

LANTRONIX INC
Form 10-Q
April 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

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

(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):

Large accelerated filer

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

Accelerated filer

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 April 24, 2015, there were 14,942,205 shares of the Registrant's common stock outstanding.

LANTRONIX, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED

March 31, 2015

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015, or the Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this Report or incorporated by reference into this Report are forward-looking statements. These statements include, among other things, any predictions of earnings, revenues, expenses or other financial items; plans or expectations with respect to our development activities or business strategy; statements concerning industry trends; statements regarding anticipated demand for our products, or the products of our competitors, statements relating to manufacturing forecasts, and the potential impact of our relationship with contract manufacturers and original equipment manufacturers on our business; assumptions regarding the future cost and potential benefits of our research and development efforts; forecasts of our liquidity position or available cash resources ; statements relating to the impact of pending litigation; and statements relating to the assumptions underlying any of the foregoing. Throughout this Report, we have attempted to identify forward-looking statements by using words such as “may,” “believe,” “will,” “could,” “project,” “anticipate,” “expect,” “estimate,” “should,” “continue,” “plan,” “forecasts,” “goal,” “seek,” “intend,” other forms of these words or similar words or expressions or the negative thereof.

We have based our forward-looking statements on our current expectations and projections about trends affecting our business and industry and other future events. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Forward-looking statements are subject to substantial risks and uncertainties that could cause our future business, financial condition, results of operations or performance, to differ materially from our historical results or those expressed or implied in any forward-looking statement contained in this Report. Some of the risks and uncertainties that may cause actual results to differ from those expressed or implied in the forward-looking statements are described in “Risk Factors” in Item 1A of this Report, our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on August 22, 2014, or the Form 10-K, as well as in our other filings with the SEC. In addition, actual results may differ as a result of additional risks and uncertainties of which we are currently unaware or which we do not currently view as material to our business. For these reasons, investors are cautioned not to place undue reliance on any forward-looking statements.

You should read this Report in its entirety, together with the Form 10-K, the documents that we file as exhibits to this Report and the documents that we incorporate by reference into this Report, with the understanding that our future results may be materially different from what we currently expect. The forward-looking statements we make speak only as of the date on which they are made. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations, except as required by applicable law or the rules of The Nasdaq Stock Market, LLC. If we do update or correct any forward-looking statements, investors should not

conclude that we will make additional updates or corrections.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****LANTRONIX, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)**

| | March 31, 2015 | June 30, 2014 |
|---|-------------------|------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$5,598 | \$6,264 |
| Accounts receivable, net | 2,631 | 3,631 |
| Contract manufacturers' receivable | 486 | 359 |
| Inventories, net | 8,740 | 8,404 |
| Prepaid expenses and other current assets | 493 | 524 |
| Total current assets | 17,948 | 19,182 |
| Property and equipment, net | 1,311 | 1,487 |
| Goodwill | 9,488 | 9,488 |
| Deferred tax assets | 400 | 400 |
| Other assets | 95 | 125 |
| Total assets | \$29,242 | \$30,682 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$4,032 | \$4,547 |
| Accrued payroll and related expenses | 1,676 | 1,863 |
| Warranty reserve | 111 | 150 |
| Deferred tax liabilities | 400 | 400 |
| Other current liabilities | 3,614 | 3,418 |
| Total current liabilities | 9,833 | 10,378 |
| Long-term capital lease obligations | 8 | 7 |
| Other non-current liabilities | 93 | 131 |
| Total liabilities | 9,934 | 10,516 |

Commitments and contingencies

Stockholders' equity:

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| | | |
|--|-----------|-----------|
| Common stock | 1 | 1 |
| Additional paid-in capital | 205,888 | 205,013 |
| Accumulated deficit | (186,952) | (185,219) |
| Accumulated other comprehensive income | 371 | 371 |
| Total stockholders' equity | 19,308 | 20,166 |
| Total liabilities and stockholders' equity | \$29,242 | \$30,682 |

See accompanying notes.

LANTRONIX, INC.**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|------------------------------------|-----------|-----------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenue (1) | \$10,444 | \$11,593 | \$32,715 | \$33,444 |
| Cost of revenue | 5,735 | 5,694 | 17,237 | 16,718 |
| Gross profit | 4,709 | 5,899 | 15,478 | 16,726 |
| Operating expenses: | | | | |
| Selling, general and administrative | 3,914 | 4,248 | 11,981 | 12,258 |
| Research and development | 1,619 | 1,757 | 5,145 | 5,081 |
| Total operating expenses | 5,533 | 6,005 | 17,126 | 17,339 |
| Loss from operations | (824) | (106) | (1,648) | (613) |
| Interest expense, net | (4) | (6) | (12) | (22) |
| Other expense, net | (5) | (2) | (25) | (30) |
| Loss before income taxes | (833) | (114) | (1,685) | (665) |
| Provision for income taxes | 6 | 16 | 48 | 55 |
| Net loss and comprehensive loss | \$(839) | \$(130) | \$(1,733) | \$(720) |
| Net loss per share (basic and diluted) | \$(0.06) | \$(0.01) | \$(0.12) | \$(0.05) |
| Weighted-average common shares (basic and diluted) | 14,942 | 14,686 | 14,868 | 14,629 |
| Net revenue from related parties | \$28 | \$79 | \$219 | \$452 |

See accompanying notes.

LANTRONIX, INC.**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

| | Nine Months Ended March 31, | |
|---|-----------------------------------|----------|
| | 2015 | 2014 |
| Operating activities | | |
| Net loss | \$(1,733) | \$(720) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Share-based compensation | 770 | 662 |
| Depreciation | 680 | 693 |
| Provision for excess and obsolete inventories | 262 | 111 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,000 | (1,288) |
| Contract manufacturers' receivable | (127) | 41 |
| Inventories | (598) | 1,029 |
| Prepaid expenses and other current assets | 31 | (39) |
| Other assets | 17 | (30) |
| Accounts payable | (514) | 1,182 |
| Accrued payroll and related expenses | (187) | 356 |
| Warranty reserve | (39) | (36) |
| Other liabilities | 179 | (862) |
| Net cash provided by (used in) operating activities | (259) | 1,099 |
| Investing activities | | |
| Purchases of property and equipment | (474) | (417) |
| Net cash used in investing activities | (474) | (417) |
| Financing activities | | |
| Payment of term loan | - | (167) |
| Net proceeds from issuances of common stock | 158 | 154 |
| Minimum tax withholding paid on behalf of employees for restricted shares | (53) | - |
| Payment of capital lease obligations | (38) | (35) |
| Net cash provided by (used in) financing activities | 67 | (48) |
| Increase (decrease) in cash and cash equivalents | (666) | 634 |
| Cash and cash equivalents at beginning of period | 6,264 | 5,243 |
| Cash and cash equivalents at end of period | \$5,598 | \$5,877 |

See accompanying notes.

LANTRONIX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

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 United States generally accepted accounting principles (“U.S. 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, 2014, included in our Annual Report on Form 10-K filed with the SEC on August 22, 2014. 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 March 31, 2015, the consolidated results of our operations for the three and nine months ended March 31, 2015 and our consolidated cash flows for the nine months ended March 31, 2015. 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 nine months ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standard which will supersede existing revenue recognition guidance under current U.S. GAAP. The new standard is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In doing so, among other things, companies will generally need to use more judgment and make more estimates than under the current guidance. Currently, the accounting standard will be effective for Lantronix in the fiscal year beginning July 1, 2017. The standard may be adopted using a full retrospective or a modified retrospective (cumulative effect) method. Currently, early adoption is not permitted. In April 2015, the FASB issued a proposal to defer the effective date of the new standard by one year, but to permit companies to adopt one year earlier if they choose. We are currently evaluating this standard and have not yet selected a transition method nor have we determined the effect of the standard on our financial statements and related disclosures.

In August 2014, the FASB issued a new standard that will require management of an entity to assess, for each annual and interim period, if there is substantial doubt about the entity’s ability to continue as a going concern within one year of the financial statement issuance date. The definition of substantial doubt within the new standard incorporates a likelihood threshold of “probable” similar to the use of that term under current U.S. GAAP for loss contingencies. Certain disclosures will be required if conditions give rise to substantial doubt. The standard will be effective for Lantronix in the fiscal year beginning July 1, 2016. Early adoption is permitted. We are currently evaluating the impact of this standard on our financial statements and related disclosures.

2. Supplemental Financial Information

Inventories

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

| | March 31, 2015 | June 30, 2014 |
|-------------------------------------|-----------------------|---------------------|
| | (In thousands) | |
| Finished goods | \$5,059 | \$5,162 |
| Raw materials | 2,292 | 1,890 |
| Finished goods held by distributors | 1,261 | 1,242 |
| Large scale integration chips * | 128 | 110 |
| Inventories, net | \$8,740 | \$8,404 |

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

Other Liabilities

The following table presents details of our other liabilities:

| | March 31, 2015 | June 30, 2014 |
|-------------------------------------|-----------------------|---------------------|
| | (In thousands) | |
| Current | | |
| Customer deposits and refunds | \$924 | \$711 |
| Accrued raw materials purchases | 729 | 1,138 |
| Deferred revenue | 599 | 128 |
| Capital lease obligations | 25 | 47 |
| Taxes payable | 235 | 235 |
| Accrued operating expenses | 1,102 | 1,159 |
| Total other current liabilities | \$3,614 | \$3,418 |
| Non-current | | |
| Deferred revenue | \$93 | \$91 |
| Deferred rent | – | 40 |
| Total other non-current liabilities | \$93 | \$131 |

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:

| | Three Months Ended March 31, 2015 | | Nine Months Ended March 31, 2014 | |
|------------|--|-----------|---|-----------|
| | (In thousands, except per share data) | | | |
| Numerator: | | | | |
| Net loss | \$ (839) | \$ (130) | \$ (1,733) | \$ (720) |

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Denominator:

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Weighted-average common shares outstanding (basic and diluted) | 14,942 | 14,686 | 14,868 | 14,629 |
| Net loss per share (basic and diluted) | \$(0.06) | \$(0.01) | \$(0.12) | \$(0.05) |

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

| | Three Months Ended March 31, 2015 2014 | | Nine Months Ended March 13, 2015 2014 | |
|--------------------------|--|-----|--|-------|
| | (In thousands) | | | |
| Common stock equivalents | 1,700 | 930 | 1,653 | 1,696 |

Supplemental Cash Flow Information

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

| | Nine Months Ended March 31, 2015 2014 (In thousands) | |
|---|---|------|
| Non-cash acquisition of property and equipment under capital leases | \$ 17 | \$ – |

3. Warranty Reserve

The warranty periods for our products generally range from one to five years. We establish reserves for estimated product warranty costs at the time revenue is recognized based upon our historical warranty experience, and additionally, for any known product warranty issues. Our warranty obligation is affected by product failure rates, use of materials or service delivery costs that differ from our estimates. As a result, increases or decreases to warranty reserves could be required, which could impact our gross margins.

The following table presents details of our warranty reserve:

| | Nine Months Ended March 31, 2015 (In thousands) | | Year Ended June 30, 2014 (In thousands) | |
|-----------------------------|---|--------|--|--|
| Beginning balance | \$ 150 | \$ 193 | | |
| Charged to cost of revenues | 43 | 40 | | |
| Usage | (82) | (83) | | |
| Ending balance | \$ 111 | \$ 150 | | |

4. Bank Line of Credit

On September 30, 2014, we entered into an amendment (the “Amendment”) to our existing Loan and Security Agreement dated May 23, 2006 (as amended, the “Loan Agreement”) with Silicon Valley Bank (“SVB”). The Amendment provides, among other things, for (i) a renewal of our \$4.0 million revolving line of credit with an extended maturity date of September 30, 2016 and (ii) a modification of the revolving credit line borrowing base formula to include a portion of our foreign accounts receivable to the borrowing base and increase the borrowing limit related to domestic accounts receivable.

The Loan Agreement provides for an interest rate per annum equal to the greater of the prime rate plus 0.75% or 4.0%, provided that we maintain a monthly quick ratio of 1.0 to 1.0 or greater. The quick ratio measures our ability to use our cash and cash equivalents maintained at SVB to extinguish or retire our current liabilities immediately. If this ratio is not met, the interest rate will become the greater of the prime rate plus 1.25% or 4.0%. We maintained a monthly quick ratio greater than 1.0 to 1.0 as of and during the three months ended March 31, 2015.

The Loan Agreement includes a covenant requiring us to maintain a certain Minimum Tangible Net Worth (“Minimum TNW”), which is currently required to be at least \$6.0 million. This amount is subject to adjustment upward to the extent we raise additional equity or debt financing or achieve net income in future quarters. Our Actual Tangible Net Worth (“Actual TNW”) is calculated as total stockholders’ equity, less goodwill. If we continue to incur net losses, we may have difficulty satisfying the Minimum TNW financial covenant in the future, in which case we may be unable to borrow funds under the Loan Agreement and any amounts outstanding may need to be repaid immediately.

As of March 31, 2015, we had no borrowings outstanding on the revolving line of credit.

The following table sets forth the Minimum TNW compared to our Actual TNW:

| | |
|-------------|--|
| | March 31, 2015 (In thousands) |
| Minimum TNW | \$ 6,000 |
| Actual TNW | \$ 9,820 |

The following table presents the available borrowing capacity on the revolving line of credit and outstanding letters of credit. To date, we have not used any of the borrowing capacity under the revolving line of credit.

| | March 31, 2015 | June 30, 2014 |
|-------------------------------|-------------------------------|------------------------------|
| | (In thousands) | |
| Available borrowing capacity | \$2,541 | \$1,721 |
| Outstanding letters of credit | \$755 | \$113 |

In February 2015, we executed a letter of credit with SVB for \$591,000 in connection with the purchase of raw materials from one of our contract manufacturers. We paid for the purchase of such materials in early April 2015. All other outstanding letters of credit at March 31, 2015 and June 30, 2014 were used as security deposits.

5. Stockholders' Equity

Share-Based Plans

Our share-based plans permit the granting of stock options (both incentive and nonqualified stock options), restricted stock units ("RSUs"), stock appreciation rights, non-vested stock, and performance shares to certain employees, directors and consultants. As of March 31, 2015, no stock appreciation rights, non-vested stock, or performance shares were outstanding.

Stock Option Awards

The following table presents a summary of stock option activity under all of our stock option plans during the nine months ended March 31, 2015:

| Number of Shares | Weighted Average Exercise Price per Share |
|---------------------|---|
|---------------------|---|

| | (In thousands) | |
|--|-------------------|---------|
| Balance of options outstanding at June 30, 2014 | 2,719 | \$ 2.35 |
| Granted | 935 | 1.87 |
| Forfeited | (24) | 1.90 |
| Expired | (74) | 4.23 |
| Exercised | (25) | 1.40 |
| Balance of options outstanding at March 31, 2015 | 3,531 | \$ 2.19 |

Restricted Stock Units

The following table presents a summary of activity with respect to RSUs during the nine months ended March 31, 2015:

| | Number of Shares (In thousands) | Weighted Average Grant - Date Fair Value per Share |
|---|--|--|
| Balance of restricted stock units at June 30, 2014 | 61 | \$ 1.40 |
| Granted | 28 | 1.98 |
| Vested | (61) | 1.40 |
| Balance of restricted stock units at March 31, 2015 | 28 | \$ 1.98 |

Employee Stock Purchase Plan

Our 2013 Employee Stock Purchase Plan (the “ESPP”) is intended to provide employees with an opportunity to purchase our common stock through accumulated payroll deductions. Each of our employees (including officers) is eligible to participate in the ESPP, subject to certain limitations as defined in the ESPP plan document.

The following table presents a summary of activity under our ESPP during the nine months ended March 31, 2015:

| | Number of Shares (In thousands) |
|---|--|
| Shares available for issuance at June 30, 2014 | 1,126 |
| Issued | (97) |
| Shares available for issuance at March 31, 2015 | 1,029 |

Share-Based Compensation Expense

The following table presents a summary of share-based compensation expense included in each functional line item on our unaudited condensed consolidated statements of operations:

| | Three Months Ended March 31, 2015 | | Nine Months Ended March 31, 2014 | |
|--|---|-------|--|-------|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | | |
| Cost of revenues | \$17 | \$11 | \$53 | \$35 |
| Selling, general and administrative | 189 | 144 | 558 | 461 |
| Research and development | 44 | 54 | 159 | 166 |
| Total share-based compensation expense | \$250 | \$209 | \$770 | \$662 |

The following table summarizes the remaining unrecognized share-based compensation expense related to our outstanding share-based awards as of March 31, 2015:

| | Remaining Unrecognized Compensation Cost (In thousands) | Remaining Weighted Average Years To Recognize |
|----------------------------------|---|--|
| Stock options | \$ 1,422 | 2.7 |
| Restricted stock units | 17 | 0.3 |
| Stock purchase rights under ESPP | 99 | 0.6 |

If there are any modifications or cancellations of the underlying unvested share-based awards, we may be required to accelerate, increase or cancel remaining unearned share-based compensation expense. Future share-based compensation expense and unearned share-based compensation will increase to the extent that we grant additional share-based awards.

6. Income Taxes

We utilize the liability method of accounting for income taxes. The following table presents our effective tax rates based upon the income tax provision for the periods shown:

| | Three Months Ended March 31, 2015 | | Nine Months Ended March 31, 2014 | |
|--------------------|---|-----|--|----|
| Effective tax rate | 1% | 14% | 3% | 8% |

The difference between our effective tax rates in the periods presented above and the federal statutory rate is primarily due to a tax benefit from our domestic losses being recorded with a full valuation allowance, as well as the effect of foreign earnings taxed at rates differing from the federal statutory rate.

We record net deferred tax assets to the extent that we believe these assets will more likely than not be realized. As a result of our cumulative losses and uncertainty of generating future taxable income, we have provided a full valuation allowance against our net deferred tax assets as of March 31, 2015 and June 30, 2014.

7. Litigation and Contingencies

From time to time, we are subject to legal proceedings and claims in the ordinary course of business. We are not currently aware of any such legal proceedings or claims that are expected to have, individually or in the aggregate, a material adverse effect on our business, prospects, financial position, operating results or cash flows.

8. Facility Lease

On January 16, 2015, we entered into a building lease agreement (the "Lease") with the Irvine Company, LLC (the "Landlord"). Pursuant to the Lease, we will lease approximately 27,000 square feet of office space for our corporate headquarters in Irvine, California. The Lease shall commence on the date which is the earlier to occur of: (a) the date we take possession of the premises following the completion of certain tenant improvements to the premises, but not earlier than March 1, 2015, or (b) the date we commence our regular business activities on the premises. We currently expect to take possession of the premises, and commence our regular business activities, sometime in June 2015.

The Landlord is obligated to provide a tenant improvement allowance of up to \$242,600 for tenant improvements, as defined by the Lease. The term of the Lease will be 65 months from the commencement date. The aggregate basic rent payable under the Lease during the 65-month term is currently expected to be paid as follows:

Fiscal year ending June 30.

(In thousands)

| | |
|------------|---------|
| 2015 | \$37 |
| 2016 | 444 |
| 2017 | 463 |
| 2018 | 486 |
| 2019 | 505 |
| Thereafter | 713 |
| | \$2,648 |

Our existing lease with the Landlord shall terminate effective as of the day preceding the commencement date of the Lease, with no early termination fee.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes included in Item 1 of this Report, the “Risk Factors” included in Item 1A of this Report and in our Annual Report on Form 10-K for the year ended June 30, 2014, or the Form 10-K, as well as the Cautionary Note Regarding Forward Looking Statements described elsewhere in this Report, before deciding to purchase, hold or sell our common stock.

Overview

Lantronix, Inc. (the “Company,” “Lantronix,” “we,” “our,” or “us”) is a specialized networking company providing machine to machine (“M2M”) and Internet of Things (“IoT”) solutions. Our products deliver secure connectivity, device management and mobility for today's increasingly connected world. By networking and managing devices and machines that have never before been connected, we enable our customers to realize the possibilities of the IoT.

Founded in 1989, we pioneer robust, intelligent and easy to deploy solutions for mission critical applications in a wide range of industries, including data center, medical, security, industrial, transportation, retail, financial and government. We organize our solutions into two product lines based on how they are marketed, sold and deployed: OEM Modules and Enterprise Solutions. We conduct our business globally and manage our sales teams by geography, according to four regions: the Americas; Europe, Middle East, and Africa (“EMEA”); Asia Pacific; and Japan.

Products and Solutions Overview

New Products are defined as products that have been released since the second quarter of the fiscal year ended June 30, 2012.

OEM Modules

OEM Modules are electronic products that serve as building blocks embedded inside modern electronic systems and equipment. Our OEM Modules product line includes wired and wireless products that are designed to enhance the value and utility of modern electronic systems and equipment by providing secure network connectivity, application hosting, protocol conversion and other functions.

The products are offered with a software suite intended to decrease our customer's time-to-market and increase their value add. Among others, the following product families are included in our OEM Module product line: ASIC, MatchPort®, PremiereWave® EN, WiPort®, xPico®, xPico® Wi-Fi, and xPort®.

OEM Modules are typically sold to original equipment manufacturers ("OEMs"), original design manufacturers ("ODMs"), contract manufacturers and distributors. OEMs design and sell products under their own brand that are either manufactured by the OEM in-house or by third-party contract manufacturers. ODMs design and manufacture products for third parties, which then sell those products under their own brand. The design cycles using our OEM modules typically range from 12 to 24 months and can generate revenue for the entire life-cycle of an end-user's product.

Enterprise Solutions

Our Enterprise Solutions are electronic products that are typically connected to one or more existing pieces of electronic equipment to provide additional connectivity or functionality. Our Enterprise Solutions are designed to enhance the value and utility of machines and other devices through network connectivity, routing, switching, application hosting, remote management, telemetry, telematics, printing, protocol conversion and other functions. Our Enterprise Solutions include products such as wired and wireless device servers, I/O servers, terminal servers, console servers, print servers, remote keyboard video mouse (KVM), management, power management and software management platforms. Among others, the following product families are included in our Enterprise Solutions product line: EDS, EDS-MD, PremierWave® XC, PremierWave® XN, SLB,™SLC,™SLC8000, SLP,™Spider,™UDS, xDirect®, xPress,™xPrintServer®, and xSenso®.

Enterprise Solutions are typically sold through value added resellers ("VARs"), systems integrators, distributors, e-tailers and to a lesser extent to OEMs. Sales are often project based and may result in significant quarterly fluctuations.

Recent Accounting Pronouncements

Please refer to Note 1 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Item 1 of this Report for a discussion of recent accounting pronouncements.

Critical Accounting Policies and Estimates

The accounting policies that have the greatest impact on our financial condition and results of operations and that require the most judgment are those relating to revenue recognition, warranty reserves, allowance for doubtful accounts, inventory valuation, valuation of deferred income taxes, and goodwill. These policies are described in further detail in the Form 10-K. There have been no significant changes in our critical accounting policies and estimates during the nine months ended March 31, 2015 as compared to what was previously disclosed in the Form 10-K.

Results of Operations - Summary

In the three months ended March 31, 2015 our net revenue decreased by \$1.1 million, or 10%, compared to the three months ended March 31, 2014 as increased sales from our New Products was not large enough to outpace the decline in sales of our Legacy Products and weakness in capital spending that impacted the timing of customer projects. The decline in Legacy Products was partially offset by 33% growth in New Product revenue. Our net loss was \$839,000 for the three months ended March 31, 2015 compared to a net loss of \$130,000 in the three months ended March 31, 2014. Our net loss for the current quarter was largely impacted by a decrease in revenue and a decrease in gross margin from 50.9% to 45.1%, primarily resulting from charges for excess inventories in the amount of \$290,000.

In the nine months ended March 31, 2015 our net revenues decreased by \$729,000, or 2%, compared to the nine months ended March 31, 2014 as revenue contribution from our New Products was not large enough to outpace the decline in our Legacy Products and weakness in capital spending that impacted the timing of customer projects. The decline in Legacy Products was partially offset by 59% growth in New Product revenue. Our net loss was \$1.7 million for the nine months ended March 31, 2015 compared to a net loss of \$720,000 in the nine months ended March 31, 2014. The increase in net loss was driven by the decrease in net revenue, and decrease in gross margin from 50.0% to 47.3%, primarily resulting from charges for excess inventories approximating \$480,000 and changes in our product mix.

Results of Operations – Three Months Ended March 31, 2015 Compared to the Three Months Ended March 31, 2014*Net Revenue*

The following tables present our fiscal quarter net revenue by product line and geographic region:

| | Three Months Ended March 31, 2015 | | | 2014 | | | Total Change | |
|-----------------|---|-------------------------|----------|----------------|-------------------------|----------|--------------|---------|
| | OEM Modules | Enterprise Solutions | Total | OEM Modules | Enterprise Solutions | Total | \$ | % |
| | (In thousands, except percentages) | | | | | | | |
| New Products | \$495 | \$ 1,157 | \$1,652 | \$420 | \$ 821 | \$1,241 | \$411 | 33.1% |
| Legacy Products | 4,734 | 4,058 | 8,792 | 5,671 | 4,681 | 10,352 | (1,560) | (15.1%) |
| | \$5,229 | \$ 5,215 | \$10,444 | \$6,091 | \$ 5,502 | \$11,593 | \$(1,149) | (9.9%) |

| | Three Months Ended March 31, 2015 | | | 2014 | | |
|--------------|--------------------------------------|-------------------------|----------|----------------|-------------------------|----------|
| | OEM Modules | Enterprise Solutions | Total | OEM Modules | Enterprise Solutions | Total |
| | (In thousands) | | | | | |
| Americas | \$1,978 | \$3,407 | \$5,385 | \$2,409 | \$3,475 | \$5,884 |
| EMEA | 2,151 | 1,172 | 3,323 | 2,241 | 1,455 | 3,696 |
| Asia Pacific | 493 | 307 | 800 | 665 | 319 | 984 |
| Japan | 607 | 329 | 936 | 776 | 253 | 1,029 |
| | \$5,229 | \$5,215 | \$10,444 | \$6,091 | \$5,502 | \$11,593 |

OEM Modules

Based on our experience, OEM Module products typically have a range of 12 to 24 months prior to reaching a meaningful revenue level. Net revenue from our OEM Modules declined primarily as a result of a decline in sales from Legacy Products. The decline in OEM Modules was slightly offset by growth from one of our New Products, the xPico WiFi, which benefited from design wins moving into production during the three months ended March 31, 2015.

Enterprise Solutions

Net revenue from our Enterprise Solutions product line decreased primarily as a result of decreased unit sales of our Legacy Products, in particular the SLC and SLS product families in the EMEA region and weakness in capital spending that impacted the timing of customer projects. The decline in Enterprise Solutions was partially offset by an increase in unit sales across many of our New Product families including the new SLB, EDS-MD, SLC8000, xDirect, PremierWave XN, and PremierWave XC.

Gross Profit

Gross profit represents net revenue less cost of revenue. Cost of revenue consists primarily of the cost of raw material components, subcontract labor assembly from contract manufacturers, manufacturing overhead, establishing or relieving inventory reserves for excess and obsolete products or raw materials, warranty costs, royalties and share-based compensation.

The following table presents our fiscal quarter gross profit:

| Three Months Ended March 31, | | | | | |
|------------------------------------|---------|-------|---------|--------|-------------------|
| | % of | | % of | Change | |
| | Net | | Net | \$ | % |
| 2015 | Revenue | 2014 | Revenue | | |
| (In thousands, except percentages) | | | | | |
| Gross profit | \$4,709 | 45.1% | \$5,899 | 50.9% | \$(1,190) (20.2%) |

Gross profit as a percent of revenue (referred to as “gross margin”) for the three months ended March 31, 2015 was lower than the prior year period primarily due to charges for excess inventories of approximately \$290,000 and, to a lesser extent, product mix related to lower contribution from our SLC product family during the current quarter.

Selling, General and Administrative

Selling, general and administrative expenses consist of personnel-related expenses, including salaries and commissions, share-based compensation, facility expenses, information technology, trade show expenses, advertising, and legal and accounting fees.

The following table presents our fiscal quarter selling, general and administrative expenses:

| | Three Months Ended March 31, | | | | Change | |
|--|------------------------------------|------------------------|---------|------------------------|---------|---------|
| | | % of Net Revenue | 2014 | % of Net Revenue | \$ | % |
| | (In thousands, except percentages) | | | | | |
| Personnel-related expenses | \$2,423 | | \$2,633 | | \$(210) | (8.0%) |
| Professional fees and outside services | 262 | | 284 | | (22) | (7.7%) |
| Advertising and marketing | 417 | | 571 | | (154) | (27.0%) |
| Travel | 148 | | 149 | | (1) | (0.7%) |
| Facilities | 289 | | 262 | | 27 | 10.3% |
| Share-based compensation | 189 | | 144 | | 45 | 31.3% |
| Depreciation | 52 | | 83 | | (31) | (37.3%) |
| Other | 134 | | 122 | | 12 | 9.8% |
| Selling, general and administrative | \$3,914 | 37.5% | \$4,248 | 36.6% | \$(334) | (7.9%) |

The decrease in selling, general and administrative expenses was primarily due to (i) lower variable compensation costs in the current quarter and (ii) lower marketing spending, primarily related to trade shows and other external costs.

Research and Development

Research and development expenses consist of personnel-related expenses, including share-based compensation, as well as expenditures to third-party vendors for research and development activities and product certification costs. Our quarterly costs related to outside services and product certifications can vary from period to period depending on our level of development activities.

The following table presents our fiscal quarter research and development expenses:

| | Three Months Ended March 31, | | | | Change | |
|----------------------------|------------------------------------|---------|------------------------|-------|---------|---------|
| | % of Net Revenue | | % of Net Revenue | | \$ | % |
| | 2015 | 2014 | 2015 | 2014 | | |
| | (In thousands, except percentages) | | | | | |
| Personnel-related expenses | \$1,100 | \$1,120 | | | \$(20) | (1.8%) |
| Facilities | 181 | 177 | | | 4 | 2.3% |
| Outside services | 197 | 201 | | | (4) | (2.0%) |
| Product certifications | 38 | 91 | | | (53) | (58.2%) |
| Share-based compensation | 44 | 54 | | | (10) | (18.5%) |
| Other | 59 | 114 | | | (55) | (48.2%) |
| Research and development | \$1,619 | \$1,757 | 15.5% | 15.2% | \$(138) | (7.9%) |

Research and development expenses decreased primarily due to lower material expenses (included in “Other”) and product certification costs, which were impacted by the timing of development projects.

Results of Operations – Nine Months Ended March 31, 2015 Compared to the Nine Months Ended March 31, 2014**Net Revenue**

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The following tables present fiscal year-to-date net revenue by product line and geographic region:

| | Nine Months Ended March 31, 2015 | | | 2014 | | | Total Change | |
|-----------------|---|-------------------------|----------|----------------|-------------------------|----------|--------------|--------|
| | OEM Modules | Enterprise Solutions | Total | OEM Modules | Enterprise Solutions | Total | \$ | % |
| | (In thousands, except percentages) | | | | | | | |
| New Products | \$970 | \$ 4,045 | \$5,015 | \$565 | \$ 2,585 | \$3,150 | \$1,865 | 59.2% |
| Legacy Products | 15,185 | 12,515 | 27,700 | 15,440 | 14,854 | 30,294 | (2,594) | (8.6%) |
| | \$16,155 | \$ 16,560 | \$32,715 | \$16,005 | \$ 17,439 | \$33,444 | \$(729) | (2.2%) |

| | Nine Months Ended March 31, 2015 | | | 2014 | | |
|--------------|-------------------------------------|-------------------------|----------|----------------|-------------------------|----------|
| | OEM Modules | Enterprise Solutions | Total | OEM Modules | Enterprise Solutions | Total |
| | (In thousands) | | | | | |
| Americas | \$6,358 | \$11,219 | \$17,577 | \$6,005 | \$11,465 | \$17,470 |
| EMEA | 6,474 | 3,447 | 9,921 | 6,184 | 3,855 | 10,039 |
| Asia Pacific | 1,660 | 968 | 2,628 | 1,924 | 1,151 | 3,075 |
| Japan | 1,663 | 926 | 2,589 | 1,892 | 968 | 2,860 |
| | \$16,155 | \$ 16,560 | \$32,715 | \$16,005 | \$ 17,439 | \$33,444 |

OEM Modules

Net revenue from our OEM Modules product line increased primarily as a result of an increase in New Product sales which offset a decline in Legacy Product sales. Specifically, we experienced increased unit sales of the xPico (New) and xPort Pro product families in the Americas and the xPico WiFi (New) product family in the EMEA region. We also saw an increase in the Premierwave EN product family in all regions. The overall increase in net revenue in this product line for the current year-to-date period was partially offset by decreased unit sales of three of our Legacy Product families: (i) Micro in the Americas and Asia Pacific regions, (ii) ASIC in the Americas and EMEA regions and (iii) WiPort in Japan and the Asia Pacific region.

Enterprise Solutions

Net revenue from our Enterprise Solutions product line decreased primarily due to a decrease in our Legacy Products, such as the SLC, SLS, EDS, UDS and xPress and weakness in capital spending that impacted the timing of customer projects. The decrease in Legacy Product sales was partially offset by growth in unit sales for many of our New Products, including the new SLB, EDS-MD, xDirect, PremierWave XN and SLC8000.

Gross Profit

The following table presents fiscal year-to-date gross profit:

| Nine Months Ended March 31, | | | | | |
|------------------------------------|----------|-------|----------|--------|------------------|
| | % of | | % of | Change | |
| | Net | | Net | \$ | % |
| | Revenue | 2014 | Revenue | | |
| (In thousands, except percentages) | | | | | |
| Gross profit | \$15,478 | 47.3% | \$16,726 | 50.0% | \$(1,248) (7.5%) |

Gross margin for the nine months ended March 31, 2015 was lower than the prior year period primarily due to (i) charges for excess inventories of approximately \$480,000 and (ii) product mix as our higher-margin Enterprise Solutions product line contributed at a lower level than the prior year period.

Selling, General and Administrative

The following table presents fiscal year-to-date selling, general and administrative expenses:

| Nine Months Ended March 31, | | | | | |
|------------------------------------|---------|------|---------|--------|----------------|
| | % of | | % of | Change | |
| | Net | | Net | \$ | % |
| | Revenue | 2014 | Revenue | | |
| (In thousands, except percentages) | | | | | |
| Personnel-related expenses | \$7,328 | | \$7,452 | | \$(124) (1.7%) |

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| | | | | | | |
|--|----------|-------|----------|-------|---------|---------|
| Professional fees and outside services | 985 | | 1,053 | | (68) | (6.5%) |
| Advertising and marketing | 1,258 | | 1,430 | | (172) | (12.0%) |
| Travel | 458 | | 461 | | (3) | (0.7%) |
| Facilities | 887 | | 812 | | 75 | 9.2% |
| Share-based compensation | 558 | | 461 | | 97 | 21.0% |
| Depreciation | 180 | | 286 | | (106) | (37.1%) |
| Other | 327 | | 303 | | 24 | 7.9% |
| Selling, general and administrative | \$11,981 | 36.6% | \$12,258 | 36.7% | \$(277) | (2.3%) |

Selling, general and administrative expenses decreased in the current year period primarily due to (i) lower levels of spending on trade shows and outside marketing programs, (ii) lower variable compensation expenses and (iii) a decrease in legal fees.

Research and Development

The following table presents fiscal year-to-date research and development expenses:

| | Nine Months Ended March 31, | | | | | |
|----------------------------|------------------------------------|---------|----------|---------|--------|---------|
| | % of Net | | % of Net | | Change | |
| | 2015 | Revenue | 2014 | Revenue | \$ | % |
| | (In thousands, except percentages) | | | | | |
| Personnel-related expenses | \$3,430 | | \$3,378 | | \$52 | 1.5% |
| Facilities | 561 | | 557 | | 4 | 0.7% |
| Outside services | 610 | | 581 | | 29 | 5.0% |
| Product certifications | 185 | | 173 | | 12 | 6.9% |
| Share-based compensation | 159 | | 166 | | (7) | (4.2%) |
| Other | 200 | | 226 | | (26) | (11.5%) |
| Research and development | \$5,145 | 15.7% | \$5,081 | 15.2% | \$64 | 1.3% |

In total, research and development spending in the current year period was relatively consistent with the prior year period. We experienced an increase in personnel-related expense due to headcount and merit increases, which were partially offset by lower variable compensation expenses in the current year period.

Provision for Income Taxes

The following table presents our effective tax rate based upon our income tax provision:

| | Three Months Ended March 31, 2015 | | Nine Months Ended March 31, 2014 | |
|--------------------|---|-----|--|----|
| Effective tax rate | 1% | 14% | 3% | 8% |

We utilize the liability method of accounting for income taxes. The difference between our effective tax rates and the federal statutory rate resulted primarily from a tax benefit from our domestic losses being recorded with a full valuation allowance, as well as the effect of foreign earnings taxed at rates differing from the federal statutory rate.

We record net deferred tax assets to the extent that we believe these assets will more likely than not be realized. As a result of our cumulative losses and uncertainty of generating future taxable income, we have provided a full valuation allowance against our net deferred tax assets as of March 31, 2015 and June 30, 2014.

Liquidity and Capital Resources

The following table presents details of our working capital and cash and cash equivalents:

| | March 31, 2015 | June 30, 2014 | Decrease |
|---------------------------|----------------------|---------------------|-----------|
| | (In thousands) | | |
| Working capital | \$8,115 | \$8,804 | \$ (689) |
| Cash and cash equivalents | \$5,598 | \$6,264 | \$ (666) |

Our principal sources of cash and liquidity include our existing cash and cash equivalents, amounts available under our credit facility and cash generated from operations. We believe that these sources will be sufficient to fund our

current requirements for working capital, capital expenditures and other financial commitments for at least the next 12 months. We anticipate that the primary factors affecting our cash and liquidity are net revenue, working capital requirements, and capital expenditures.

We recently transitioned the manufacturing of a large portion of our Enterprise Solutions to a new contract manufacturer. In addition, we agreed to purchase unused raw material from the previous contract manufacturer. In February 2015, we secured the repurchase of the raw materials with a \$591,000 letter of credit. The letter of credit was paid in April 2015.

Management defines cash and cash equivalents as highly liquid deposits with original maturities of 90 days or less when purchased. We maintain cash and cash equivalents balances at certain financial institutions in excess of amounts insured by federal agencies. Management does not believe this concentration subjects us to any unusual financial risk beyond the normal risk associated with commercial banking relationships. We frequently monitor the third-party depository institutions that hold our cash and cash equivalents. Our emphasis is primarily on safety of principal and secondarily on maximizing yield on those funds.

Our future working capital requirements will depend on many factors, including the timing and amount of our net revenue, research and development expenses, and expenses associated with any strategic partnerships or acquisitions and infrastructure investments. From time to time, we may seek additional capital from public or private offerings of our capital stock, borrowings under our existing or future credit lines or other sources in order to (i) develop or enhance our products, (ii) take advantage of future opportunities, (iii) respond to competition or (iv) continue to operate our business. If we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. There can be no assurance that we will be able to raise any such capital on terms acceptable to us, if at all.

Loan Agreement

On September 30, 2014, we entered into an amendment (the “Amendment”) to our existing Loan and Security Agreement dated May 23, 2006 (as amended, the “Loan Agreement”) with Silicon Valley Bank (“SVB”). The Amendment provides, among other things, for (i) a renewal of our \$4.0 million revolving line of credit with an extended maturity date of September 30, 2016 and (ii) a modification of the revolving credit line borrowing base formula to include a portion of our foreign accounts receivable to the borrowing base and increase the borrowing limit related to domestic accounts receivable.

The Loan Agreement provides for an interest rate per annum equal to the greater of the prime rate plus 0.75% or 4.0%, provided that we maintain a monthly quick ratio of 1.0 to 1.0 or greater. The quick ratio measures our ability to use our cash and cash equivalents maintained at SVB to extinguish or retire our current liabilities immediately. If this ratio is not met, the interest rate will become the greater of the prime rate plus 1.25% or 4.0%. We maintained a monthly quick ratio greater than 1.0 to 1.0 as of and during the three months ended March 31, 2015.

The Loan Agreement includes a covenant requiring us to maintain a certain Minimum Tangible Net Worth (“Minimum TNW”), which is currently required to be \$6.0 million. This amount is subject to adjustment upward to the extent we raise additional equity or debt financing or achieve net income in future quarters. Our Actual Tangible Net Worth (“Actual TNW”) is calculated as total stockholders’ equity, less goodwill. If we continue to incur net losses, we may have difficulty satisfying the Minimum TNW financial covenant in the future, in which case we may be unable to borrow funds under the Loan Agreement and any amounts outstanding may need to be repaid immediately.

The following table sets forth the Minimum TNW compared to our Actual TNW:

| | |
|-------------|--|
| | March 31, 2015 (In thousands) |
| Minimum TNW | \$ 6,000 |
| Actual TNW | \$ 9,820 |

The following table presents the available borrowing capacity on the revolving line of credit and outstanding letters of credit. To date, we have not used any of the borrowing capacity under the revolving line of credit.

| | March 31, 2015 | June 30, 2014 |
|-------------------------------|-----------------------|---------------------|
| | (In thousands) | |
| Available borrowing capacity | \$2,541 | \$1,721 |
| Outstanding letters of credit | \$755 | \$113 |

In February 2015, we executed a letter of credit with SVB for \$591,000 in connection with the purchase of raw materials from one of our contract manufacturers. We paid for the purchase of such materials in early April 2015. All other outstanding letters of credit at March 31, 2015 and June 30, 2014 were used as security deposits.

Cash Flows

The following table presents the major components of the unaudited condensed consolidated statements of cash flows:

| | Nine Months Ended | | Increase |
|---|----------------------|---------|-------------|
| | March 31, 2015 | 2014 | (Decrease) |
| | (In thousands) | | |
| Net cash provided by (used in) operating activities | \$(259) | \$1,099 | \$ (1,358) |
| Net cash used in investing activities | (474) | (417) | (57) |
| Net cash provided by (used in) financing activities | 67 | (48) | 115 |

Operating Activities

Net cash used by operating activities during the nine months ended March 31, 2015 increased as compared to the prior year period due primarily to (i) a larger net loss and (ii) an increase in inventories from the prior fiscal year-end of approximately \$600,000 as we have built up inventory levels for new products and a transition to a new contract manufacturer. Cash from operations benefited during the quarter ended March 31, 2015 from a customer prepayment of approximately \$255,000.

Our net accounts receivable decreased by approximately \$1.0 million from June 30, 2014 to March 31, 2015 primarily as a result of (i) timing of shipments and (ii) lower net revenue in the quarter ended March 31, 2015 as compared to the quarter ended June 30, 2014.

Investing Activities

Cash used in investing activities was related to capital expenditures for the purchase of property and equipment, primarily related to tooling and test equipment for new product deployment.

Financing Activities

The increase in net cash provided by financing activities was primarily due to net proceeds received from common stock shares issued through stock plans, partially offset by payments for capital leases.

Off-Balance Sheet Arrangements

As part of our ongoing business, we have not participated in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (“SPEs”), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of March 31, 2015, we were not involved in any material unconsolidated SPEs.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company, we are not required to provide the information required by this Item 3.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Report. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2015 in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Changes in internal controls over financial reporting

There have been no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) identified during the three months ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the Form 10-K for a description of our legal proceedings. There have been no material changes to the Company's legal proceedings as disclosed in the Form 10-K.

Item 1A. Risk Factors

For a discussion of the substantial risks and uncertainties that could impact our business, financial condition, results of operations or performance, please see the information listed in the item captioned "Risk Factors" in the Form 10-K. There have been no material changes to the risk factors as disclosed in the Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as part of, or hereby incorporated by reference into, this Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LANTRONIX, INC.

(Registrant)

Date: April 30, 2015 By: /s/ KURT BUSCH

Kurt Busch
President and Chief Executive Officer
(Principal Executive Officer)

Date: April 30, 2015 By: /s/ JEREMY WHITAKER

Jeremy Whitaker
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit Index

The exhibits listed below are hereby filed with the SEC as part of this Report.

| Exhibit Description | Incorporated by Reference Filed | Form Exhibit | Filing Date |
|---|--|--------------|----------------|
| | | | |
| 10.1 Lease dated January 9, 2015 between Lantronix, Inc. and The Irvine Company, LLC | | 8-K 99.1 | 1/20/2015 |
| 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended | X | | |
| 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended | X | | |
| 32.1* Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X | | |
| The following financial information from the Company's Quarterly Report on Form 10-Q, for the period ended March 31, 2015 formatted in XBRL (eXtensible Business Reporting Language): | | | |
| (i) 101.INS BURL Instance Document; | | | |
| (ii) 101.SCH XBRL Taxonomy Extension Schema Document; | | | |
| 101 | (iii) 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document; | X | |
| (iv) 101.DEF XBRL Taxonomy Extension Definition Linkbase Document; | | | |
| (v) 101.LAB XBRL Taxonomy Extension Label Linkbase Document; | | | |
| (vi) 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document. | | | |

* Furnished, not filed.