

LANTRONIX INC  
Form 10-Q  
January 31, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**<sup>x</sup> QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended December 31, 2012**

**OR**

**<sup>o</sup> TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission file number: 1-16027**

**LANTRONIX, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware** **33-0362767**  
**(State or other jurisdiction of incorporation or organization)** **(I.R.S. Employer Identification No.)**

**167 Technology Drive, Irvine, California**

**(Address of principal executive offices)**

**92618**

**(Zip Code)**

**(949) 453-3990**

**(Registrant's telephone number, including area code)**

**Not Applicable**

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(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

As of January 18, 2013, there were 14,579,764 shares of the Registrant's common stock outstanding.

**LANTRONIX, INC.**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED**

**December 31, 2012**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

LANTRONIX, INC.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2012	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$8,452	\$11,374
Accounts receivable, net	2,348	2,674
Contract manufacturers' receivable	704	622
Inventories, net	9,694	5,955
Prepaid expenses and other current assets	598	549
Deferred tax assets	657	657
Total current assets	22,453	21,831
Property and equipment, net	1,426	1,605
Goodwill	9,488	9,488
Other assets	79	87
Total assets	\$33,446	\$33,011
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$5,126	\$3,563
Accrued payroll and related expenses	1,466	2,100
Warranty reserve	222	232
Short-term debt	500	667
Other current liabilities	3,615	3,342
Total current liabilities	10,929	9,904
Non-current liabilities:		
Long-term liabilities	281	303
Long-term capital lease obligations	78	48
Long-term debt	-	167

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Deferred tax liabilities	657	657
Total non-current liabilities	1,016	1,175
Total liabilities	11,945	11,079

Commitments and contingencies

Stockholders' equity:

Common stock	1	1
Additional paid-in capital	203,460	203,049
Accumulated deficit	(182,359)	(181,517)
Accumulated other comprehensive income	399	399
Total stockholders' equity	21,501	21,932
Total liabilities and stockholders' equity	\$33,446	\$33,011

See accompanying notes.

LANTRONIX, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	<b>Three Months Ended December 31,</b>		<b>Six Months Ended December 31,</b>	
	2012	2011	2012	2011
Net revenue (1)	\$12,162	\$10,452	\$23,364	\$21,636
Cost of revenue	6,130	5,411	11,860	11,293
Gross profit	6,032	5,041	11,504	10,343
Operating expenses:				
Selling, general and administrative	4,719	4,441	8,987	9,405
Research and development	1,665	1,646	3,274	3,341
Restructuring Charges	–	269	–	269
Amortization of purchased intangible assets	–	18	–	36
Total operating expenses	6,384	6,374	12,261	13,051
Loss from operations	(352 )	(1,333 )	(757 )	(2,708 )
Interest expense, net	(16 )	(23 )	(31 )	(50 )
Other expense, net	(23 )	(8 )	(18 )	(37 )
Loss before income taxes	(391 )	(1,364 )	(806 )	(2,795 )
Provision for income taxes	21	13	36	26
Net loss and comprehensive loss	\$(412 )	\$(1,377 )	\$(842 )	\$(2,821 )
Net loss per share (basic and diluted)	\$(0.03 )	\$(0.13 )	\$(0.06 )	\$(0.27 )
Weighted-average common shares (basic and diluted)	14,578	10,581	14,568	10,571
Net revenue from related parties	\$381	\$174	\$673	\$411

(1) Includes net revenue from related parties

See accompanying notes.



LANTRONIX, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	<b>Six Months Ended December 31,</b>	
	2012	2011
Operating activities		
Net loss	\$(842 )	\$(2,821)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	437	352
Depreciation	436	458
Provision for excess and obsolete inventories	38	479
Restructuring charges	–	269
Amortization of purchased intangible assets	–	36
Changes in operating assets and liabilities:		
Accounts receivable	326	1,499
Contract manufacturers' receivable	(82 )	313
Inventories	(3,777 )	228
Prepaid expenses and other current assets	(49 )	208
Other assets	8	89
Accounts payable	1,563	(3,523)
Accrued payroll and related expenses	(634 )	–
Warranty reserve	(10 )	(29 )
Restructuring accrual	–	(171 )
Other liabilities	257	822
Net cash used in operating activities	(2,329 )	(1,791)
Investing activities		
Purchases of property and equipment	(189 )	(305 )
Net cash used in investing activities	(189 )	(305 )
Financing activities		
Payment of term loan	(334 )	(333 )
Minimum tax withholding paid on behalf of employees for restricted shares	(26 )	(30 )
Payment of capital lease obligations	(44 )	(74 )
Net cash used in financing activities	(404 )	(437 )
Decrease in cash and cash equivalents	(2,922 )	(2,533)
Cash and cash equivalents at beginning of period	11,374	5,836
Cash and cash equivalents at end of period	\$8,452	\$3,303

See accompanying notes.



**LANTRONIX, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2012**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Lantronix, Inc. (referred to in these unaudited condensed consolidated financial statements as “Lantronix,” “we,” “us,” or “our”) have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Securities and Exchange Commission (“SEC”) Regulation S-X. Accordingly, they should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2012, included in our Annual Report on Form 10-K filed with the SEC on August 30, 2012. The unaudited condensed consolidated financial statements contain all normal recurring accruals and adjustments that in the opinion of management, are necessary to present fairly the consolidated financial position of Lantronix at December 31, 2012, and the consolidated results of our operations for the three and six months ended December 31, 2012 and the consolidated cash flows for the six months ended December 31, 2012. All intercompany accounts and transactions have been eliminated. It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three and six months ended December 31, 2012 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

**Recent Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board (“FASB”) issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. We adopted this guidance effective July 1, 2012. Such adoption did not have a material impact on our financial statements.

**2. Supplemental Financial Information**

**Inventories**

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following:

	December	
	31,	30,
	2012	2012
	<b>(In thousands)</b>	
Raw materials	\$1,847	\$1,375
Finished goods	6,216	3,162
Finished goods held by distributors	1,494	1,182
Large scale integration chips *	137	236
Inventories, net	\$9,694	\$5,955

\* This item is sold individually and is also embedded into our products.

**Other Liabilities**

The following table presents details of our other liabilities:

	December 31, 2012	June 30, 2012
	<b>(In thousands)</b>	
Current		
Customer deposits and refunds	\$1,136	\$939
Accrued raw materials purchases	834	648
Deferred revenue	115	132
Capital lease obligations	72	78
Taxes payable	230	238
Other accrued liabilities	1,228	1,307
Total other current liabilities	\$3,615	\$3,342
Long-term		
Deferred rent	\$168	\$203
Deferred revenue	113	100
Total other long-term liabilities	\$281	\$303

**Computation of Net Loss per Share**

Basic and diluted net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the applicable period.

The following table presents the computation of net loss per share:

	<b>Three Months Ended December 31, 2012</b>		<b>Six Months Ended December 31, 2011</b>	
	2012	2011	2012	2011
	<b>(In thousands, except per share data)</b>			
Numerator:				
Net loss	\$(412 )	\$(1,377 )	\$(842 )	\$(2,821 )
Denominator:				
Weighted-average shares	14,578	10,631	14,568	10,621

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Less: Unvested common shares		–	(50 )	–	(50 )
Weighted-average common shares outstanding (basic and diluted)		14,578	10,581	14,568	10,571
Net loss per share (basic and diluted)		\$ (0.03 )		\$ (0.13 )	
		\$ (0.06 )		\$ (0.27 )	

The following table presents the common stock equivalents excluded from the diluted net loss per share calculation, because they were anti-dilutive as of such dates. These excluded common stock equivalents could be dilutive in the future.

	<b>Three Months Ended December 31,</b>		<b>Six Months Ended December 31,</b>	
	2012	2011	2012	2011
	(In thousands)			
Common stock equivalents	2,077	1,250	1,888	1,294

**Supplemental Cash Flow Information**

The following table presents non-cash investing and financing transactions excluded from the unaudited condensed consolidated statements of cash flows:

	<b>Six Months Ended December 31, 2012 2011 (In thousands)</b>	
Non-cash acquisition of property and equipment	\$ 68	\$ 91

**3. Warranty Reserve**

Upon shipment to our customers, we provide for the estimated cost to repair or replace products to be returned under warranty. Our products typically carry a one- to two-year warranty. Beginning in December 2011, we began offering a 5-year warranty for some of our new products. Our warranty obligation is affected by product failure rates, use of materials and service delivery costs, which may differ from our estimates. As a result, additional warranty reserves could be required, which could reduce gross margins. Additionally, we sell extended warranty services, which extend the warranty period for an additional one to three years, depending upon the product. Warranty net revenue is deferred and recognized ratably over the warranty service period.

The following table presents details of our warranty reserve:

	<b>Six Months Ended December 31, 2012 (In thousands)</b>		<b>Year Ended June 30, 2012</b>	
Beginning balance	\$232	\$ 268		
Charged to cost of revenues	52	84		
Usage	(62 )	(120 )		
Ending balance	\$222	\$ 232		

#### **4. Bank Line of Credit and Debt**

We have a Loan and Security Agreement (the “Loan and Security Agreement”) with Silicon Valley Bank (“SVB”) dated May 23, 2006 which is comprised of a \$4.0 million revolving line of credit and a \$2.0 million term loan (the “Term Loan”). We also have (i) a Loan and Security Agreement/(Ex-Im Program) (the “Ex-Im Loan and Security Agreement”) dated May 23, 2006 with terms that generally parallel to the Loan and Security Agreement and (ii) an Export-Import Bank of the United States (the “Ex-Im Bank”) Working Capital Guarantee Program Borrower Agreement (the “Guarantee Agreement”). On October 16, 2012, we entered into amendments to the SVB loan Agreements, effective September 30, 2012, and also re-executed the Guarantee Agreement.