

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2011	2010	2011	2010
Revenues.....	\$ 40,535	\$ 38,810	\$156,487	\$111,037
Cost of revenues	24,339	21,598	88,348	60,889
Gross profit	16,196	17,212	68,139	50,148
Operating Expenses:				
Product development.....	7,670	9,150	30,864	30,577
Sales and marketing.....	5,795	5,887	23,468	22,123
General and administrative.....	3,693	3,579	15,367	13,740
Total operating expenses	17,158	18,616	69,699	66,440
Non-GAAP loss from operations.....	(962)	(1,404)	(1,560)	(16,292)
Interest and other income (expense), net	129	13	6	393
Interest expense on lease financing obligations	(357)	(384)	(1,468)	(1,572)
Non-GAAP loss before taxes.....	(1,190)	(1,775)	(3,022)	(17,471)
Income tax (benefit) expense.....	100	49	329	301
Non-GAAP net loss	<u>\$ (1,290)</u>	<u>\$ (1,824)</u>	<u>\$ (3,351)</u>	<u>\$ (17,772)</u>
Non-GAAP net loss per share:				
Diluted	\$ (0.03)	\$ (0.04)	\$ (0.08)	\$ (0.43)
Shares used in computing net loss per share:				
Diluted	42,290	41,639	42,083	41,365
An itemized reconciliation between net earnings on a GAAP basis and non-GAAP basis is as follows:				
GAAP net loss	\$ (4,195)	\$ (6,036)	\$ (13,000)	\$ (31,312)
Stock-based compensation.....	2,905	3,000	9,649	12,328
Restructuring charges	--	1,212	--	1,212
Total non-GAAP adjustments to earnings from operations.....	2,905	4,212	9,649	13,540
Income tax effect of reconciling items.....	--	--	--	--
Non-GAAP net loss	<u>\$ (1,290)</u>	<u>\$ (1,824)</u>	<u>\$ (3,351)</u>	<u>\$ (17,772)</u>