LANTRONIX INC
Form 10-Q
February 08, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2007

OR

o 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.)

15353 Barranca Parkway, Irvine, California
(Address of principal executive offices)

92618
(Zip Code)

(949) 453-3990
(Registrant's telephone number, including area code)

Former name, former address and former fiscal year, if changed since last report: N/A

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 x No o

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 o Accelerated filer o Non-accelerated filer o (do not check if a smaller reporting company) Smaller reporting company x

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

As of February 05, 2008, 60,133,661 shares of the Registrant's common stock were outstanding.

LANTRONIX, INC.

FORM 10-Q
FOR THE FISCAL QUARTER ENDED
December 31, 2007

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANTRONIX, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2007	June 30, 2007
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,224	$ 7,582
Marketable securities	-	97
Accounts receivable, net	3,260	3,411
Inventories, net	9,963	10,981
Contract manufacturers' receivable	1,001	1,270
Prepaid expenses and other current assets	456	578
Total current assets	21,904	23,919
Property and equipment, net	2,097	1,911
Goodwill	9,488	9,488
Purchased intangible assets, net	435	485
Officer loans	94	129
Other assets	70	26
Total assets	$ 34,088	$ 35,958
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 8,749	$ 11,017
Accrued payroll and related expenses	2,342	1,993
Warranty reserve	342	446
Accrued settlements	1,057	1,068
Other current liabilities	3,541	3,808
Total current liabilities	16,031	18,332
Long-term liabilities	235	256
Long-term capital lease obligations	626	142
Commitments and contingencies		
Stockholders' equity:		
Common stock	6	6
Additional paid-in capital	185,814	184,953
Accumulated deficit	(169,069)	(168,173)
Accumulated other comprehensive income	445	442

Total stockholders' equity		17,196		17,228
Total liabilities and stockholders' equity	$	34,088	$	35,958

See accompanying notes.

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LANTRONIX, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
	(In thousands, except per share data)			
Net revenues (1)	$ 15,277	$ 14,829	$ 28,331	$ 27,343
Cost of revenues (2)	7,414	7,429	14,027	13,336
Gross profit	7,863	7,400	14,304	14,007
Operating expenses:				
Selling, general and administrative	5,331	6,057	11,610	11,555
Research and development	1,758	1,882	3,526	3,600
Litigation settlement costs	-	75	-	90
Amortization of purchased intangible assets	18	18	36	36
Total operating expenses	7,107	8,032	15,172	15,281
Income (loss) from operations	756	(632)	(868)	(1,274)
Interest (expense) income, net	(61)	1	(80)	7
Other income, net	120	730	131	727
Income (loss) before income taxes	815	99	(817)	(540)
(Benefit) Provision for income taxes	(168)	12	(147)	24
Net Income (loss)	$ 983	$ 87	$ (670)	$ (564)
Basic - net income (loss) per share	$ 0.02	$ 0.00	$ (0.01)	$ (0.01)
Diluted - net income (loss) per share	$ 0.02	$ 0.00	$ (0.01)	$ (0.01)
Basic - weighted average shares	60,088	59,562	60,015	59,413
Diluted - weighted average shares	60,542	60,196	60,015	59,413
(1) Includes net revenues from related party	$ 211	$ 302	$ 502	$ 581
(2) Includes amortization of purchased intangible assets	$ 8	$ 4	$ 13	$ 6

See accompanying notes.

LANTRONIX, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31,	
	2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net Loss	$ (670)	$ (564)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	641	635
Provision for inventories	314	(70)
Depreciation and amortization	267	194
Gain on sale of investment	(104)	(700)
Amortization of purchased intangible assets	50	42
Provision for officer loan	35	-
(Recovery) Provision for doubtful accounts	(3)	20
Litigation settlement costs	-	90
Changes in operating assets and liabilities:		
Accounts receivable	148	(401)
Inventories	704	(345)
Contract manufacturers' receivable	269	16
Prepaid expenses and other current assets	135	(25)
Other assets	(17)	(6)
Accounts payable	(2,272)	1,272
Accrued payroll and related expenses	333	304
Accrued settlements	-	(400)
Warranty reserve	(104)	(219)
Other liabilities	(195)	(617)
Net cash used in operating activities	(469)	(774)
Cash flows from investing activities:		
Purchases of property and equipment, net	(252)	(271)
Proceeds from the sale of investment	104	700
Net cash (used) provided in investing activities	(148)	429
Cash flows from financing activities:		
Net proceeds from issuances of common stock	220	395
Payment of capital lease obligations	(69)	(78)
Net cash provided by financing activities	151	317
Effect of foreign exchange rate changes on cash	108	43
Increase (decrease) in cash and cash equivalents	(358)	15
Cash and cash equivalents at beginning of period	7,582	7,729
Cash and cash equivalents at end of period	$ 7,224	$ 7,744

See accompanying notes.

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LANTRONIX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Lantronix, Inc. (the “Company” or “Lantronix”) have been prepared by the Company in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of 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, 2007, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on September 11, 2007. They contain all normal recurring accruals and adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at December 31, 2007, and the consolidated results of its operations and cash flows for the three and six months ended December 31, 2007 and 2006. 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, 2007 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

2. Computation of Net Income (Loss) per Share

Basic and diluted net income (loss) per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the year.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
	(In thousands, except per share data)			
Numerator:				
Net Income (loss)	$ 983	$ 87	$ (670)	$ (564)
Denominator:				
Basic weighted-average shares outstanding	60,088	59,562	60,015	59,413
Effect of dilutive shares:				
Stock options	454	634	-	-
Diluted weighted-average shares	60,542	60,196	60,015	59,413
Basic - net income (loss) per share	$ 0.02	$ 0.00	$ (0.01)	$ (0.01)
Diluted - net income (loss) per share	$ 0.02	$ 0.00	$ (0.01)	$ (0.01)

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

dilutive in the future.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Common stock equivalents	1,326,975	1,682,991	2,001,466	2,500,146

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3. Inventories

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

	December 31, 2007	June 30, 2007
	(In thousands)	
Finished goods	$ 6,727	$ 7,848
Raw materials	1,906	2,653
Inventory at distributors	1,832	1,876
Large scale integration chips *	2,207	1,530
Inventories, gross	12,672	13,907
Reserve for excess and obsolete inventory	(2,709)	(2,926)
Inventories, net	$ 9,963	$ 10,981

* This item is sold individually and embedded into the Company's products.

4. Warranty

Upon shipment to its customers, the Company provides for the estimated cost to repair or replace products to be returned under warranty. The Company's products typically carry a one- to two-year warranty. In addition, certain products that were sold prior to August 2003 carry a five-year warranty. Although the Company engages in extensive product quality programs and processes, its warranty obligation is affected by product failure rates, use of materials or service delivery costs that differ from the Company's estimates. As a result, additional warranty reserves could be required, which could reduce gross margins. Additionally, the Company sells extended warranty services, which extend the warranty period for an additional one to three years depending upon the product.

The following table is a reconciliation of the changes to the product warranty liability for the periods presented:

	Six Months Ended December 31, 2007	Year Ended June 30, 2007
	(In thousands)	
Beginning balance	$ 446	$ 693
Charged to cost of revenues	93	107
Usage	(197)	(354)
Ending balance	$ 342	$ 446

5. Bank Line of Credit and Debt

In May 2006, the Company entered into a two-year secured revolving Loan and Security Agreement ("Line of Credit") with a bank, which provides for borrowings up to $5.0 million. The borrowing capacity is limited to eligible accounts receivable as defined under the Line of Credit. Borrowings under the Line of Credit bear interest at the prime rate plus 1.75% per annum. The Company is required to pay an unused line fee of 0.50% on the unused portion of the Line of Credit. In addition, the Company paid a fully earned, non-refundable commitment fee of $54,000 and paid an additional $54,000 on the first anniversary of the effective date of the Line of Credit.

The Company's obligations under the Line of Credit are secured by substantially all of the Company's assets, including its intellectual property.

The Company is subject to a number of covenants under the Line of Credit, pursuant to which, among other things, the Company has agreed that it will not, without the bank's prior written consent: (a) sell, lease, transfer or otherwise dispose, any of the Company's business or property, provided, however, that the Company may sell inventory in the ordinary course of business consistent with the provisions of the Line of Credit; (b) change the Company's business structure, liquidate or dissolve, or permit a change in beneficial ownership of more than 20% of the outstanding shares; (c) acquire, merge or consolidate with or into any other business organization; (d) incur any debts outside the ordinary course of the Company's business, except for permitted indebtedness, or grant any security interests in or permit a lien, claim or encumbrance upon all or any portion of the Company's assets, except in favor of or agreed to by the bank; (f) make any investments other than permitted investments; (g) make or permit any payments on any subordinated debt, except under the terms of existing subordinated debt or on terms acceptable to the bank, or amend any provision in any document related to the subordinated debt that would increase the amount thereof, or (h) become an "investment company" as such term is defined under the Investment Company Act of 1940. The Line of Credit also contains a number of affirmative covenants, including, among other things, covenants regarding the delivery of financial statements and notice requirements, accounts receivable, payment of taxes, access to collateral and books and records, maintenance of properties and insurance policies, and litigation by third parties.

The Line of Credit includes events of default that include, among other things, non-payment of principal, interest or fees, violation of affirmative and negative covenants, cross default to certain other indebtedness, material adverse change, material judgments, bankruptcy and insolvency events.

As of December 31, 2007, the Company had no borrowings against the Line of Credit.

6. Share-Based Compensation

The following table presents a summary of option activity under the Company’s stock option plans:

	Number of Shares
Balance of options outstanding at June 30, 2007	5,891,896
Options granted	375,750
Options forfeited	(909,800)
Options expired	(132,500)
Options exercised	(124,396)
Balance of options outstanding at December 31, 2007	5,100,950

The following table presents stock option grant date information:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Weighted-average grant date fair value	$ 0.73	$ 1.18	$ 0.78	$ 1.22
Weighted-average grant date exercise price	$ 0.98	$ 1.54	$ 1.05	$ 1.57

The following table presents a summary of share-based compensation by functional line item:

	Three Months Ended December 31,	Six Months Ended December 31,

	2007	2006	2007	2006
	(In thousands)			
Cost of revenues	$ 26	$ 24	$ 53	$ 36
Selling, general and administrative	132	202	402	411
Research and development	74	96	186	188
Total share-based compensation	$ 232	$ 322	$ 641	$ 635

7. Income Taxes

On July 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109” (“FIN 48”). In connection with the adoption of FIN 48, the Company recognized an adjustment of approximately $226,000 to the beginning balance of accumulated deficit on its consolidated balance sheet. The Company’s continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2007, the Company had recorded $156,000 of uncertain tax positions including approximately $70,000 of accrued interest and penalties related to these uncertain tax positions.

At July 1, 2007, the Company's fiscal 2001 through fiscal 2007 tax years remain open to examination by Federal and state taxing authorities. However, the Company has net operating losses ("NOLs") beginning in fiscal 2001 which would cause the statute of limitations to remain open for the year in which the NOL was incurred.

The Company utilizes the liability method of accounting for income taxes. The following table presents the Company's effective tax rates based upon the income tax provision for the periods shown:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Effective tax rate	21%	12%	18%	4%

The federal statutory rate was 34% for all periods. The tax benefit during the fiscal quarter ended December 31, 2007 is the result of a reduction in estimated foreign taxes and penalties. The difference between our effective tax rate and the federal statutory rate resulted primarily from the effect of our domestic losses recorded without a tax benefit, as well as the effect of foreign earnings taxed at rates differing from the federal statutory rate.

8. Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
	(In thousands)			
Net Income (loss)	$ 983	$ 87	$ (670)	$ (564)
Other comprehensive income (loss):				
Change in net unrealized gain on investment, net of taxes of $0	8	2	7	8
Reclassification adjustment for net realized gain on sale of investment	(96)	-	(97)	-
Change in translation adjustments, net of taxes of $0	29	53	100	39
Total comprehensive income (loss)	$ 924	$ 142	$ (660)	$ (517)

9. Litigation Settlements

Securities Litigation Settlements

Securities Class Action Lawsuits ("Class Action")

Beginning on May 15, 2002, a number of securities class actions were filed against the Company and certain of its current and former directors and former officers alleging violations of the federal securities laws. These actions were consolidated into a single action pending in the United States District Court for the Central District of California entitled In re Lantronix, Inc. Securities Litigation, Case No. CV 02-3899 GPS (JTLx). After the Court appointed a

lead plaintiff, amended complaints were filed by the plaintiff, and the defendants filed various motions to dismiss directed at particular allegations. Through that process, certain of the allegations were dismissed by the Court.

On October 18, 2004, the plaintiff filed the third amended complaint, which was the operative complaint in the action. The complaint alleged violations of Sections 11 and 15 of the Securities Act of 1933, as amended (the "Securities Act") and violations of Sections 10(b) and 20(a) and Rule 10b-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Securities Act claims were brought on behalf of all persons who purchased common stock of Lantronix pursuant or traceable to the Company's August 4, 2000 initial public offering ("IPO"). The Exchange Act claims were based on alleged misstatements related to the Company's financial results that were contained in the Registration Statement and Prospectus for the IPO. The claims brought under the Exchange Act were brought on behalf of all persons and entities that purchased or acquired Lantronix securities from November 1, 2000 through May 30, 2002 (the "Class Period"). The complaint alleged that defendants issued false and misleading statements concerning the business and financial condition in order to allegedly inflate the value of the Company's securities during the Class Period. The complaint alleged that during the Class Period, Lantronix overstated financial results through improper revenue recognition and failure to comply with GAAP.

The Company reached an agreement with plaintiffs to settle the Class Action lawsuit. The Company also reached agreements with its relevant insurance carriers with respect to the funding of the cash portions of the settlement with plaintiffs, and the cash funding of the settlement has been completed. Under the terms of the agreement with the Class Action plaintiffs, the Company was not required to contribute any cash to the Class Action settlement, as all cash contributed would be from the Company's insurance carriers. However, as part of the agreement with the plaintiffs in the Class Action lawsuit, the Company agreed to issue certain Lantronix securities to the plaintiffs. As a result of the anticipated issuance of such securities, and in connection with the issuance of securities for the settlement of the Synergetic action described in detail in previous filings, the Company recorded a charge of $1.2 million in the consolidated statement of operations for the fiscal year ended June 30, 2006. On December 11, 2006, the United States District Court for the Central District of California gave its final approval to the settlement and issued a final order and judgment in the matter. During the fiscal quarter ended December 31, 2006, the insurance carriers funded their share of the settlement, which totaled $13.9 million. On January 10, 2007, the settlement of the Company's securities litigation became final and effective. During the fiscal quarter ended March 31, 2007, the Company reduced its accrued settlement liability and settlement recovery by $13.9 million in connection with the settlement becoming final and effective. As of December 31, 2007, the Company had an accrued settlement liability of $1.1 million. The Company expects to issue warrants to purchase Lantronix common stock with a fair value of $1.1 million to the class action plaintiffs as final consideration for the remaining settlement liability. Per the terms of the settlement agreement, the number of shares to be issued pursuant to the warrants shall be determined by using the Black-Scholes model option-pricing formula using a contract life of four years and a strike price of $3 above the average trading price of the Company's common stock over the 45 trading days ending two trading days prior to the issuance date (20 days after the settlement date) of the warrants. The escrow administrator for the settlement has provided the Company with a final list of the eligible class action plaintiffs, and the Company will issue the warrants after the Court approves an application brought by the class action plaintiffs on January 28, 2008, for the disbursement of the settlement funds to class members. The Company expects the Court to rule on the application and the warrants to be issued during fiscal 2008.

10. Litigation

From time to time, the Company is subject to other legal proceedings and claims in the ordinary course of business. Except as discussed in Note 9, the Company is currently not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, prospects, financial position, operating results or cash flows.

During 2006, the Company concluded multiple securities lawsuits and litigation with a former executive officer. The Company may have an obligation to continue to indemnify the former executive officer and defend the securities violation that he has been charged with. There is a risk that the Company's insurance carriers may not reimburse us for such costs. Accordingly, legal expenses for this former executive officer's defense are recorded as incurred and reimbursement of the legal expenses from insurance are recorded upon receipt. As of December 31, 2007, the Company had $151,000 of reimbursable legal expenses recorded as a liability on its consolidated balance sheets.

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

Cautionary Statement

You should read the following discussion and analysis in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained elsewhere in this Quarterly Report on Form 10-Q. The information contained in this Quarterly Report is not a complete description of our business. We urge you to carefully review and consider the various disclosures made by us in this Quarterly Report and in our other reports

filed with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the fiscal year ended June 30, 2007 and subsequent reports on our Current Reports on Form 8-K.

This Quarterly Report contains forward-looking statements which include, but are not limited to, statements concerning projected net revenues, expenses, gross profit and net income (loss), the need for additional capital, market acceptance of our products, our ability to achieve further product integration, the status of evolving technologies and their growth potential and our production capacity. Among these forward-looking statements are statements regarding a potential decline in net revenue from non-core product lines, potential variances in quarterly operating expenses, the adequacy of existing resources to meet cash needs, some reduction in the average selling prices and gross margins of products, need to incorporate software from third-party vendors and open source software in our future products and the potential impact of an increase in interest rates or fluctuations in foreign exchange rates on our financial condition or results of operations. These forward-looking statements are based on our current expectations, estimates and projections about our industry, our beliefs and certain assumptions made by us. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of these words or similar expressions are inte to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, including but not limited to those identified under the heading "Risk Factors" set forth in Part II, Item 1A hereto. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

We design, develop and market devices that make it possible to access, manage, control and configure electronic products over the Internet or other networks. We are a leader in providing innovative networking solutions. We were initially formed as “Lantronix,” a California corporation, in June 1989. We reincorporated as “Lantronix, Inc.,” a Delaware corporation, in May 2000.

We have a history of providing devices that enable information technology (“IT”) equipment to network using standard protocols for connectivity, including Ethernet and wireless. Our first device was a terminal server that allowed “dumb” terminals to connect to a network. Building on the success of our terminal servers, in 1991 we introduced a complete line of print servers that enabled users to inexpensively share printers over a network. Since then, we have continually refined our core technology and have developed additional innovative networking solutions that expand upon the business of providing our customers network connectivity. With the expansion of networking and the Internet, our technology focus has been increasingly expanded beyond IT equipment, so that our device solutions provide a product manufacturer with the ability to network its products within the industrial, service and commercial markets referred to as machine-to-machine (“M2M”) networking.

The following describes our device networking product lines:

- Device Enablement – We offer an array of embedded and external device enablement solutions that enable integrators and manufacturers of electronic and electro-mechanical products to add network connectivity, manageability and control. Our customers’ products originate from a wide variety of applications within the M2M market, from blood analyzers that relay critical patient information directly to a hospital’s information system, to simple devices such as time clocks, allowing the user to obtain information from these devices and to improve how they are managed and controlled. We also offer products such as multi-port device servers that enable devices outside the data center to cost effectively share the network connection and convert various protocols to industry standard interfaces such as Ethernet and the Internet.

- Device Management –We offer off-the-shelf appliances such as console servers, digital remote keyboard, video, mouse extenders, and power control products that enable IT professionals to remotely connect, monitor and control network infrastructure equipment, distributed branch office equipment and large groups of servers using highly secure out-of-band management technology. In addition, we offer off-the-shelf appliances that enable IT professionals to reliably, remotely and simply monitor, configure and manage multiple devices from a single point of control.

The following describes our non-core product line:

- Non-core – Over the years, we have innovated or acquired various product lines that are no longer part of our primary, core markets described above. In general, these non-core businesses represent decreasing markets and we minimize research and development in these product lines. Included in this category are terminal servers, visualization solutions, legacy print servers, software and other miscellaneous products. We have announced the end-of-life for almost all of our non-core products and expect a steep decline in non-core revenues in fiscal 2008 while we complete the exit of this product category.

Financial Highlights and Other Information for the Three Months Ended December 31, 2007

The following is a summary of the key factors and significant events that impacted our financial performance during the three months ended December 31, 2007:

- Net revenues were $15.3 million for the three months ended December 31, 2007, an increase of $448,000 or 3.0% as compared to $14.8 million for the three months ended December 31, 2006. The increase was primarily the result of a $767,000 or 5.7% increase in our device networking product lines offset by a $319,000, or 22.2% decrease in our non-core product lines.

- Gross profit as a percentage of net revenues was 51.5% for the three months ended December 31, 2007 as compared to 49.9% reported for the three months ended December 31, 2006. The increase in gross profit margin percent was primarily attributable to a favorable product mix and inventory overhead absorption offset by an increase in certain inventory reserves in connection with a review of our product offerings as part of our effort to simplify our product portfolio by discontinuing slow-moving and non-strategic products.

- Income from operations was $756,000, or 4.9%, of net revenues for the three months ended December 31, 2007 as compared to a loss from operations of $632,000, or 4.3%, of net revenues for the three months ended December 31, 2006.

- Net income of $1.0 million, or $0.02 per basic and diluted share, for the three months ended December 31, 2007, increased from a net income of $87,000, or $0.00 per basic and diluted share, for the three months ended December 31, 2006. Net income for the quarter ended December 31, 2006 was significantly impacted by the $700,000 of income recognized on the sale of our investment in Xanboo.

- Cash, cash equivalents and marketable securities were $7.2 million as of December 31, 2007 as compared to $7.7 million as of June 30, 2007.

- Net accounts receivable were $3.3 million as of December 31, 2007 as compared to $3.4 million as of June 30, 2007. Annualized days sales outstanding ("DSO") in receivables as of December 31, 2007 decreased to 20 days from 21 days as of June 30, 2007. Our accounts receivable and DSO are primarily affected by the timing of shipments within a quarter, our collections performance and the fact that a significant portion of our revenues are recognized on a sell-through basis (upon shipment from distributor inventories rather than as goods are shipped to distributors).

- Net inventories were $10.0 million as of December 31, 2007 as compared to $11.0 million as of June 30, 2007. Our annualized inventory turns remained constant at 2.8 annualized turns for the fiscal quarter ended December 31, 2007 as compared to the fiscal quarter ended June 30, 2007.

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, goodwill and purchased intangible assets and legal settlement costs. These policies are described in further detail in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007. There have been no significant changes in our critical accounting policies and estimates during the six months ended December 31, 2007 as compared to what was previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

Recent Accounting Pronouncements

Recent accounting pronouncements issued by the Financial Accounting Standards Board (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

Consolidated Results of Operations

The following table presents the percentage of net revenues represented by each item in our condensed consolidated statement of operations:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	48.5%	50.1%	49.5%	48.8%
Gross profit	51.5%	49.9%	50.5%	51.2%
Operating expenses:				
Selling, general and administrative	34.9%	40.8%	41.0%	42.3%
Research and development	11.5%	12.7%	12.4%	13.2%
Litigation settlement costs	0.0%	0.5%	0.0%	0.3%
Amortization of purchased intangible assets	0.1%	0.1%	0.1%	0.1%
Total operating expenses	46.5%	54.2%	53.6%	55.9%
Income (loss) from operations	4.9%	(4.3%)	(3.1%)	(4.7%)
Interest (expense) income, net	(0.4%)	0.0%	(0.3%)	0.0%
Other income, net	0.8%	4.9%	0.5%	2.7%
Income (loss) before income taxes	5.3%	0.7%	(2.9%)	(2.0%)
(Benefit) Provision for income taxes	(1.1%)	0.1%	(0.5%)	0.1%
Net Income (loss)	6.4%	0.6%	(2.4%)	(2.1%)

Comparison of the Three and Six Months Ended December 31, 2007 and 2006

Net Revenues by Product Line

The following table presents net revenues by product line:

	Three Months Ended December 31,				Change	
	2007	% of Net Revenues	2006	% of Net Revenues	$	%
	(In thousands, except percentages)					
Device enablement	$ 11,285	73.9%	$ 10,833	73.1%	$ 452	4.2%
Device management	2,875	18.8%	2,560	17.3%	315	12.3%
Device networking	14,160	92.7%	13,393	90.4%	767	5.7%
Non-core	1,117	7.3%	1,436	9.6%	(319)	(22.2%)
Net revenues	$ 15,277	100.0%	$ 14,829	100.0%	$ 448	3.0%

The increase in net revenues for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006 was the result of an increase in net revenues from our device enablement and device management product lines, offset by a decrease in our non-core product lines. The increase in our device enablement product lines was primarily due to an increase in our external device enablement products. We are no longer investing in the development of our non-core product lines and expect net revenues related to these products to continue to decline in the future as we focus our investment on our device networking product lines.

The following table presents net revenues by product line:

	Six Months Ended December 31,				
		% of Net		% of Net	Change	
	2007	Revenue	2006	Revenue	$	%
	(In thousands, except percentages)					
Device enablement	$ 21,114	74.5%	$ 19,836	72.5%	$ 1,278	6.4%
Device management	4,826	17.0%	4,274	15.6%	552	12.9%
Device networking	25,940	91.5%	24,110	88.1%	1,830	7.6%
Non-core	2,391	8.5%	3,233	11.9%	(842)	(26.0%)
Net revenues	$ 28,331	100.0%	$ 27,343	100.0%	$ 988	3.6%

The increase in net revenues for the six months ended December 31, 2007 as compared to the six months ended December 31, 2006 was the result of an increase in net revenues from our device enablement and device management product lines, offset by a decrease in our non-core product lines. The increase in our device enablement product lines was primarily due to an increase in our external device enablement products. We are no longer investing in the development of our non-core product lines and expect net revenues related to these products to continue to decline in the future as we focus our investment on our device networking product lines.

Net Revenues by Region

The following table presents net revenues by geographic region:

	Three Months Ended December 31,					
		% of Net		% of Net	Change	
	2007	Revenues	2006	Revenues	$	%
	(In thousands, except percentages)					
Americas	$ 8,908	58.3%	$ 9,573	64.6%	$ (665)	(6.9%)
EMEA	4,125	27.0%	3,720	25.1%	405	10.9%
Asia Pacific	2,244	14.7%	1,536	10.3%	708	46.1%
Net revenues	$ 15,277	100.0%	$ 14,829	100.0%	$ 448	3.0%

The increase in net revenues for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006 was primarily a result of an increase in net revenues in the Asia Pacific and EMEA ("Europe, Middle East and Africa") regions offset by a decrease in the Americas region. The increase in net revenues in Asia Pacific region was primarily attributable to an increase in our device enablement and device management product lines. The increase in net revenues in the EMEA region was primarily attributable to an increase in sales of our device enablement product lines. The decrease in the Americas region was primarily due to a decrease in the device enablement and non-core product lines offset by an increase in the device management product line.

The following table presents net revenues by geographic region:

	Six Months Ended December 31,				
		% of Net		% of Net	Change

	2007	Revenue	2006	Revenue	$	%
	(In thousands, except percentages)					
Americas	$ 16,843	59.5%	$ 17,229	63.0%	$ (386)	(2.2%)
EMEA	7,510	26.5%	6,711	24.5%	799	11.9%
Asia Pacific	3,978	14.0%	3,403	12.5%	575	16.9%
Net revenues	$ 28,331	100.0%	$ 27,343	100.0%	$ 988	3.6%

The increase in net revenues for the six months ended December 31, 2007 as compared to the six months ended December 31, 2006 was primarily a result of an increase in net revenues in the EMEA and Asia Pacific regions offset by a decrease in the Americas region. The increase in net revenues in the EMEA region was primarily attributable to an increase in sales of our device enablement product lines. The increase in net revenues in Asia Pacific region was primarily attributable to an increase in our device enablement and device management product lines offset by a decrease in our non-core product line. The decrease in the Americas region was primarily due to a decrease in the device enablement and non-core product lines offset by an increase in the device management product line.

Gross Profit

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

The following table presents gross profit:

	Three Months Ended December 31,				Change	
	2007	% of Net Revenues	2006	% of Net Revenues	$	%
	(In thousands, except percentages)					
Gross profit	$ 7,863	51.5%	$ 7,400	49.9%	$ 463	6.3%

The increase in gross profit margin percent was primarily attributable to a favorable product mix and inventory overhead absorption offset by an increase in certain inventory reserves in connection with a review of our product offerings as part of our effort to simplify our product portfolio by discontinuing slow-moving and non-strategic products.

The following table presents gross profit:

	Six Months Ended December 31,				Change	
	2007	% of Net Revenues	2006	% of Net Revenues	$	%
	(In thousands, except percentages)					
Gross profit	$ 14,304	50.5%	$ 14,007	51.2%	$ 297	2.1%

The decrease in gross profit margin percent was primarily attributable to an increase in certain inventory reserves in connection with a review of our product offerings as part of our effort to simplify our product portfolio by discontinuing slow-moving and non-strategic products partially offset by a favorable product mix and inventory overhead absorption.

Selling, General and Administrative

Selling, general and administrative expenses consisted of personnel-related expenses including salaries and commissions, share-based compensation, facility expenses, information technology, trade show expenses, advertising, and legal and accounting fees offset by reimbursement of legal fees from insurance proceeds.

The following table presents selling, general and administrative expenses:

Three Months Ended December 31,				Change	
2007	% of Net Revenues	2006	% of Net Revenues	$	%
(In thousands, except percentages)					
$ 2,922		$ 3,189		$ (267)	(8.4%)

Personnel-related expenses								
Professional fees & outside services		768			847			(79)	(9.3%)
Advertising and marketing		663			842			(179)	(21.3%)
Facilities		389			477			(88)	(18.4%)
Share-based compensation		132			202			(70)	(34.7%)
Depreciation		93			66			27	40.9%
Other		364			434			(70)	(16.1%)
Selling, general and administrative	$	5,331	34.9%	$	6,057	40.8%	$	(726)	(12.0%)

In order of significance, the decrease in selling, general and administrative expenses for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006 was primarily due to: (i) decreased personnel-related expenses as a result of the departure of the former president and chief executive officer and other former employees in the previous quarter, (ii) a decrease in advertising and marketing spending due to the timing of product launches and more focused marketing spending.

The following table presents selling, general and administrative expenses:

	Six Months Ended December 31,					
	2007	% of Net Revenues	2006	% of Net Revenues	Change $	%
	(In thousands, except percentages)					
Personnel-related expenses	$ 6,585		$ 6,050		$ 535	8.8%
Professional fees & outside services	1,476		1,605		(129)	(8.0%)
Advertising and marketing	1,321		1,587		(266)	(16.8%)
Facilities	772		1,017		(245)	(24.1%)
Share-based compensation	402		411		(9)	(2.2%)
Depreciation	176		143		33	23.1%
Other	878		742		136	18.3%
Selling, general and administrative	$ 11,610	41.0%	$ 11,555	42.3%	$ 55	0.5%

In order of significance, the increase in selling, general and administrative expenses for the six months ended December 31, 2007 as compared to the six months ended December 31, 2006 was primarily due to: (i) increased personnel-related expenses as a result of severance charges related to the departure of the former president and chief executive officer and other former employees; offset by (ii) a decrease in advertising and marketing spending due to the timing of product launches and more focused marketing spending and (iii) a decrease in insurance and other allocated facility costs.

Research and Development

Research and development expenses consisted of personnel-related expenses including share-based compensation, as well as expenditures to third-party vendors for research and development activities.

The following table presents research and development expenses:

	Three Months Ended December 31,					
	2007	% of Net Revenues	2006	% of Net Revenues	Change $	%
	(In thousands, except percentages)					
Personnel-related expenses	$ 1,333		$ 1,339		$ (6)	(0.4%)
Facilities	216		148		68	45.9%
Professional fees & outside services	53		137		(84)	(61.3%)
Share-based compensation	74		96		(22)	(22.9%)
Depreciation	14		11		3	27.3%
Other	68		151		(83)	(55.0%)

Research and development	$	1,758	11.5%	$	1,882	12.7%	$	(124)	(6.6%)

Total research and development expenses for the three months ended December 31, 2007 remained consistent compared to the three months ended December 31, 2006.

The following table presents research and development expenses:

	Six Months Ended December 31,								
			% of Net			% of Net	Change		
		2007	Revenues		2006	Revenues	$		%
	(In thousands, except percentages)								
Personnel-related expenses	$	2,588		$	2,613		$	(25)	(1.0%)
Facilities		428			314			114	36.3%
Professional fees & outside services		134			218			(84)	(38.5%)
Share-based compensation		186			188			(2)	(1.1%)
Depreciation		26			20			6	30.0%
Other		164			247			(83)	(33.6%)
Research and development	$	3,526	12.4%	$	3,600	13.2%	$	(74)	(2.1%)

Total research and development expenses for the six months ended December 31, 2007 remained consistent compared to the six months ended December 31, 2006.

Provision for Income Taxes

On July 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). In connection with the adoption of FIN 48, we recognized an adjustment of approximately $226,000 to the beginning balance of accumulated deficit on our consolidated balance sheet. Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2007, we had recorded $156,000 of uncertain tax positions including approximately $70,000 of accrued interest and penalties related to uncertain tax positions.

At July 1, 2007, our fiscal 2001 through fiscal 2007 tax years remain open to examination by the Federal and state taxing authorities. However, we have net operating losses ("NOLs") beginning in fiscal 2001 which would cause the statute of limitations to remain open for the year in which the NOL was incurred.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Effective tax rate	21%	12%	18%	4%

We utilize the liability method of accounting for income taxes as set forth in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The tax benefit during the fiscal quarter ended December 31, 2007 is the result of a reduction in estimated foreign taxes and penalties. The federal statutory rate was 34% for all periods. The difference between our effective tax rate and the federal statutory rate resulted primarily from the effect of our domestic losses recorded without a tax benefit, 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 we believe these assets will more likely than not be realized. As a result of our cumulative losses, we provided a full valuation allowance against our domestic net deferred tax assets for the fiscal quarters ended December 31, 2007 and 2006.

Other Income, Net

Other income, net consists of gains (losses) on the sale of investments, foreign currency transactions and the disposal of fixed assets.

The following tables present other income, net:

	Three Months Ended December 31,				Change	
	2007	% of Net Revenues	2006	% of Net Revenues	$	%
	(In thousands, except percentages)					
Other income, net	$ 120	0.8%	$ 730	4.9%	$ (610)	(83.6%)

	Six Months Ended December 31,					
		% of Net		% of Net	Change	
	2007	Revenues	2006	Revenues	$	%
	(In thousands, except percentages)					
Other income, net	$ 131	0.5%	$ 727	2.7%	$ (596)	(82.0%)

The decrease in other income, net for the three and six months ended December 31, 2007 as compared to the three and six months ended December 31, 2006 is primarily due to $700,000 of income recognized on the sale of our investment in Xanboo during December of 2006. The decrease was partially offset by the sale of our marketable securities of approximately $104,000 in the six months ended December 31, 2007.

Liquidity and Capital Resources

Since inception through fiscal 2007, we have financed our operations primarily through the issuance of common stock and operating activities. We refer to the sum of cash and cash equivalents and marketable securities as "cash" for the purposes of discussing our cash balance and liquidity.

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

	December 31, 2007	June 30, 2007	Increase (Decrease)
	(In thousands)		
Working capital	$ 5,873	$ 5,587	$ 286
Cash and cash equivalents	$ 7,224	$ 7,582	$ (358)
Marketable securities	-	97	(97)
Total cash, cash equivalents and marketable securities	$ 7,224	$ 7,679	$ (455)

Our cash balance decreased compared to prior year end as a result of our cash management activities, which included the timing of cash payments to our vendors and the timing of cash receipts from our customers.

We believe that our existing cash, cash equivalents, marketable securities and funds available from our line of credit will be adequate to meet our anticipated cash needs through at least the next 12 months. Our future capital requirements will depend on many factors, including the timing and amount of our net revenues, research and development, expenses associated with any strategic partnerships or acquisitions and infrastructure investments, and expenses related to government investigations and litigation, which could affect our ability to generate additional cash. If cash generated from operations and financing activities is insufficient to satisfy our working capital requirements, we may need to raise capital by borrowing funds through bank loans, the selling of securities or other means. There can be no assurance that we will be able to raise any such capital on terms acceptable to us, if at all. If we are unable to secure additional financing, we may not be able to develop or enhance our products, take advantage of future opportunities, respond to competition or continue to operate our business.

In May 2006, we entered into a two-year secured revolving Loan and Security Agreement ("Line of Credit") with a bank, which provides for borrowings up to $5.0 million. The borrowing capacity is limited to eligible accounts receivable as defined under the Line of Credit. Borrowings under the Line of Credit bear interest at the prime rate plus 1.75% per annum. We are required to pay an unused line fee of 0.50% on the unused portion of the Line of Credit. As of December 31, 2007 and June 30, 2007, we had no borrowings against the Line of Credit.

The following table presents our available borrowing capacity and outstanding letters of credit, which were used to secure equipment leases, deposits for a building lease and security deposits:

	December 31, 2007	June 30, 2007
	(In thousands)	
Available borrowing capacity	$ 2,835	$ 3,462
Outstanding letters of credit	$ 1,280	$ 1,280

As of December 31, 2007 and June 30, 2007, approximately $1.1 million and $2.0 million, respectively, of our cash was held in foreign subsidiary bank accounts. Such cash is unrestricted with regard to foreign liquidity needs; however, our ability to utilize a portion of this cash to satisfy liquidity needs outside of such foreign locations is subject to approval by the foreign location board of directors.

Cash Flows

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
	(In thousands)			
Net cash provided by (used in):				
Net Income (loss)	$ 983	$ 87	$ (670)	$ (564)
Non-cash operating expenses, net	468	(257)	1,200	211
Changes in operating assets and liabilities:	-			
Accounts receivable	(1,286)	(735)	148	(401)
Inventories	328	777	704	(345)
Contract manufacturers' receivable	250	(352)	269	16
Prepaid expenses and other current assets	59	(50)	135	(25)
Other assets	(16)	(3)	(17)	(6)
Accounts payable	108	(685)	(2,272)	1,272
Accrued payroll and related expenses	130	517	333	304
Accrued settlements	-	-	-	(400)
Warranty reserve	(31)	(21)	(104)	(219)
Other liabilities	(872)	124	(195)	(617)
Net cash provided (used) in operating activities	121	(598)	(469)	(774)
Net cash (used) provided in investing activities	(22)	433	(148)	429
Net cash provided by financing activities	2	166	151	317
Effect of foreign exchange rate changes on cash	34	56	108	43
Increase (decrease) in cash and cash equivalents	$ 135	$ 57	$ (358)	$ 15

Operating activities provided cash during the three months ended December 31, 2007. This was the result of net income and, non-cash operating expenses, which was offset by cash used in operating assets and liabilities. The non-cash items that had a significant impact on net income included share-based compensation, depreciation, provisions for inventories and a gain on the sale of marketable securities. In order of significance, the changes in operating assets and liabilities that had a significant impact on the cash provided by operating activities included (i) an increase in net accounts receivable due to the timing of collections and linearity of sales, and (ii) an increase in other liabilities as a result of increase in customer prepayments; offset by (iii) a decrease in inventory and contract manufactures' receivable.

Operating activities used cash during the three months ended December 31, 2006. This was the result of cash used by operating assets and liabilities, non-cash operating expense, which was offset by net income. The non-cash items that had a significant impact on net income included a gain on the sale of the company's investment in Xanboo, share-based compensation and depreciation. In order of significance, the changes in operating assets and liabilities that had a significant impact on the cash used in operating activities included (i) an increase in net accounts receivable as a result of higher sales and the timing of cash collections (ii) a decrease in accounts payable as a result of the timing of payment to vendors and (iii) an increase in the contract manufacturers' receivables due to the timing of shipments and cash collections; offset by (iv) a decrease in inventories as a result of the increase in revenues and (v) an increase in accrued payroll due to the timing of payroll periods.

Investing activities used cash during the three months ended December 31, 2007. This was due to the purchase of property and equipment, which was offset by proceeds from the sale of marketable securities.

Investing activities provided cash during the three months ended December 31, 2006. This was due to the sale of the Company's investment in Xanboo for $700,000, which was offset by the purchase of property and equipment.

Financing activities provided cash during the three months ended December 31, 2007 and 2006. This was due to proceeds from the sale of common shares through employee stock option exercises, which was offset by repayments on capital lease obligations.

Operating activities used cash during the six months ended December 31, 2007. This was the result of a net loss, cash used by operating assets and liabilities, which was offset by non-cash operating expenses. The non-cash items that had a significant impact on the net loss included share-based compensation, depreciation, provisions for inventories and a gain on the sale of marketable securities. In order of significance, the changes in operating assets and liabilities which had a significant impact on the cash used in operating activities included (i) a decrease in accounts payable due to the timing of payments; offset by (ii) a decrease in inventory due to the timing of shipments and (iii) an decrease in trade and contract manufactures' receivable balances due to the timing of shipment and collections.

Operating activities used cash during the six months ended December 31, 2006. This was the result of a net loss, cash used by operating assets and liabilities, which was offset by non-cash operating expenses. The non-cash items that had a significant impact on the net loss included a gain on the sale of the company's investment in Xanboo, share-based compensation and depreciation. In order of significance, the changes in operating assets and liabilities which had a significant impact on the cash used in operating activities included (i) an increase in accounts receivable as a result of higher sales and the timing of cash collections, (ii) an increase in inventories, (iii) a decrease in other liabilities as a result of a decrease in customer deposits and the timing of payments to vendors, (iv) a decrease in accrued settlements as a result of the payment of the Digi settlement and (v) a reduction in the warranty reserve to reflect lower expected warranty return rates; offset by (vi) an increase in accounts payable as a result of the timing of cash payments to vendors and an increase in accrued payroll related to the timing of payroll periods.

Investing activities used cash during the six months ended December 31, 2007. This was due to the purchase of property and equipment, which was offset by proceeds from the sale of marketable securities.

Investing activities provided cash during the six months ended December 31, 2006. This was due to the sale of the Company's investment in Xanboo for $700,000, which was offset by the purchase of property and equipment.

Financing activities provided cash during the six months ended December 31, 2007 and 2006. This was due to proceeds from the sale of common shares through employee stock option exercises, which was offset by repayments on capital lease obligations.

Off-Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of December 31, 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not use derivative financial instruments for speculative or trading purposes. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy.

Interest Rate Risk

Our exposure to interest rate risk is limited to the exposure related to our cash, cash equivalents and marketable securities. Our cash and cash equivalents are held in cash deposit accounts and, as such, we believe our cash and cash equivalents are not subject to significant interest rate risk. We believe our marketable securities would not decline in value by a significant amount if interest rates increase, and therefore would not have a material effect on our financial condition or results of operations.

The following table presents our cash, cash equivalents and marketable securities:

	December 31, 2007	June 30, 2007
	(In thousands)	
Cash and cash equivalents	$ 7,224	$ 7,582
Marketable securities	-	97
Total cash, cash equivalents and marketable securities	$ 7,224	$ 7,679

Foreign Currency Risk

We hold a significant portion of our cash balance in foreign currencies (particularly the euro) and, as such, we are subject to foreign currency fluctuations. In addition, we sell products internationally. As a result, our financial results could be harmed by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. We do not currently enter into forward exchange contracts to hedge exposure denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. In the future, if we feel our foreign currency exposure has increased, we may consider entering into hedging transactions to help mitigate that risk.

The following table presents our cash balance held in foreign currencies:

	December 31, 2007	June 30, 2007
	(In thousands)	
Cash held in foreign currencies	$ 1,826	$ 2,042

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Interim Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of our fiscal quarter ended December 31, 2007. Based upon that evaluation, our Interim Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective 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 Interim Chief Executive Officer and 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 identified during the fiscal quarter that ended December 31, 2007 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

The information set forth in Note 9 and 10 to our notes to the unaudited condensed consolidated financial statements of Part I, Item 1 of this Quarterly Report is hereby incorporated by reference.

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves numerous risks and uncertainties. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described in this section. This section should be read in conjunction with the unaudited consolidated financial statements and accompanying notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Report. If any of these risks or uncertainties actually occurs with material adverse effects on us, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

Our quarterly operating results may fluctuate, which could cause our stock price to decline.

We have experienced, and expect to continue to experience, significant fluctuations in net revenues, expenses and operating results from quarter to quarter. We, therefore, believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance, and you should not rely on them to predict our future performance or the future performance of our stock. A high percentage of our operating expenses are relatively fixed and are based on our expectations of future net revenues. If we were to experience a reduction in revenues in a quarter, we would likely be unable to adjust our short-term expenditures. If this were to occur, our operating results for that fiscal quarter would be harmed. If our operating results in future fiscal quarters fall below the expectations of market analysts and investors, the price of our common stock would likely fall. Other factors that might cause our operating results to fluctuate on a quarterly basis include:

- changes in the mix of net revenues attributable to higher-margin and lower-margin products;
- customers’ decisions to defer or accelerate orders;
- variations in the size or timing of orders for our products;

- changes in demand for our products;
- fluctuations in exchange rates;
- defects and other product quality problems;
- loss or gain of significant customers;
- short-term fluctuations in the cost or availability of our critical components;
- announcements or introductions of new products by our competitors;
- effects of terrorist attacks in the U.S. and abroad; and
- changes in demand for devices that incorporate our products.

Our common stock may be delisted, which could significantly harm our business.

Our common stock is currently listed on The Nasdaq Capital Market under the symbol “LTRX.” We currently are not in compliance with the $1.00 minimum bid price requirement for inclusion in The Nasdaq Capital Market; however, we have until June 23, 2008, to regain compliance. At that time we may then be eligible for an additional 180 calendar day grace period in which to regain compliance with the $1.00 minimum bid price requirement. If our common stock was delisted from The Nasdaq Capital Market, some or all of the following could be reduced, harming our investors:

- the liquidity of our common stock;
- the market price of our common stock;
- the number of institutional investors that will consider investing in our common stock;
- the number of investors in general that will consider investing in our common stock;
- the number of market makers in our common stock;
- the availability of information concerning the trading prices;
- the number of broker-dealers willing to execute trades in shares of our common stock; and
- our ability to obtain financing for the continuation of our operations.

If a major distributor or customer cancels, reduces or delays purchases, our net revenues might decline and our business could be adversely affected.

The number and timing of sales to our distributors have been difficult for us to predict. While our distributors are customers in the sense they buy our products, they are also part of our product distribution system. Some of our distributors could be acquired by a competitor and stop buying product from us.

The following table presents sales to our significant customers as a percentage of net revenues:

	Six Months Ended December 31,	
	2007	2006
Top five customers (1)	37.1%	34.1%
Tech Data	13.8%	7.2%
Ingram Micro	8.2%	11.5%

(1) Includes Ingram Micro and Tech Data.

The loss or deferral of one or more significant customers in a quarter could harm our operating results. We have in the past, and might in the future, lose one or more major customers. If we fail to continue to sell to our major customers in the quantities we anticipate, or if any of these customers terminate our relationship, our reputation, the perception of our products and technology in the marketplace, could be harmed. The demand for our products from our OEM, VAR and systems integrator customers depends primarily on their ability to successfully sell their products that incorporate our device networking solutions technology. Our sales are usually completed on a purchase order basis and we have few long-term purchase commitments from our customers.

Our future success also depends on our ability to attract new customers, which often involves an extended selling process. The sale of our products often involves a significant technical evaluation, and we often face delays because of our customers' internal procedures for evaluating and deploying new technologies. For these and other reasons, the sales cycle associated with our products is typically lengthy, often lasting six to nine months and sometimes longer. Therefore, if we were to lose a major customer, we might not be able to replace the customer in a timely manner, or at all. This would cause our net revenues to decrease and could cause our stock price to decline.

If we fail to develop or enhance our products to respond to changing market conditions and government and industry standards, our competitive position will suffer and our business will be adversely affected.

Our future success depends in large part on our ability to continue to enhance existing products, lower product cost and develop new products that maintain technological competitiveness and meet government and industry standards. The demand for network-enabled products is relatively new and can change as a result of innovations, new technologies or new government and industry standards. For example, a recent directive in the European Union bans the use of lead and other heavy metals in electrical and electronic equipment after July 1, 2006. As a result, in advance of this deadline, some of our customers selling products in Europe had begun demanding product from component manufacturers that did not contain these banned substances. Any failure by us to develop and introduce new products or enhancements in response to new government and industry standards could harm our business, financial condition or results of operations. These requirements might or might not be compatible with our current or future product offerings. We might not be successful in modifying our products and services to address these requirements and standards. For example, our competitors might develop competing technologies based on Internet Protocols, Ethernet Protocols or other protocols that might have advantages over our products. If this were to happen, our net revenues might not grow at the rate we anticipate, or could decline.

Delays in deliveries or quality problems with our component suppliers could damage our reputation and could cause our net revenues to decline and harm our results of operations.

We and our contract manufacturers are responsible for procuring raw materials for our products. Our products incorporate components or technologies that are only available from single or limited sources of supply. In particular, some of our integrated circuits are only available from a single source and in some cases are no longer being manufactured. From time to time, integrated circuits used in our products will be phased out of production. When this happens, we attempt to purchase sufficient inventory to meet our needs until a substitute component can be incorporated into our products. Nonetheless, we might be unable to purchase sufficient components to meet our demands, or we might incorrectly forecast our demands, and purchase too many or too few components. In addition, our products use components that have, in the past, been subject to market shortages and substantial price fluctuations. From time to time, we have been unable to meet our orders because we were unable to purchase necessary components for our products. We do not have long-term supply arrangements with many of our vendors to obtain necessary components or technology for our products. If we are unable to purchase components from these suppliers, product shipments could be prevented or delayed, which could result in a loss of sales. If we are unable to meet existing orders or to enter into new orders because of a shortage in components, we will likely lose net revenues and risk losing customers and harming our reputation in the marketplace, which could adversely affect our business,

financial condition or results of operations. We have recently redesigned many of our products to comply with the new environmental regulation such as the Reduction of Hazardous Substances ("RoHS") directive. These regulations are relatively new for our supply chain and interruptions in parts supply due to the additional complexities and limited number of second source supply choices could adversely impact our business.

If we lose the services of any of our contract manufacturers or suppliers, we may not be able to obtain alternate sources in a timely manner, which could harm our customer relations and adversely affect our net revenues and harm our results of operations.

We do not have long-term agreements with our contract manufacturers or suppliers. If any of these subcontractors or suppliers ceased doing business with us, we may not be able to obtain alternative sources in a timely or cost-effective manner. Due to the amount of time that it usually takes us to qualify contract manufacturers and suppliers, we could experience delays in product shipments if we are required to find alternative subcontractors and suppliers. Some of our suppliers have or provide technology or trade secrets, the loss of which could be disruptive to our procurement and supply processes. If a competitor should acquire one of our contract manufacturers or suppliers, we could be subjected to more difficulties in maintaining or developing alternative sources of supply of some components or products. Any problems that we may encounter with the delivery, quality or cost of our products could damage our customer relationships and materially and adversely affect our business, financial condition or results of operations.

Environmental regulations such as the Waste Electrical and Electronic Equipment ("WEEE") and RoHS directives may require us to redesign our products and to develop compliance administration systems.

Various countries have begun to require companies selling a broad range of electrical equipment to conform to regulations such as the WEEE and RoHS directives and we expect additional countries and locations to adopt similar regulations in the future. New environmental standards such as these could require us to redesign our products in order to comply with the standards, and require the development of compliance administration systems. We have already invested significant resources into developing compliance tracking systems, and further investments may be required. Additionally, we may incur significant costs to redesign our products and to develop compliance administration systems; however alternative designs may have an adverse effect on our gross profit margin. If we cannot develop compliant products timely or properly administer our compliance programs, our revenues may also decline due to lower sales, which would adversely affect our operating results.

If our research and development efforts are not successful, our net revenues could decline and our business could be harmed.

If we are unable to develop new products as a result of our research and development efforts, or if the products we develop are not successful, our business could be harmed. Even if we do develop new products that are accepted by our target markets, we do not know whether the net revenues from these products will be sufficient to justify our investment in research and development. In addition, if we do not invest sufficiently in research and development, we may be unable to maintain our competitive position. Our investment in research and development may decrease, which may put us at a competitive disadvantage compared to our competitors and adversely affect our market position.

We expect the average selling prices of our products to decline, which could reduce our net revenues, gross margins and profitability.

In the past, we have experienced some reduction in the average selling prices and gross margins of products, and we expect that this will continue for our products as they mature. We expect competition to continue to increase, and we anticipate this could result in additional downward pressure on our pricing. Our average selling prices for our products might decline as a result of other reasons, including promotional programs and customers who negotiate price reductions in exchange for longer-term purchase commitments. We also may not be able to increase the price of our products if the prices of components or our overhead costs increase. In addition, we may be unable to adjust our prices in response to currency exchange rate fluctuations resulting in lower gross margins. Further, as is characteristic of our industry, the average selling prices of our products have historically decreased over the products' life cycles and we expect this pattern to continue. If any of these were to occur, our gross margins would decline and we may not be able to reduce the cost to manufacture our products to keep up with the decline in prices.

Current or future litigation could adversely affect us.

We are subject to a wide range of claims and lawsuits in the course of our business. For example, we recently concluded multiple securities lawsuits with our stockholders and litigation with a former executive officer. We may have an obligation to continue to indemnify the former executive officer and defend the securities violation that he has been charged with. There is a risk that our insurance carriers may not reimburse us for such costs. Any lawsuit may involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources. The results of litigation are inherently uncertain, and adverse outcomes are possible.

Our products may contain undetected software or hardware errors or defects that could lead to an increase in our costs, reduce our net revenues or damage our reputation.

We currently offer warranties ranging from one to two years on each of our products. Our products could contain undetected errors or defects. If there is a product failure, we might have to replace all affected products without being able to book revenue for replacement units, or we may have to refund the purchase price for the units. We do not have a long history with which to assess the risks of unexpected product failures or defects for our device server product line. Regardless of the amount of testing we undertake, some errors might be discovered only after a product has been installed and used by customers. Any errors discovered after commercial release could result in loss of net revenues and claims against us. Significant product warranty claims against us could harm our business, reputation and financial results and cause the price of our stock to decline.

If software that we license or acquire from the open source software community and incorporate into our products were to become unavailable or no longer available on commercially reasonable terms, it could adversely affect sales of our products, which could disrupt our business and harm our financial results.

Certain of our products contain components developed and maintained by third-party software vendors or are available through the “open source” software community. We also expect that we may incorporate software from third-party vendors and open source software in our future products. Our business would be disrupted if this software, or functional equivalents of this software, were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required to either redesign our products to function with alternate third-party software or open source software, or develop these components ourselves, which would result in increased costs and could result in delays in our product shipments. Furthermore, we might be forced to limit the features available in our current or future product offerings.

If our contract manufacturers are unable or unwilling to manufacture our products at the quality and quantity we request, our business could be harmed.

We outsource substantially all of our manufacturing to four manufacturers in Asia: Venture Electronics Services, Uni Precision Industrial Ltd., Universal Scientific Industrial Company, LTD and Hana Microelectronics, Inc. In addition, two independent third party foundries located in Asia manufacture substantially all of our large scale integration chips. Our reliance on these third-party manufacturers exposes us to a number of significant risks, including:

- reduced control over delivery schedules, quality assurance, manufacturing yields and production costs;
- lack of guaranteed production capacity or product supply; and
- reliance on these manufacturers to maintain competitive manufacturing technologies.

Our agreements with these manufacturers provide for services on a purchase order basis. If our manufacturers were to become unable or unwilling to continue to manufacture our products at requested quality, quantity, yields and costs, or in a timely manner, our business would be seriously harmed. As a result, we would have to attempt to identify and qualify substitute manufacturers, which could be time consuming and difficult, and might result in unforeseen manufacturing and operations problems. For example, Jabil Circuit, Inc. acquired Varian, Inc. in March 2005 and closed the facility that manufactured our products. We transferred this production to another contract manufacturer. Moreover, as we shift products among third-party manufacturers, we may incur substantial expenses, risk material delays or encounter other unexpected issues.

In addition, a natural disaster could disrupt our manufacturers’ facilities and could inhibit our manufacturers’ ability to provide us with manufacturing capacity in a timely manner or at all. If this were to occur, we likely would be unable to fill customers’ existing orders or accept new orders for our products. The resulting decline in net revenues would harm our business. We also are responsible for forecasting the demand for our individual products. These forecasts are used by our contract manufacturers to procure raw materials and manufacture our finished goods. If we forecast demand too high, we may invest too much cash in inventory, and we may be forced to take a write-down of our inventory balance, which would reduce our earnings. If our forecast is too low for one or more products, we may be required to pay charges that would increase our cost of revenues or we may be unable to fulfill customer orders, thus reducing net revenues and therefore earnings.

Our international activities are subject to uncertainties, which include international economic, regulatory, political and other risks that could harm our business, financial condition or results of operations.

The following table presents our sales within geographic regions:

Six Months Ended December 31,

	2007	% of Net Revenue	2006	% of Net Revenue	Change $	%
	(In thousands, except percentages)					
Americas	$ 16,843	59.5%	$ 17,229	63.0%	$ (386)	(2.2%)
EMEA	7,510	26.5%	6,711	24.5%	799	11.9%
Asia Pacific	3,978	14.0%	3,403	12.5%	575	16.9%
Net revenues	$ 28,331	100.0%	$ 27,343	100.0%	$ 988	3.6%

We expect that international revenues will continue to represent a significant portion of our net revenues in the foreseeable future. Doing business internationally involves greater expense and many risks. For example, because the products we sell abroad and the products and services we buy abroad may be priced in foreign currencies, we could be affected by fluctuating exchange rates. In the past, we have lost money because of these fluctuations. We might not successfully protect ourselves against currency rate fluctuations, and our financial performance could be harmed as a result. In addition, we use contract manufacturers based in Asia to manufacture substantially all of our products. International revenues and operations are subject to numerous risks, including:

- unexpected changes in regulatory requirements, taxes, trade laws and tariffs;
- reduced protection for intellectual property rights in some countries;
- differing labor regulations;
- compliance with a wide variety of complex regulatory requirements;
- fluctuations in currency exchange rates;
- changes in a country's or region's political or economic conditions;
- effects of terrorist attacks in the U.S. and abroad;
- greater difficulty in staffing and managing foreign operations; and
- increased financial accounting and reporting burdens and complexities.

Our international operations require significant attention from our management and substantial financial resources. We do not know whether our investments in other countries will produce desired levels of net revenues or profitability.

We are exposed to foreign currency exchange risks, which could harm our business and operating results.

We hold a significant portion of our cash balance in foreign currencies (particularly euros), and as such are exposed to adverse changes in exchange rates associated with foreign currency fluctuations. However, we do not currently engage in any hedging transactions to mitigate these risks. Although from time to time we review our foreign currency exposure and evaluate whether we should enter into hedging transactions, we may not adequately hedge against any future volatility in currency exchange rates and, if we engage in hedging transactions, the transactions will be based on forecasts which later may prove to be inaccurate. Any failure to hedge successfully or anticipate currency risks properly could adversely affect our operating results.

If we are unable to sell our inventory in a timely manner it could become obsolete, which could require us to increase our reserves and harm our operating results.

At any time, competitive products may be introduced with more attractive features or at lower prices than ours. There is a risk that we may be unable to sell our inventory in a timely manner to avoid it becoming obsolete.

The following table presents our inventory and reserve for excess and obsolete inventory reserve:

	December 31, 2007	June 30, 2007
	(In thousands)	
Finished goods	$ 6,727	$ 7,848
Raw materials	1,906	2,653
Inventory at distributors	1,832	1,876
Large scale integration chips *	2,207	1,530

Inventories, gross		12,672		13,907
Reserve for excess and obsolete inventory		(2,709)		(2,926)
Inventories, net	$	9,963	$	10,981

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

In the event we are required to substantially discount our inventory or are unable to sell our inventory in a timely manner, we would be required to increase our reserves and our operating results could be substantially harmed.

We are subject to export control regulations that could restrict our ability to increase our international revenue and may adversely affect our business.

Our products and technologies are subject to U.S. export control laws, including the Export Administration Regulations, administered by the Department of Commerce and the Bureau of Industry Security, and their foreign counterpart laws and regulations, which may require that we obtain an export license before we can export certain products or technology to specified countries. These export control laws, and possible changes to current laws, regulations and policies, could restrict our ability to sell products to customers in certain countries or give rise to delays or expenses in obtaining appropriate export licenses. Failure to comply with these laws and regulations could result in government sanctions, including substantial monetary penalties, denial of export privileges, and debarment from government contracts. Any of these could adversely affect our operations and, as a result, our financial results could suffer.

If we are unable to attract, retain or motivate key senior management and technical personnel, it could seriously harm our business.

Our financial performance depends substantially on the performance of our executive officers, key technical, marketing and sales employees. In September 2007, our then President and Chief Executive Officer, Marc Nussbaum, was replaced as President and Chief Executive Officer. While we are actively conducting a search for Mr. Nussbaum's permanent replacement, we cannot assure you that we will be able to recruit a qualified individual in a timely manner. Even though we have established Reagan Sakai, Interim Chief Executive Officer and Chief Financial Officer, to assume Mr. Nussbaum's responsibilities, any disruption resulting from Mr. Nussbaums's departure may adversely impact our customer relationships, employee morale and our business. We are also dependent upon our technical personnel, due to the specialized technical nature of our business. If we were to lose the services of Mr. Sakai or any of our key personnel and were not able to find replacements in a timely manner, our business could be disrupted, other key personnel might decide to leave, and we might incur increased operating expenses associated with finding and compensating replacements.

If our OEM customers develop their own expertise in network-enabling products, it could result in reduced sales of our products and harm our operating results.

We sell to both resellers and OEMs. Selling products to OEMs involves unique risks, including the risk that OEMs will develop internal expertise in network-enabling products or will otherwise incorporate network functionality in their products without using our device networking solutions. If this were to occur, our sales to OEMs would likely decline, which could reduce our net revenues and harm our operating results.

New product introductions and pricing strategies by our competitors could reduce our market share or cause us to reduce the prices of our products, which would reduce our net revenues and gross margins.

The market for our products is intensely competitive, subject to rapid change and is significantly affected by new product introductions and pricing strategies of our competitors. We face competition primarily from companies that network-enable devices, semiconductor companies, companies in the automation industry and companies with significant networking expertise and research and development resources. Our competitors might offer new products with features or functionality that are equal to or better than our products. In addition, since we work with open standards, our customers could develop products based on our technology that compete with our offerings. We might not have sufficient engineering staff or other required resources to modify our products to match our competitors. Similarly, competitive pressure could force us to reduce the price of our products. In each case, we could lose new and existing customers to our competition. If this were to occur, our net revenues could decline and our business could be harmed.

Current or future litigation over intellectual property rights could adversely affect us.

Substantial litigation regarding intellectual property rights exists in our industry. For example, in May 2006 we settled a patent infringement lawsuit with Digi in which we signed an agreement with Digi to cross-license each other's patents. In addition, we paid Digi $600,000 as part of the settlement. The results of litigation are inherently uncertain, and adverse outcomes are possible. Adverse outcomes may have a material adverse effect on our business, financial condition or results of operations.

There is a risk that other third parties could claim that our products, or our customers' products, infringe on their intellectual property rights or that we have misappropriated their intellectual property. In addition, software, business processes and other property rights in our industry might be increasingly subject to third party infringement claims as the number of competitors grows and the functionality of products in different industry segments overlaps. Other parties might currently have, or might eventually be issued, patents that pertain to the proprietary rights we use. Any of these third parties might make a claim of infringement against us. The results of litigation are inherently uncertain, and adverse outcomes are possible.

Responding to any infringement claim, regardless of its validity, could:

- be time-consuming, costly and/or result in litigation;
- divert management's time and attention from developing our business;

- require us to pay monetary damages, including treble damages if we are held to have willfully infringed;
- require us to enter into royalty and licensing agreements that we would not normally find acceptable;
- require us to stop selling or to redesign certain of our products; or
- require us to satisfy indemnification obligations to our customers.

If any of these occur, our business, financial condition or results of operations could be adversely affected.

We may not be able to adequately protect or enforce our intellectual property rights, which could harm our competitive position or require us to incur significant expenses to enforce our rights.

We have not historically relied on patents to protect our proprietary rights, although we are now building a patent portfolio. In May 2006, we entered into a patent cross-license agreement with Digi in which the parties agreed to cross-license each other's patents, which could reduce the value of our existing patent portfolio. We rely primarily on a combination of laws, such as copyright, trademark and trade secret laws, and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our proprietary rights. Despite any precautions that we have taken:

- laws and contractual restrictions might not be sufficient to prevent misappropriation of our technology or deter others from developing similar technologies;
- other companies might claim common law trademark rights based upon use that precedes the registration of our marks;
- other companies might assert other rights to market products using our trademarks;
- policing unauthorized use of our products and trademarks is difficult, expensive and time-consuming, and we might be unable to determine the extent of this unauthorized use;
- courts may determine that our software programs use open source software in such a way that deprives the entire programs of intellectual property protection; and
- current federal laws that prohibit software copying provide only limited protection from software pirates.

Also, the laws of some of the countries in which we market and manufacture our products offer little or no effective protection of our proprietary technology. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technology could enable third-parties to benefit from our technology without paying us for it. Consequently, we may be unable to prevent our proprietary technology from being exploited by others in the U.S. or abroad, which could require costly efforts to protect our technology. Policing the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult and, in some cases, impracticable. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management resources, either of which could harm our business. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property, which may harm our

business, financial condition and results of operations.

Acquisitions, strategic partnerships, joint ventures or investments may impair our capital and equity resources, divert our management's attention or otherwise negatively impact our operating results.

We may pursue acquisitions, strategic partnerships and joint ventures that we believe would allow us to complement our growth strategy, increase market share in our current markets and expand into adjacent markets, broaden our technology and intellectual property and strengthen our relationships with distributors and OEMs. Any future acquisition, partnership, joint venture or investment may require that we pay significant cash, issue stock or incur substantial debt. Acquisitions, partnerships or joint ventures may also result in the loss of key personnel and the dilution of existing stockholders as a result of issuing equity securities. In addition, acquisitions, partnerships or joint ventures require significant managerial attention, which may be diverted from our other operations. These capital, equity and managerial commitments may impair the operation of our business. Furthermore, acquired businesses may not be effectively integrated, may be unable to maintain key pre-acquisition business relationships, may contribute to increased fixed costs and may expose us to unanticipated liabilities and otherwise harm our operating results.

Business interruptions could adversely affect our business.

Our operations and those of our suppliers are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, terrorist attacks and other events beyond our control. A substantial portion of our facilities, including our corporate headquarters and other critical business operations, are located near major earthquake faults and, therefore, may be more susceptible to damage if an earthquake occurs. We do not carry earthquake insurance for direct earthquake-related losses. If a business interruption occurs, our business could be materially and adversely affected.

If we fail to maintain an effective system of disclosure controls or internal controls over financial reporting, our business and stock price could be adversely affected.

Section 404 of the Sarbanes-Oxley Act of 2002 requires companies to evaluate periodically the effectiveness of their internal controls over financial reporting, and to include a management report assessing the effectiveness of their internal controls as of the end of each fiscal year. Beginning with our annual report on Form 10-K for our fiscal year ending June 30, 2008, we will be required to comply with the requirement of Section 404 of the Sarbanes-Oxley Act of 2002 to include in each of our annual reports an assessment by our management of the effectiveness of our internal controls over financial reporting. Beginning with our annual report on Form 10-K for our fiscal year ending June 30, 2009, our independent registered public accounting firm will issue a report assessing the effectiveness of our internal controls.

Our management does not expect that our internal controls over financial reporting will prevent all errors or frauds. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, involving us have been, or will be, detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of a person, or by collusion among two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies and procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to errors or frauds may occur and not be detected.

We cannot assure you that we or our independent registered public accounting firm will not identify a material weakness in our disclosure controls and internal controls over financial reporting in the future. If our internal controls over financial reporting are not considered adequate, we may experience a loss of public confidence, which could have an adverse effect on our business and our stock price.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

We held our Annual Meeting of Stockholders on November 14, 2007. At the meeting, our stockholders voted on the following proposals and cast their votes as follows:

Proposal 1: To elect the following five directors to serve until the 2008 Annual Meeting of Stockholders and until their successors are duly elected and qualified:

Nominee	For	Against	Abstain
Curtis Brown	46,951,086	6,217,034	153,631
Bernhard Bruscha	52,689,628	541,334	90,789
Thomas W. Burton	53,013,503	154,617	153,631
Howard T. Slayen	53,081,255	172,631	67,865
Thomas Wittenschlaeger	52,734,456	433,664	153,631

Proposal 2: To ratify the appointment of McGladrey & Pullen, LLP as our independent registered public accountants for the fiscal year ending June 30, 2008:

Nominee	For	Against	Abstain	Broker Non-Votes
McGladrey & Pullen, LLP	53,121,924	63,683	136,144	-

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description of Document
10.1 (1)	Executive Compensation Plan.
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Interim Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Furnished, not filed.
(1) Incorporated by reference from Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on November 20, 2007.

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.

Date: February 8, 2008	LANTRONIX, INC. (Registrant)
	By: /s/ Reagan Y. Sakai Reagan Y. Sakai Interim Chief Executive Officer Chief Financial Officer and Secretary (Principal Executive and Financial Officer)