INTANGIBLE ASSETS—net	287	-
INVESTMENT IN JOINT VENTURE	880	887
RESTRICTED CASH—Non-current portion	<u>-</u>	<u>900</u>
TOTAL ASSETS	<u><u>\$ 83,964</u></u>	<u><u>\$ 76,739</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,392	\$ 1,019
Accounts payable to related party	698	63
Accrued expenses	2,561	2,169
Accrued compensation	2,558	2,251
Accrued restructuring	340	385
Accrued warranty	924	876
Deferred revenue	<u>353</u>	<u>231</u>
Total current liabilities	<u>9,826</u>	<u>6,994</u>
ACCRUED RESTRUCTURING—Non-current portion	<u>-</u>	<u>243</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$0.001 par value	19	18
Additional paid-in capital	102,101	99,210
Accumulated other comprehensive loss	(65)	(120)
Accumulated deficit	<u>(27,917)</u>	<u>(29,606)</u>
Total stockholders' equity	<u>74,138</u>	<u>69,502</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 83,964</u></u>	<u><u>\$ 76,739</u></u>

Color Kinetics Incorporated
Condensed Consolidated Statements of Income
(Unaudited and in thousands, except per share data)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006			2005	2006			2005
	GAAP	SFAS 123R	Non-GAAP		GAAP	SFAS 123R	Non-GAAP	
REVENUES:								
Lighting systems	\$15,565		\$15,565	\$11,361	\$42,392		\$42,392	\$31,672
OEM and licensing	1,505		1,505	2,697	4,870		4,870	6,755
Total revenues	17,070		17,070	14,058	47,262		47,262	38,427
COST OF REVENUES:								
Lighting systems	6,808	\$ (17)	6,791	5,457	18,943	\$ (53)	18,890	15,145
OEM and licensing	696	-	696	1,137	1,871	-	1,871	3,103
Total cost of revenues	7,504	(17)	7,487	6,594	20,814	(53)	20,761	18,248
GROSS PROFIT	9,566	17	9,583	7,464	26,448	53	26,501	20,179
OPERATING EXPENSES:								
Selling and marketing	4,081	(129)	3,952	3,004	12,158	(362)	11,796	8,257
Research and development	1,813	(111)	1,702	1,162	5,218	(332)	4,886	3,369
General and administrative	3,268	(350)	2,918	2,587	9,267	(1,014)	8,253	6,839
Total operating expenses	9,162	(590)	8,572	6,753	26,643	(1,708)	24,935	18,465
INCOME (LOSS) FROM OPERATIONS	404	607	1,011	711	(195)	1,761	1,566	1,714
INTEREST INCOME	700	-	700	443	1,898	-	1,898	1,147
EQUITY IN EARNINGS (LOSS) OF JOINT VENTURE	(28)	-	(28)	96	(14)	-	(14)	110
NET INCOME	\$ 1,076	\$ 607	\$ 1,683	\$ 1,250	\$ 1,689	\$ 1,761	\$ 3,450	\$ 2,971
EARNINGS PER SHARE:								
Basic	\$ 0.06	\$ 0.03	\$ 0.09	\$ 0.07	\$ 0.09	\$ 0.10	\$ 0.19	\$ 0.16
Diluted	\$ 0.05	\$ 0.03	\$ 0.08	\$ 0.06	\$ 0.08	\$ 0.09	\$ 0.17	\$ 0.15
WEIGHTED AVERAGE SHARES OUTSTANDING:								
Basic	18,553	18,553	18,553	18,251	18,501	18,501	18,501	18,113
Diluted	19,930	19,930	19,930	19,672	19,959	19,959	19,959	19,558

Color Kinetics Incorporated
Condensed Consolidated Statements of Cash Flows
(Unaudited and in thousands)

	Nine Months Ended September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,689	\$ 2,971
Adjustments to reconcile net income to cash from operating activities:		
Depreciation and amortization	919	746
Stock-based compensation	1,782	24
Loss on disposal of property and equipment	-	4
Equity in (earnings) loss of joint venture	14	(110)
Common stock issued for services	74	37
Changes in assets and liabilities:		
Accounts receivable	(4,433)	(2,560)
Inventory	336	(1,511)
Prepaid expenses and other current assets	103	(673)
Accounts payable	2,008	428
Accrued expenses	747	381
Deferred revenue	122	46
Accrued restructuring	(288)	(305)
Cash flows from operating activities	<u>3,073</u>	<u>(522)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(20,348)	(43,357)
Maturities of investments	12,869	35,097
Purchases of property and equipment	(1,696)	(813)
Purchase of patent	(300)	-
Restricted cash	<u>307</u>	<u>100</u>
Cash flows from investing activities	<u>(9,168)</u>	<u>(8,973)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the exercise of stock options	775	1,594
Proceeds from issuance of common stock	<u>261</u>	<u>277</u>
Cash flows from financing activities	<u>1,036</u>	<u>1,871</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>(9)</u>	<u>(37)</u>
DECREASE IN CASH AND EQUIVALENTS	(5,068)	(7,661)
CASH AND EQUIVALENTS—Beginning of period	<u>43,032</u>	<u>26,198</u>
CASH AND EQUIVALENTS—End of period	<u>\$ 37,964</u>	<u>\$ 18,537</u>