

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

	December 31,	
	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 60,997	\$ 43,032
Investments	38,985	14,137
Restricted cash	500	100
Accounts receivable, net of allowance for doubtful accounts of approximately \$430 and \$461 in 2006 and 2005, respectively	11,480	7,813
Accounts receivable from related party	82	249
Inventory	6,805	7,159
Prepaid expenses and other current assets	<u>3,159</u>	<u>1,436</u>
Total current assets	122,008	73,926
PROPERTY AND EQUIPMENT—net	2,199	1,026
INTANGIBLE ASSETS—net	282	-
INVESTMENT IN JOINT VENTURE	-	887
RESTRICTED CASH—Non-current portion	<u>-</u>	<u>900</u>
TOTAL ASSETS	<u>\$ 124,489</u>	<u>\$ 76,739</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,690	\$ 1,019
Accounts payable to related party	-	63
Accrued expenses	2,238	2,169
Accrued compensation	3,073	2,251
Accrued restructuring	243	385
Accrued warranty	1,007	876
Deferred revenue	<u>195</u>	<u>231</u>
Total current liabilities	<u>10,446</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	21	18
Additional paid-in capital	140,498	99,210
Accumulated other comprehensive loss	(112)	(120)
Accumulated deficit	<u>(26,364)</u>	<u>(29,606)</u>
Total stockholders' equity	<u>114,043</u>	<u>69,502</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 124,489</u>	<u>\$ 76,739</u>

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

	Three Months Ended December 31,			Twelve Months Ended December 31,				
	2006		2005	2006		2005		
	GAAP	SFAS 123R	Non-GAAP	GAAP	SFAS 123R	Non-GAAP		
REVENUES:								
Lighting systems	\$ 15,908		\$ 15,908	\$ 12,484	\$ 58,300	\$ 58,300	\$ 44,156	
OEM and licensing	2,254		2,254	1,995	7,124	7,124	8,751	
Total revenues	18,162		18,162	14,479	65,424	65,424	52,907	
COST OF REVENUES:								
Lighting systems	7,354	\$ (22)	7,332	5,860	26,297	\$ (75)	26,222	21,006
OEM and licensing	636	-	636	791	2,507	-	2,507	3,894
Total cost of revenues	7,990	(22)	7,968	6,651	28,804	(75)	28,729	24,900
GROSS PROFIT	10,172	22	10,194	7,828	36,620	75	36,695	28,007
OPERATING EXPENSES:								
Selling and marketing	4,084	(135)	3,949	3,262	16,242	(497)	15,745	11,519
Research and development	1,916	(110)	1,806	1,238	7,134	(442)	6,692	4,607
General and administrative	3,578	(372)	3,206	2,557	12,845	(1,386)	11,459	9,396
Total operating expenses	9,578	(617)	8,961	7,057	36,221	(2,325)	33,896	25,522
INCOME FROM OPERATIONS	594	639	1,233	771	399	2,400	2,799	2,485
INTEREST INCOME	994	-	994	477	2,892	-	2,892	1,624
EQUITY IN EARNINGS (LOSS) OF JOINT VENTURE	(35)	-	(35)	113	(49)	-	(49)	223
NET INCOME	\$ 1,553	\$ 639	\$ 2,192	\$ 1,361	\$ 3,242	\$ 2,400	\$ 5,642	\$ 4,332
EARNINGS PER SHARE:								
Basic	\$ 0.08	\$ 0.03	\$ 0.11	\$ 0.07	\$ 0.17	\$ 0.13	\$ 0.30	\$ 0.24
Diluted	\$ 0.07	\$ 0.03	\$ 0.10	\$ 0.07	\$ 0.16	\$ 0.12	\$ 0.28	\$ 0.22
WEIGHTED AVERAGE SHARES OUTSTANDING:								
Basic	19,969	19,969	19,969	18,368	18,871	18,871	18,871	18,177
Diluted	21,180	21,180	21,180	19,840	20,276	20,276	20,276	19,630

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

	Twelve Months Ended December 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,242	\$ 4,332
Adjustments to reconcile net income to cash from operating activities:		
Depreciation and amortization	1,274	1,124
Stock-based compensation	2,429	31
Loss on disposal of property and equipment	35	4
Equity in (earnings) loss of joint venture	49	(223)
Common stock issued for services	101	51
Changes in assets and liabilities:		
Accounts receivable	(3,500)	(2,685)
Inventory	354	(2,429)
Prepaid expenses and other current assets	(1,723)	640
Accounts payable	2,608	(530)
Accrued expenses	922	1,130
Deferred revenue	(36)	(148)
Accrued restructuring	(385)	(405)
Cash flows from operating activities	<u>5,370</u>	<u>892</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(50,818)	(48,082)
Maturities of investments	26,042	62,906
Purchases of property and equipment	(2,464)	(1,007)
Purchase of patent	(300)	-
Restricted cash	500	100
Proceeds from dissolution of joint venture	887	-
Cash flows from investing activities	<u>(26,153)</u>	<u>13,917</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the exercise of stock options	2,037	1,792
Proceeds from the exercise of stock warrants	1,117	-
Proceeds from issuance of common stock - net of issuance costs	35,607	277
Cash flows from financing activities	<u>38,761</u>	<u>2,069</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>(13)</u>	<u>(44)</u>
INCREASE IN CASH AND EQUIVALENTS	17,965	16,834
CASH AND EQUIVALENTS—Beginning of period	<u>43,032</u>	<u>26,198</u>
CASH AND EQUIVALENTS—End of period	<u>\$ 60,997</u>	<u>\$ 43,032</u>