LANTRONIX INC
Form 10-K
September 28, 2009

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

FORM 10-K

(Mark One)
S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2009

£ 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 92618
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.0001 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes £ No S

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No S

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 S No £

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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

Large accelerated filer £	Accelerated filer £	Non-accelerated filed £	Smaller reporting company S

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

The aggregate market value of the registrant's common stock held by non-affiliates based upon the closing sales price of the common stock on December 31, 2008, as reported by the NASDAQ Capital Market, was approximately $14,243,000. Shares of common stock held by each current executive officer and director and by each person who is known by the registrant to own 5% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates of the registrant. Share ownership information of certain persons known by the registrant to own greater than 5% of the outstanding common stock for purposes of the preceding calculation is based solely on information on Schedule 13G filed with the Securities and Exchange Commission and is as of December 31, 2008. This determination of affiliate status is not a conclusive determination for other purposes.

As of September 14, 2009, there were 60,540,526 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III of this Form 10-K incorporate information by reference from portions of the registrant's 2008 Definitive Proxy Statement to be filed not later than 120 days after the close of the 2009 fiscal year.

LANTRONIX, INC.

ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended June 30, 2009

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the federal securities laws. Statements that are not purely historical should be considered forward-looking statements. Often they can be identified by the use of forward-looking words and phrases, such as “intend,” “may,” “will,” “could,” “project,” “anticipate,” “expect,” “estimate,” “co “potential,” “plan,” “forecasts,” and the like. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Examples of forward-looking statements include, but are not limited to, statements concerning industry trends, anticipated demand for our products, the impact of pending litigation, our overall business strategy, market acceptance of new products, future customer and sales developments, manufacturing forecasts, including the potential benefits of our contract manufacturers sourcing and supplying raw materials, the significant role of original equipment manufacturers in our business, the future cost and potential benefits of our research and development efforts and liquidity and cash resources forecasts.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Readers are urged to carefully review the cautionary statements made by the Company in this report concerning risks and other factors that may affect the Company’s business and operating results, including those made in this report under the caption “Risk Factors,” in Part I, Item 1A and elsewhere in this report as well as the Company’s other reports filed with the Securities and Exchange Commission (“SEC”). We may from time to time make additional forward-looking statements in our filings with the SEC, in our reports to our stockholders and elsewhere. Readers are cautioned not to place undue reliance on these forward-looking statements.   We do not undertake any obligation to update any forward-looking statement that may be made from time to time by us or on our behalf.

PART I

ITEM 1. BUSINESS

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 American Standard Code for Information Interchange (“ASCII”) 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 broad and has expanded beyond IT equipment, so that our device solutions provide a product manufacturer with the ability to network its products within the security, industrial, service and commercial markets referred to as machine-to-machine (“M2M”) networking.

Our primary products and technology have focused on “device enablement” solutions that enable individual electronic products to be connected to a network and the data center market for “device management” solutions that connect or bridge groups of devices onto the network for the primary purpose of remote access. We are expanding our device management solutions to address applications outside the data center and have recently launched new products to help manage equipment at remote branch offices and a new product category that provides a reliable, single point of control and data flow management for potentially thousands of networked devices. Together, the device enablement and device management product lines constitute our growth strategy and make up our “device networking business.” In addition, we continue to sell certain older legacy “non-core” products which we expect to exit. Products within the non-core category include print servers, visualization (optically-based video extenders), serial terminal servers and serial cards for servers. Expansion of our business is directed at our device networking business and we no longer invest research and development or marketing resources in our non-core product lines.

Today, our solutions include fully integrated hardware and software devices, as well as software tools, to develop related customer applications. Because we deal with network connectivity, we provide solutions to extremely broad market segments, including information technology, security, industrial, retail, medical, building automation, transportation and others. Our technology is used to provide networking capabilities to products such as building heating ventilation and air conditioning systems, elevators, process control equipment, vending machines, thermostats, security cameras, RF ID readers, bar code scanners, scales, temperature sensors, blood analyzers, turnstiles, card readers, point-of-sale terminals, audio-visual projectors, time clocks, and virtually any product that has some form of electronic control capability.

We sell our products through a global network of distributors, resellers and manufacturer representatives, systems integrators, value-added resellers ("VARs") and original equipment manufacturers ("OEMs"). In addition, we sell directly to select accounts.

Our common stock is currently traded on the NASDAQ Capital Market under the symbol LTRX.

Our worldwide headquarters is located in Irvine, California, and we have sales offices in the Netherlands, Japan and Hong Kong. We also have employees (primarily sales) working from home offices in other areas of the world, including Germany and the United Kingdom.

We provide information regarding our company and our products on our Internet website, www.lantronix.com.

Our Strategy

Our business strategy is based on our proven capability to develop fully integrated device enablement and remote connection solutions that increase the value of our customers' products and services by making it easy to access and monitor devices over the Internet or private local network. Our technology is easy to integrate and typically provides our customer's device with compatibility with industry-wide standards such as Ethernet, the Internet, WiFi, standard web browsers and enterprise security standards. By using our device enablement technology, customers can reduce basic data connection costs, reduce maintenance and repair costs, create differentiation based on better service and can create new revenue sources from device related services.

This strategy is accomplished by providing our customers with hardware and software that connect devices to a network and intelligently manage and control them. With our 20 years of networking expertise, knowledge of industry trends and our capability to develop solutions based on open industry-standards, we believe we have been able to anticipate our customers' device networking technology requirements and offer solutions that enable them to achieve their connectivity objectives. By providing a complete solution of hardware and integrated software, we have been able to provide "turnkey" solutions for network enabling a device, eliminating the need for our customers to build expensive design and manufacturing expertise in-house. This results in savings to the customer both in terms of financial investment and time.

The following describes our M2M 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 emanate 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 2010 while we complete the exit of this product category.

Products

Device Enablement Solutions

Device networking is the technology that enables connectivity within a multitude of commercial and industrial vertical markets such as security, building automation, medical, industrial automation, point-of-sale and many others. We provide manufacturers, integrators and end-users with device enablement solutions that in some applications include the technology for products to be connected, managed and controlled over networks using standard protocols for connectivity, including wired Ethernet and WiFi wireless. As common, everyday products leverage the power of network connectivity, manufacturers and users are realizing the benefits of networking. Our device enablement solutions represent complete engineered solutions that dramatically shorten a manufacturer's development time to implement network connectivity, provide competitive advantages with new features, greatly reducing engineering and marketing risks. Our hardware solutions include large scale integration ("LSI") chips, embedded modules (embedded web servers) for mounting into our customer's product (completed circuit boards or intelligent connectors with electronic components and the necessary connectors and software), external hardware modules (device servers) with one or two ports that can be connected to the customer's product by cables and 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. Embedded and external hardware modules incorporate a real-time operating system and application software required to make the devices effective. We also offer application- and industry-specific solutions for certain markets such as industrial device servers.

Our device servers allow a wide range of equipment to be quickly network-enabled without the need for intermediary gateways, workstations or PCs. Our device servers and web servers eliminate the high cost of ownership associated with networking, which frequently would otherwise require using PCs or workstations to perform connectivity and remote management functions. Our solutions contain high-performance processors capable of not only controlling the attached device, but in many cases are also capable of accumulating data and status. The accumulated data can then be formatted by the device server and presented to users via SNMP or e-mail. Our device servers have a built-in HTTP server, making them easy to manage using any standard Web browser.

Device Management Solutions

Our device management solutions are single and muti-port products (up to 48 ports) that primarily provide IT professionals with the tools they need to remotely connect to the out-of-band management ports on computers and associated equipment. These solutions include console servers, remote keyboard, video, mouse ("KVM") servers and managed power distribution products and terminal servers.

Our customers use these solutions to monitor and run their systems to ensure the performance and availability of critical business information systems, network infrastructure and telecommunications equipment. The equipment our solutions manage includes routers, switches, servers, phone switches and public branch exchanges that are often located in remote or inaccessible locations.

Our console servers provide system administrators and network managers a way to connect with their remote equipment through an interface called a console port, helping them work more efficiently without having to leave their desk or office. Console ports are usually found on servers and special purpose data center equipment such as environmental monitoring/control systems, communications switches and storage devices. With remote access, system downtime can be reduced, improving business efficiency. Our console servers provide IT professionals with peace-of-mind through extensive security features, and in some cases, provisions for dial-in access via modem. These solutions are provided in various configurations and can manage up to 48 devices from one console server.

Our ManageLinx™ device management solutions provide M2M service organizations with the tools they need to remotely connect many network-enabled devices. These enterprise level solutions provide secure connectivity making it simple to maintain, configure, monitor and control large device networking deployments.

Non-core Businesses: Visualization Solutions, Print Servers and Other Legacy Products

Over a period of years, primarily as a result of product technology acquired through acquisitions, we have product categories that no longer represent the focus of future research and development and expansion; in other cases these products are legacy products developed and sold in the past, but are no longer part of our strategic focus. 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 2010 while we complete the exit of this product category.

We offer visualization solutions that provide switching and optical extension of high performance video, audio, keyboard and mouse over long distances within a building or campus environment. Products include video display extenders, analog KVM extension systems and matrix hubs. Our analog remote KVM products provide a valuable solution for extending and sharing audio, video, keyboard and mouse signals among many users and over optical cable without loss of resolution. KVM products enable a single keyboard, monitor and mouse to be switched between multiple computers, providing immediate access and control from a single location. The customers for these devices typically are companies that need to isolate users from the core computing center for security reasons, or require high speed video sources to be shared among many users. Our visualization solutions can be found in government agencies and at customers involved with large scale simulation and display applications. We announced the end of life of these visualization products and exited this product line in 2007.

Early in our business history, we provided external print servers that connect various printers to a network for shared printing tasks. Over the years, we have updated and continue to provide print servers that work with a myriad of operating systems and network configurations. The requirement for external print servers is decreasing, as printer manufacturers have incorporated networking hardware and software as part of many printers. We intend to exit this product line.

We acquired a line of low-cost products that we market under the “Stallion” brand. Stallion products include a variety of network servers and a range of multi-port serial I/O cards. We intend to exit this product line.

Various other small categories of our legacy business are included in the non-core category, such as software revenues and other product lines we have discontinued or that are being de-emphasized.

The following table presents net revenues by product line. Definitions of these families have been modified slightly from time to time, and the data has been revised to conform to the current definitions:

Product Line	Primary Product Function	Years Ended June 30, 2009	2008
		(In thousands)	
Device enablement	Enable electronic products to become network enabled.	$ 39,955	$ 44,993
Device management	Allow the user to control equipment by way of a network using a wide range of protocols. This category includes console servers and remote digital KVM.	7,387	8,694
Total device networking		47,342	53,687
Non-core	Includes terminal servers, visualization solutions, legacy print servers, serial board, software and miscellaneous products.	1,805	3,899
Total net revenue		$ 49,147	$ 57,586

Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information,” establishes standards for disclosures about operating segments in annual consolidated financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. We operate in one segment, networking and Internet connectivity.

Customers

Distributors

Our principal customers are our distributors, which account for the largest percentage of our net revenues. Distributors resell our products to a wide variety of end customers, including consumers, corporate customers and VARs. We sell to a group of thirteen major distributors, some of which operate from multiple warehouses. Our major distributors in the Americas region include: Ingram Micro, Tech Data, KMJ Communications, Arrow Electronics, Inc and Symmetry Electronics. In Europe, the Middle East and Africa ("EMEA") region, we distribute to the following major distributors: Sphinx Computer Vertriebs GmbH, Jade Communications, LTD, Atlantik Systems GmbH, transtec AG (a related party due to common ownership by our largest stockholder), Astradis Elecktronik GmbH and Acal plc. In the Asia Pacific region, we distribute to the following major distributors: Nissin Systems, Co., Ltd, Soanar and PowerCorp Pty Ltd.

OEM Manufacturers

We have established a broad range of OEM customers in various industries, such as industrial automation, medical, security, building automation, consumer and audiovisual. To shorten the development cycle and add network connectivity to a product, OEMs can use our external devices to network-enable their installed base of products, while board-level embedded modules are typically used in new product designs. Our capabilities and solutions enable OEMs to focus on their core competencies, resulting in reduced research and development costs, fewer integration problems and faster time to market.

End User Businesses

We have a broad range of end user customers in various vertical markets such as security, retail, universities/education, manufacturing, healthcare/hospitals and financial/banking. End user businesses require solutions that are simple to install, set up and operate, and can provide immediate results. Generally, these customers need to connect to a diverse range of products and equipment, without modifying existing software and systems.

Customer Concentrations

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

	Years Ended June 30,	
	2009	2008
Top five customers (1)	38%	38%
Ingram Micro	11%	8%
Tech Data	8%	13%
Related parties	2%	2%

(1) Includes Ingram Micro and Tech Data.

No other customer represented more than 10% of our annual net revenues during these fiscal years. Two international customers, transtec AG and barix AG, are related parties due to common ownership by our largest stockholder and Lantronix director, Bernhard Bruscha.

The following table presents our net revenues by geographic region:

	Years Ended June 30,	
	2009	2008
Americas	57.3%	57.6%
EMEA	28.6%	28.9%
Asia Pacific	14.1%	13.5%
Total	100.0%	100.0%

Information concerning our customer concentrations and sales by geographic region can be found in Part IV, Item 15 of this Annual Report on Form 10-K and is presented in footnote 13 to our notes of our consolidated financial statements. Please see Part I, Item 1A “Risk Factors” below for a discussion of the risks associated with foreign sales.

Sales and Marketing

We maintain both an inside and a field sales force to provide management and support to our worldwide network of selling partners. Over the past several years, we have expanded our network of sales partners and have developed an indirect sales model, using manufacturers' representatives, VARs and other resellers throughout the world. We have sales managers in major regions throughout the world to manage our relationship with our sales partners, identify and develop major new sales opportunities and increase penetration at existing high potential accounts. We implement marketing programs, tools and services specifically geared to drive demand for our products.

We believe that our multi-channel sales approach provides several advantages. We can engage the customers and end users through their channel of choice, making our solutions available from a variety of sources. We can concentrate on developing new relationships at accounts that we believe represent our largest opportunities while our sales partners continue to identify new incremental opportunities and service existing customers.

Our device enablement solutions are principally sold to manufacturers by our worldwide OEM sales force and our group of manufacturers' representatives. We have continued to expand our use of manufacturers' representatives and other resellers, leveraging their established relationships to bring our device enablement solutions to a greater number of customers within the OEM market.

We market and sell our device management solutions and select external device enablement solutions through information technology resellers, industry-specific system integrators, VARs and directly to end user organizations. Resellers and integrators will often obtain our products through distributors. These distributors supply our products to a broad range of VARs, system integrators, direct marketers, government resellers and e-commerce resellers. In turn, these distributor customers market, sell, install and, in most cases, support our solutions to the end users.

Manufacturing

A key element of our operations strategy is to outsource manufacturing to produce reliable, high quality products at competitive prices and to achieve on-time delivery to our customers. This practice enables us to concentrate our resources on engineering, sales and marketing.

We utilize contract manufacturers primarily located in China, Malaysia and Taiwan. Our contract manufacturers source raw materials, components and integrated circuits, in accordance with our pre-determined specifications and forecasts, and perform printed circuit board assembly, final assembly, functional testing and quality control. We believe this arrangement decreases our capital requirements and provides better raw material and component pricing, enhancing our gross margins and operating margins. Please see Part I, Item 1A "Risk Factors" below for a discussion of the risks associated with contract manufacturing.

Research and Development

Our research and development efforts are focused on the development of technology and products that will enhance our competitive position in the markets we serve. Products are developed in-house and through outside research and development resources.

The following table presents our research and development expenses:

	Years Ended June 30,	
	2009	2008
	(In thousands)	
Research and development expenses	$ 5,888	$ 6,944

Developer Relations

Recruiting, engaging and participating with third-party developers are integral parts of our ongoing strategy. We encourage, enable and support others in the development of vertical applications using our hardware, firmware and software products. With their help and investment in creating additional applications and markets for our products, we improve our ability to secure a defensible market position and loyal customers.

Competition

The markets in which we compete are dynamic and highly competitive. As these markets grow and develop, we expect competition to intensify. The following sets forth a partial list of current and potential competitors by technology:

Device Network-enabling Technologies

Companies such as Digi International, Inc., DPAC Technologies Corp., Echelon Corporation, Freescale Semiconductor, Inc., Moxa Technologies, MRV Communications, Inc., Quatech, Inc., Raritan, Rose Electronics, Sena

Technologies Inc., Wind River Systems, Inc., and ZiLOG, Inc.

Equipment for Device management Solutions

Companies such as Avocent Corporation, Cisco Systems, Inc., Digi International, Inc., Moxa Technologies, MRV Communications, Inc., Open Gear and Perle Systems.

The principal competitive factors that affect the market for our products are:

- product quality, technological innovation, compatibility with standards and protocols, reliability, functionality, ease of use and compatibility;
- product pricing;
- potential customers' awareness and perception of our products and of network-enabling technologies; and
- the customer's decision to make versus buy.

Intellectual Property Rights

We have developed proprietary methodologies, tools, processes and software in connection with delivering our services. We have not historically relied on patents to protect our proprietary rights, although we have recently begun to build a patent portfolio. We have historically relied on a combination of copyright, trademark, trade secret laws and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our proprietary rights.

On May 2, 2006, we entered into a six-year patent cross-license and litigation dismissal agreement with Digi International, Inc. ("Digi"). The cross-license includes all pre-existing patents (not including design patents) held by us and Digi. In addition, the cross-license covers all future patents (not including design patents) during the six-year cross-license term.

Gordian, Inc. ("Gordian") developed certain intellectual property used in our micro serial server line of products. These products represented and continue to represent a significant portion of our net revenues. An agreement with Gordian gives us joint ownership of the Gordian intellectual property that is embodied in the products Gordian designed for us.

United States and Foreign Government Regulation

Many of our products and the industries in which they are used are subject to federal, state or local regulation in the U.S. In addition, our products are exported worldwide. Therefore, we are subject to the regulation of foreign governments. For example, wireless communication is highly regulated in both the U.S. and elsewhere. Some of our products employ encryption technology; the export of some encryption software is restricted. At this time our activities comply with existing laws, but we cannot determine whether future, more restrictive laws, if enacted, would adversely affect us. Please see Part I, Item 1A "Risk Factors" below for risks associated with foreign operations.

Environmental Matters

Federal, state and local regulations impose various environmental controls on the storage, handling, discharge and disposal of chemicals and gases used in our manufacturing processes. Our company quality manual requires all subcontractors and raw material suppliers to be ISO14001 certified. State agencies require us to report usage of environmentally hazardous materials and we have retained the appropriate personnel to help ensure compliance with all applicable environmental regulations. We actively manage and monitor compliance through our internal auditing program. We believe that our activities conform to present environmental regulations; however, increasing public attention has been focused on the environmental impact of semiconductor operations and these regulations may require us to fund remedial action regardless of fault.

In addition, the use and disposal of electronics is under increasing scrutiny and various countries have begun to adopt regulations such as the European Union's Waste Electrical and Electronic Equipment ("WEEE") and the Reduction of the use of certain Hazardous Substances in electrical and electronic equipment (“RoHS”) directives, which could require us to both redesign our products to comply with the standards and develop compliance administration systems. We expect additional countries and locations to adopt similar regulations in the future which may be more stringent than the current regulations. Currently however, we believe the majority of our commercial products are compliant with these emerging regulations.

While we have not experienced any materially adverse effects on our operations from environmental regulations, there can be no assurance that changes in such regulations will not impose the need for additional capital equipment or other requirements. We have already invested significant resources into developing compliance tracking systems, and further investments may be required. Any failure by us to adequately restrict the discharge of hazardous substances could subject us to future liabilities or could cause our manufacturing operations to be suspended.

Employees

As of June 30, 2009, we had 123 full- and part-time employees. We have never experienced a work stoppage, none of our employees are currently represented by a labor union, and we consider our employee relations to be good.

Backlog

Normally, we manufacture our products in advance of receiving firm product orders from our customers based upon our forecasts of worldwide customer demand. Most customer orders are placed on an as-needed basis and may be canceled or rescheduled by the customer without significant penalty. Accordingly, backlog as of any particular date is not necessarily indicative of our future sales. Because most of our business is on an as-needed basis we do not rely on backlog as a metric of our operations.

Available Information

Our annual report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Section 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are available free of charge on our website at www.lantronix.com shortly after we electronically file such material with, or furnish it to, the SEC. The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically. We assume no obligation to update or revise forward looking statements in this Form 10-K, whether as a result of new information, future events or otherwise, unless we are required to do so by law.

Executive Officers of the Registrant

The following table presents the names, ages and positions held by all our executive officers. There are no family relationships between any director or executive officer and any other director or executive officer of Lantronix. Executive officers serve at the discretion of the board of directors.

Name	Age	Position
Jerry D. Chase	49	President and Chief Executive Officer
Reagan Y. Sakai	50	Chief Financial Officer and Secretary

JERRY D. CHASE has served as our President and Chief Executive Officer since February 2008. From September 2004 to July 2007, Mr. Chase was president, chief executive officer and a board member for Terayon Communication Systems, a public cable, telecom and satellite supplier of digital video networking applications. From 2001 to August 2004, Mr. Chase served as the chairman and chief executive officer of Thales Broadcast & Multimedia (“TBM”), a broadcast television telecom and test equipment supplier, and from 1998 to 2001 he was president and chief executive officer of the U.S. subsidiary of TBM. Mr. Chase began his career as a Pilot and Operations Officer in the U.S. Marine Corps, where he built a strong foundation for leadership, process and crisis management. Following the Marine Corps, he attended Harvard Business School, where he received his MBA.

REAGAN Y. SAKAI has served as our Chief Financial Officer and Secretary since November 2006. Mr. Sakai has 25 years of increasingly responsible financial and management experience, most recently as CFO for HyPerformix Corporation, a private software company based in Austin, Texas. Prior to that, he was CFO for VIEO Corporation, an early-stage software company, and before that, he was CFO of Crossroads Systems Corporation, a public data storage routing company, where he oversaw the company's highly successful IPO in October 1999. Earlier in his career, Mr. Sakai held various financial positions with Exabyte Corporation, Maxtor Corporation, McDATA Corporation, and StorageTek Corporation. Mr. Sakai holds a BS degree and an MBA from the University of Colorado at Boulder.

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 consolidated financial statements and accompanying notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report on Form 10-K. If any of these risks or uncertainties actually occurs with material adverse effects on Lantronix, 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 revenue. If we were to experience a reduction in revenue 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 business and economic conditions, including a downturn in the overall economy;

changes in the mix of net revenue 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;

changes in demand for devices that incorporate our products; and

our customers' decisions to integrate network access and control directly onto their platforms.

Our business, financial condition and results of operations may be adversely impacted by the recent worldwide financial crisis.

Recently, general worldwide economic conditions have experienced a downturn due to the credit conditions impacted by the sub-prime mortgage turmoil and other factors, slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns in the markets in which we operate, the ongoing effects of the war in Iraq, recent international conflicts and terrorist and military activity, and the impact of natural disasters and public health emergencies. These conditions make it extremely difficult to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to slow spending on our products and services, which would delay and lengthen sales cycles. During challenging economic times our customers may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and our days sales outstanding would be negatively impacted. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, worldwide. If the economy or markets in which we operate do not continue at their present levels, our business, financial condition and results of operations will likely be materially and adversely affected. Additionally, the combination of our lengthy sales cycle coupled with challenging macroeconomic conditions could harm our results of operations. When we begin to experience the benefits of an economic recovery, the need to build new inventory to meet expanded demand, and the expected increase in our accounts receivable, may impact our working capital reserves.

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 October 7, 2009, to regain compliance. If our common stock is delisted from The Nasdaq Capital Market, some or all of the following might be impacted, harming our investors:

- the liquidity 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 number of analysts following our 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.

In addition, if our common stock were to be delisted from The Nasdaq Capital Market, the price of our common stock and the ability of stockholders to sell such stock may be adversely affected. A return to the Nasdaq would require full compliance with the initial listing requirements of the exchange.

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 revenue:

	Years Ended June 30,	
	2009	2008
Top five customers (1)	38%	38%
Ingram Micro	11%	8%
Tech Data	8%	13%
Related parties	2%	2%

(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 revenue 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 directive in the European Union banned 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 demanded 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 revenue 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 revenue 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 revenue 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 revenue 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 revenue 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 revenue 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 and material costs to increase, which could reduce our net revenue, 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. We also may be unable to adjust our prices in response to price increases by our suppliers 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 could 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 him in the litigation regarding the securities violation with which he has been charged. 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 revenue or damage our reputation.

We currently offer warranties ranging from one or 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 revenue 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 revenue 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 revenue or we may be unable to fulfill customer orders, thus reducing net revenue 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:

	Years Ended June 30,	
	2009	2008
Americas	57.3%	57.6%
EMEA	28.6%	28.9%
Asia Pacific	14.1%	13.5%
Total	100.0%	100.0%

We expect that international revenue will continue to represent a significant portion of our net revenue 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 revenue 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 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 the components of our inventory, including the reserve for excess and obsolete inventory:

	June 30, 2009	2008
	(In thousands)	
Finished goods	$ 4,421	$ 5,707
Raw materials	1,537	1,836
Inventory at distributors	1,355	2,008
Large scale integration chips *	909	809
Inventories, gross	8,222	10,360
Reserve for excess and obsolete inventory	(1,743)	(2,322)
Inventories, net	$ 6,479	$ 8,038

* This item is sold individually and embedded into the Company's 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. 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 our executive officers 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 revenue 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 revenue 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 revenue 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 ended June 30, 2008, we are 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, 2010, 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 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease a building in Irvine, California, that comprises our corporate headquarters and includes administration, sales, marketing, research and development, warehouse and order fulfillment functions. During fiscal 2005, we extended the lease for our Irvine facility until July 2010. During April 2009, we consolidated operations at our Irvine facility, which resulted in unoccupied space of approximately 11,000 square feet. In September 2009, we entered into a building lease agreement for a new corporate headquarters location in Irvine, California. The lease shall commence on the date which is the earlier to occur of: (i) the commencement by the Company of its regular business operations in the premises, or (ii) December 1, 2009. The Company's existing lease terminates effective as of the day preceding the lease commencement date. In addition, we have sales offices in the Netherlands, Japan and Hong Kong. Our current leased facilities comprise an aggregate of approximately 55,000 square feet of which our Irvine facility represents the majority.

We believe our existing facilities are adequate to meet our needs. If additional space is needed in the future, we believe that suitable space will be available on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

The legal proceedings as required by this item are incorporated by reference from Part IV, Item 15 of this Form 10-K and are presented under footnote 9 to our notes to our consolidated financial statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth fiscal quarter ended June 30, 2009.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

Our common stock was traded on the NASDAQ National Market under the symbol "LTRX" from our initial public offering on August 4, 2000 through October 22, 2002. On October 23, 2002 our listing was changed to the NASDAQ SmallCap Market, which has since been renamed the NASDAQ Capital Market. The number of holders of record of our common stock as of September 14, 2009 was approximately 67. The following table sets forth, for the periods indicated, the high and low sales prices for our common stock:

	High	Low
Year Ended June 30, 2009		
First Quarter	$ 0.74	$ 0.42
Second Quarter	0.69	0.32
Third Quarter	0.69	0.43
Fourth Quarter	0.54	0.43

Year Ended June 30, 2008				
First Quarter	$	1.43	$	0.99
Second Quarter		1.14		0.76
Third Quarter		0.96		0.49
Fourth Quarter		1.00		0.61

We believe that a number of factors, including but not limited to quarterly fluctuations in results of operations, may cause the market price of our common stock to fluctuate significantly. See Part II, Item 7 of this Form 10-K.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future, and we intend to retain any future earnings for use in the expansion of our business and for general corporate purposes.

Recent Sales of Unregistered Securities

We did not repurchase any of our common stock during the fourth fiscal quarter of 2009. Since July 1, 2007, we have issued the following unregistered securities:

In March 2008, we issued warrants to purchase 1,079,615 shares of our common stock in connection with our settlement of the Class Action lawsuit. These securities were issued pursuant to the exemption provided by Section 3(a)(10) of the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this report. In addition to historical information, the discussion in this report contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated by these forward-looking statements due to factors including, but not limited to, those factors set forth under Part I, Item 1A "Risk Factors" and elsewhere in this report.

Overview

We design, develop and market devices that make it possible to access, manage, control and configure electronic devices over the Internet and 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. Our products are sold to distributors, OEMs, VARs, and systems integrators, as well as directly to end users.

Fiscal Year 2009 Financial Highlights and Other Information

A summary of the key factors and significant events which impacted our financial performance during the fiscal year ended June 30, 2009 are as follows:

Net revenues were $49.1 million for the fiscal year ended June 30, 2009, a decrease of $8.5 million, or 14.7%, compared to $57.6 million for the fiscal year ended June 30, 2008. The overall decrease in net revenues was a direct result of the economic downturn. The decrease was primarily the result of a $5.0 million, or 11.2%, decrease in our device enablement product lines, a $1.3 million, or 15.0%, decrease in our device management product lines and a $2.1 million, or 53.7%, decrease in our non-core product lines.

Gross profit as a percentage of net revenues was 52.2% for the fiscal year ended June 30, 2009 compared to 50.5% for the fiscal year ended June 30, 2008. The increase in gross profit margin percentage was primarily attributable to lower product costs, lower inventory reserve costs and lower royalty costs.

Loss from operations was $614,000, or 1.2% of net revenues, for the fiscal year ended June 30, 2009 compared to $2.6 million, or 4.5% of net revenues, for the fiscal year ended June 30, 2008. Loss from operations for the fiscal years ended June 30, 2009 and 2008 included restructuring charges of $806,000 and $757,000, respectively.

Net loss was $780,000, or $0.01 per basic and diluted share, for the fiscal year ended June 30, 2009, compared to $2.5 million, or $0.04 per basic and diluted share, for the fiscal year ended June 30, 2008. Net loss for the fiscal years ended June 30, 2009 and 2008 included a restructurings charge of $806,000 and $757,000, respectively.

Cash and cash equivalents were $9.1 million as of June 30, 2009 compared to $7.4 million as of June 30, 2008.

Net accounts receivable were $1.9 million as of June 30, 2009 compared to $4.2 million as of June 30, 2008. Annual days sales outstanding ("DSO") in receivables were 22 days for the fiscal year ended June 30, 2009 as compared to 24 days for the fiscal year ended June 30, 2008. 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 $6.5 million as of June 30, 2009 compared to $8.0 million as of June 30, 2008. Annual inventory turns were 3.2 for the fiscal year ended June 30, 2009 as compared to 3.0 for the fiscal year ended June 30, 2008.

Recent Accounting Pronouncements

Recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants and the SEC did not or are not believed by us to have a material impact on our present or future consolidated financial statements.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in accordance with accounting principles generally accepted in the U.S. requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenues and expenses during the reporting period. We regularly evaluate our estimates and assumptions related to net revenues, allowances for doubtful accounts, sales returns and allowances, inventory valuation, valuation of deferred income taxes, goodwill and purchased intangible asset valuations, warranty reserves, restructuring costs, litigation and other contingencies. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements:

Revenue Recognition

We do not recognize revenue until all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; our price to the buyer is fixed or determinable; and collectability is reasonably assured. A significant portion of our sales are made to distributors under agreements which contain a limited right to return unsold product and price protection provisions. Therefore, the recognition of net revenues and related cost of revenues from sales to distributors are deferred until the distributor resells the product. Net revenues from certain smaller distributors for which point-of-sale information is not available, is recognized approximately 30 to 45 days after the shipment date. This estimate approximates the timing of the sale of the product by the distributor to the end user.

When product revenues are recognized, we establish an estimated allowance for future product returns based on historical returns experience; when price reductions are approved, we establish an estimated liability for price protection payable on inventories owned by product resellers. Should actual product returns or pricing adjustments exceed our estimates, additional reductions to revenues would result.

Our products typically carry a one- or two-year warranty. Although we engage in extensive product quality programs and processes, our warranty obligation is affected by product failure rates, use of materials or service delivery costs that differ from our estimates. As a result, additional warranty reserves could be required, which could reduce gross margins. Additionally, we sell extended warranty services, which extend the warranty period for an additional one to three years, depending upon the product. Warranty net revenues are recognized ratably over the warranty service period.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our allowance for doubtful accounts is based on our assessment of the collectability of specific customer accounts, the aging of accounts receivable, our history of bad debts and the general condition of the industry. If a major customer's credit worthiness deteriorates, or our customers' actual defaults exceed our historical experience, our estimates could change and impact our reported results.

We also maintain a reserve for uncertainties relative to the collection of officer notes receivable. Factors considered in determining the level of this reserve include the value of the collateral securing the notes, our ability to effectively enforce collection rights and the ability of the former officers and Lantronix director to honor their obligations.

Inventory Valuation

Our policy is to value inventories at the lower of cost or market on a part-by-part basis. This policy requires us to make estimates regarding the market value of our inventories, including an assessment of excess and obsolete inventories. We determine excess and obsolete inventories based on an estimate of the future sales demand for our products within a specified time horizon, generally three to twelve months. The estimates we use for demand are also used for near-term capacity planning and inventory purchasing and are consistent with our revenue forecasts. In addition, specific reserves are recorded to cover risks in the area of end of life products, inventory located at our contract manufacturers, deferred inventory in our sales channel and warranty replacement stock.

If our sales forecast is less than the inventory we have on hand at the end of an accounting period, we may be required to take excess and obsolete inventory charges, which will decrease gross margin and net operating results for that period.

Valuation of Deferred Income Taxes

We have recorded a valuation allowance to reduce our net deferred tax assets to zero, primarily due to historical net operating losses and uncertainty of generating future taxable income. We consider estimated future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. If we determine that it is more likely than not that we will realize a deferred tax asset, which currently has a valuation allowance, we would be required to reverse the valuation allowance that would be reflected as an income tax benefit at that time.

Goodwill and Purchased Intangible Assets

The purchase method of accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development. The amounts and useful lives assigned to intangible assets impact future amortization. If the assumptions and estimates used to allocate the purchase price are not correct, purchase price adjustments or future asset impairment charges could be required.

We perform goodwill impairment tests on an annual basis, and more frequently if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Goodwill impairment testing requires us to compare the fair value of each reporting unit to its carrying amount, including goodwill, and record an impairment charge if the carrying amount of a reporting unit exceeds its estimated fair value. The determination of a reporting unit's fair value requires significant judgment and is based on management's best estimate, which generally considers the unit's expected future earnings. If actual results are not consistent with our assumptions and judgments used in estimating fair value, we may be exposed to additional goodwill impairment losses. As of June 30, 2009, we have $9.5 million of goodwill reflected in our consolidated balance sheet.

We evaluate purchased intangible assets when indicators of impairment, such as reductions in demand or significant economic slowdowns, are present. Reviews are performed to determine whether the carrying values of these assets are impaired based on a comparison to the undiscounted expected future cash flows. If the comparison indicates that there is impairment, the expected future cash flows using a discount rate based upon our weighted average cost of capital is used to estimate the fair value of the assets. Impairment is based on the excess of the carrying amount over the fair value of those assets. Significant management judgment is required in the forecast of future operating results that is used in the preparation of expected discounted cash flows. It is reasonably possible that the estimates of anticipated future net revenues, the remaining estimated economic lives of the products and technologies, or both, could differ from those used to assess the recoverability of our purchased intangible assets. In the event they are lower, additional impairment charges or shortened useful lives of certain purchased intangible assets could be required. As of June 30, 2009, we have approximately $265,000 of purchased intangible assets reflected in our consolidated balance sheet.

Results of Operations

Fiscal Years Ended June 30, 2009 and 2008

Net Revenues by Product Line

The following table presents net revenues by product line:

	Years Ended June 30,					
	2009	% of Net Revenue	2008	% of Net Revenue	Change $	%
	(In thousands, except percentages)					
Device enablement	$ 39,955	81.3%	$ 44,993	78.1%	$ (5,038)	(11.2%)
Device management	7,387	15.0%	8,694	15.1%	(1,307)	(15.0%)
Device networking	47,342	96.3%	53,687	93.2%	(6,345)	(11.8%)
Non-core	1,805	3.7%	3,899	6.8%	(2,094)	(53.7%)
Net revenue	$ 49,147	100.0%	$ 57,586	100.0%	$ (8,439)	(14.7%)

The decrease in net revenue for the fiscal year ended June 30, 2009 compared to the fiscal year ended June 30, 2008 was the result of a decrease in net revenue across all major product lines and regions. The decrease in our device enablement product line was due to a decrease in our embedded device enablement products, and more specifically, our ASIC, WiPort, Micro and XPort product families, offset by an increase in our MatchPort product family and a decrease in our external device enablement products, more specifically, our UDS, XPress and MSS product families offset by an increase in our WiBox product family. The decrease in our device management product line was the result of a decrease in our SLC, SCS and SLS product families offset by an increase in our SLB product family. We are no longer investing in the development of our non-core product lines and expect net revenue 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 Geographic Region

The following table presents net revenues by geographic region:

	Years Ended June 30,					
	2009	% of Net Revenue	2008	% of Net Revenue	Change $	%
	(In thousands, except percentages)					
Americas	$ 28,154	57.3%	$ 33,167	57.6%	$ (5,013)	(15.1%)
EMEA	14,068	28.6%	16,644	28.9%	(2,576)	(15.5%)
Asia Pacific	6,925	14.1%	7,775	13.5%	(850)	(10.9%)
Net revenue	$ 49,147	100.0%	$ 57,586	100.0%	$ (8,439)	(14.7%)

All major geographic regions contributed to the decrease in net revenues for the fiscal year ended June 30, 2009 compared to the fiscal year ended June 30, 2008. The decrease in the Americas region was primarily due to the decrease in our non-core product lines in addition to a decrease in our device enablement product lines, and more specifically, the Micro, ASIC, UDS, EDS, MSS and XPress product families offset by an increase in our WiBox product family, as well as our device management product lines, and more specifically, the SLC, SLS and SCS product families offset by an increase in our SLB product family. The decrease in our EMEA region was primarily due to a decrease in our non-core product lines and our device enablement product lines, and more specifically, the ASIC, WiPort and UDS product families offset by an increase in our MatchPort product family. The decrease in our Asia Pacific region was due to a decrease in our non-core product lines and our device management product lines, and more specifically, the SLC product family.

Net Revenues by Significant Customer

The following table presents net revenues by significant customer and a related party as a percentage of net revenues:

	Years Ended June 30,	
	2009	2008
Top five customers (1)	38%	38%
Ingram Micro	11%	8%
Tech Data	8%	13%
Related parties	2%	2%

(1) Includes Ingram Micro and Tech Data.

Two international customers, transtec AG and barix AG, are related parties due to common ownership by our largest stockholder and Lantronix director, Bernhard Bruscha.

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:

	Years Ended June 30,					
		% of Net		% of Net	Change	
	2009	Revenues	2008	Revenues	$	%
	(In thousands, except percentages)					
Gross profit	$ 25,669	52.2%	$ 29,068	50.5%	$ (3,399)	(11.7%)

The increase in gross profit margin percentage for the fiscal year ended June 30, 2009 compared to the fiscal year ended June 30, 2008 was primarily attributable to lower product costs, lower inventory reserve costs, and lower royalty costs.

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 professional legal and accounting fees offset by reimbursement of legal fees from insurance proceeds.

The following table presents selling, general and administrative expenses:

	Years Ended June 30,					
		% of Net		% of Net	Change	
	2009	Revenue	2008	Revenue	$	%
	(In thousands, except percentages)					
Personnel-related expenses	$ 10,372		$ 13,663		$ (3,291)	(24.1%)
Professional fees & outside services	2,237		2,569		(332)	(12.9%)
Advertising and marketing	2,358		2,959		(601)	(20.3%)
Facilities	1,375		1,600		(225)	(14.1%)
Share-based compensation	1,315		847		468	55.3%
Depreciation	564		368		196	53.3%
Bad debt expense	(12)		71		(83)	(116.9%)
Other	1,308		1,815		(507)	(27.9%)
Selling, general and administrative	$ 19,517	39.7%	$ 23,892	41.5%	$ (4,375)	(18.3%)

In order of significance, the increase in selling, general and administrative expense for the fiscal year ended June 30, 2009 compared to the fiscal year ended June 30, 2008 was primarily due to: (i) decreased personnel-related expenses as a result of the restructuring activities and a company-wide furlough program that was taken during the third and fourth fiscal quarters of 2009 in response to the economic downturn; (ii) decreased advertising and marketing expenses as a result of more focused spending and (iii) decreased professional fees & outside services due to cost cutting measures; offset by (iv) increased share-based compensation as a result of restricted stock grants related to the fiscal 2009 share-based compensation plans.

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:

	Years Ended June 30,					
	2009	% of Net Revenue	2008	% of Net Revenue	Change $	%
	(In thousands, except percentages)					
Personnel-related expenses	$ 3,869		$ 5,102		$ (1,233)	(24.2%)
Facilities	954		876		78	8.9%
Professional fees & outside services	217		209		8	3.8%
Share-based compensation	488		341		147	43.1%
Depreciation	71		57		14	24.6%
Other	289		359		(70)	(19.5%)
Research and development	$ 5,888	12.0%	$ 6,944	12.1%	$ (1,056)	(15.2%)

The decrease in research and development expenses for the fiscal year ended June 30, 2009 compared to the fiscal year ended June 30, 2008 was mainly due to decreased personnel-related expenses as a result of the restructuring activities and a company-wide furlough program that was taken during the third and fourth fiscal quarters of 2009 in response to the economic downturn, offset by increased share-based compensation as a result of restricted stock grants related to the fiscal 2009 share-based compensation plans.

Restructuring Charges

The following table presents restructuring charges:

	Years Ended June 30,					
	2009	% of Net Revenues	2008	% of Net Revenues	Change $	%
	(In thousands, except percentages)					
Restructuring charges	$ 806	1.6%	$ 757	1.3%	$ 49	6.5%

During the fourth fiscal quarter ended June 30, 2008, we implemented a restructuring plan to optimize our organization to better leverage existing customer and partner relationships to drive revenue growth and profitability. As part of the restructuring plan, 10 employees from the senior-level ranks of the sales, marketing, operations and engineering groups were terminated. During the first fiscal quarter ended September 30, 2008, we implemented a second restructuring plan. As part of the second restructuring plan, an additional 29 employees from all ranks and across all functional groups of the Company were terminated. During the second fiscal quarter ended December 31, 2008, we incurred additional restructuring charges related to the termination of a senior-level employee and the closure of a sales office in France. During the third fiscal quarter ended March 31, 2009, we recognized a restructuring recovery of $23,000 for unused termination benefits and estimated payroll taxes. During the fourth fiscal quarter ended June 30, 2009, we recognized a restructuring charge of $108,000 related to the consolidation of our corporate headquarters.

Interest Expense, Net

The following table presents interest expense, net:

	Years Ended June 30,					
	2009	% of Net Revenues	2008	% of Net Revenues	Change $	%
	(In thousands, except percentages)					
Interest expense, net	$ (186)	(0.4%)	$ (150)	(0.3%)	$ (36)	24.0%

The increase in interest expense, net, is primarily due to interest expense related to the addition of the term loan that was entered into during the first fiscal quarter of 2009.

Other Income, Net

The following table presents other income, net:

	Years Ended June 30,					
		% of Net		% of Net	Change	
	2009	Revenues	2008	Revenues	$	%
	(In thousands, except percentages)					
Other income, net	$ 19	0.0%	$ 120	0.2%	$ (101)	(84.2%)

Other income, net, for the fiscal year ended June 30, 2008 was primarily related to $104,000 of income recognized on the sale of marketable securities.

Provision (Benefit) 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 June 30, 2009, we had recorded $163,000 of uncertain tax positions including approximately $85,000 of accrued interest and penalties related to these uncertain tax positions.

At June 30, 2009, our fiscal 2002 through fiscal 2008 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:

	Years Ended June 30,	
	2009	2008
Effective tax rate	0.1%	4.5%

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 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 net deferred tax assets for the fiscal years ended June 30, 2009 and 2008. As of June 30, 2009, we had net operating loss carryovers of $80.2 million and $57.8 million for federal and state income tax purposes, respectively. The federal and state net operating loss carryovers begin to expire in fiscal years 2021 and 2013, respectively.

Liquidity and Capital Resources

Liquidity

Since inception through fiscal 2009, we have financed our operations primarily through the issuance of common stock and operating activities.

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

	June 30, 2009	2008	Increase (Decrease)
	(In thousands)		
Working capital	$ 7,423	$ 5,686	$ 1,737
Cash and cash equivalents	$ 9,137	$ 7,434	$ 1,703

In order of significance, our working capital as of June 30, 2009 increased compared to June 30, 2008 primarily due to: (i) an increase in cash and decrease in accounts payable as a result of the proceeds from the term loan and (ii) a decrease in accrued payroll as a result of the timing of pay periods compared to the prior year, offset by (iii) a decrease in accounts receivable as a result of lower shipments compared to the quarter ended June 30, 2008 and (iv) an increase in short term debt as a result of the term loan. Our cash balance increased from June 30, 2008 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 and cash equivalents 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 revenue, research and development, expenses associated with any strategic partnerships or acquisitions and infrastructure investments, and expenses related to 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 additional 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 August 2008, we entered into an amendment to our Line of Credit, which provides for a three-year $2.0 million Term Loan and a two-year $3.0 million Revolving Credit Facility. The Term Loan was funded on August 26, 2008 and is payable in 36 equal installments of principal and monthly accrued interest. There are no borrowings outstanding on the Revolving Credit Facility as of the fiscal year end.

Borrowings under the Term Loan and Revolving Credit Facility bear interest at the greater of 6.25% or prime rate plus 1.25% per annum. If we achieve two consecutive quarters of positive EBITDAS (as defined in the Loan Agreement) greater than $1.00, and only for so long as we maintain EBITDAS greater than $1.00 at the end of each subsequent fiscal quarter, then the borrowings under the Term Loan and Revolving Credit Facility will bear interest at the greater of 5.75% or prime rate plus 0.75% per annum. We paid a fully earned, non-refundable commitment fee of $35,000 and are required to pay an additional $35,000 on the first anniversary of the Effective Date as defined in the Loan Agreement.

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:

	June 30,			
		2009		2008
	(In thousands)			
Available borrowing capacity	$	426	$	3,163
Outstanding letters of credit	$	732	$	732

As of June 30, 2009, approximately $666,000 of our cash was held in foreign subsidiary bank accounts. This 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 may be 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:

	Years Ended June 30, 2009	2008
	(In thousands)	
Net cash provided by (used in):		
Net loss	$ (780)	$ (2,508)
Adjustments to reconcile net loss to net cash provided by operating activities:	3,563	3,104
Changes in operating assets and liabilities:		
Accounts receivable	2,327	(826)
Inventories	1,535	2,539
Contract manufacturers' receivable	21	594
Prepaid expenses and other current assets	(73)	27
Other assets	20	4
Accounts payable	(2,055)	(3,340)
Accrued payroll and related expenses	(747)	164
Warranty reserve	(118)	(104)
Restructuring reserve	(1,474)	(13)
Other liabilities	(927)	486
Net cash provided by operating activities	1,292	127
Net cash used in investing activities	(676)	(579)
Net cash provided by financing activities	1,227	106
Effect of foreign exchange rate changes on cash	(140)	198
Increase (decrease) in cash and cash equivalents	$ 1,703	$ (148)

Operating activities provided cash during the fiscal year ended June 30, 2009. This was the result of cash provided by operating assets and liabilities and non-cash operating expenses offset by a net loss. Significant non-cash items included share-based compensation, restructuring charges and depreciation. 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) a decrease in accounts receivable due to the timing of collections and linearity of sales; (ii) a decrease in inventories due to the timing of shipments and purchases as a result of managements effort to reduce inventories; offset by (iii) a decrease in accounts payable due to the pay down of vendors with the proceeds from the term loan; (iv) payments made against the restructuring reserve; and (v) a decrease in accrued payroll as a result of the timing of payroll cycles at the fiscal year end.

Operating activities provided cash during the fiscal year ended June 30, 2008. This was primarily the result of non-cash reconciling items offset by a net operating loss and cash used by operating assets and liabilities. 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 accounts payable as a result of the timing of cash payments to vendors; (ii) a decrease in inventories as a result of a $2.1 million decrease in finished goods inventory and a $721,000 decrease in large scale integration chips, which are sold individually and embedded in our products; (iii) changes in accounts receivable and contract manufacturers' receivable as a result of the timing of collections; and (iv) an increase in accrued payroll and related expenses due to the timing of our fiscal year end payroll. The non-cash reconciling items that had a significant impact on net loss included share-based compensation of $1.3 million, restructuring charge of $757,000, depreciation and amortization of $654,000 and provision for inventories of $404,000 partially offset by a gain on the sale of investment of $104,000.

Investing activities used cash during the fiscal year ended June 30, 2009. This was due to the purchase of property and equipment.

Investing activities used cash during the fiscal year ended June 30, 2008. This was primarily due to the purchase of property and equipment offset by net proceeds received in connection with a sale of an investment.

Financing activities provided cash during the fiscal year ended June 30, 2009. This was due to proceeds from the new term loan and sale of common shares through the 2000 Employee Stock Purchase Plan (the "ESPP") offset by payments on capital lease obligations and the term loan.

Financing activities provided cash during the fiscal year ended June 30, 2008. This was primarily due to proceeds from the sale of common shares through employee stock option exercises and the Employee Stock Purchase Plan offset by payments on capital lease obligations.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2009 and 2008.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements, related notes thereto and supplementary data required by this item are incorporated by reference from Part IV, Item 15 of this Form 10-K and are presented beginning on page F-1.

28

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Chief Executive Officer and our 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 Exchange Act) as of the end of our fiscal year. Based upon that evaluation, our Chief Executive Officer and our 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 Chief Executive Officer and our Chief Financial Officer to allow timely decisions regarding required disclosure.

(b) Changes in internal controls over financial reporting

There have been no changes in our internal controls over financial reporting identified during the fiscal quarter that ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to management and the board of directors regarding the effectiveness of our internal control processes over the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We have assessed the effectiveness of our internal controls over financial reporting as of June 30, 2009. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on our assessment, we believe that, as of June 30, 2009, our internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

29

PART III

Certain information required by Part III is included in our 2009 Definitive Proxy Statement (or “Proxy Statement) and is incorporated herein by reference. The Proxy Statement will be filed pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The names of our executive officers and their ages, titles and biographies as of the date hereof are set forth in Part I, Item 1 in the section entitled “Executive Officers of the Registrant” above, and are incorporated herein by reference.

The following information is included in our Proxy Statement and is incorporated herein by reference:

Information regarding our directors is set forth under the proposal “Election of Directors.”

Information regarding our Audit Committee and designated “audit committee financial experts” is set forth under “Election of Directors — Audit Committee.”

Information regarding Section 16(a) beneficial ownership reporting compliance is set forth Other Information — Section 16(a) Beneficial Ownership Reporting Compliance.”

Information on our code of business conduct and ethics for directors, officers and employees (or “Code of Ethics”) is set forth under “Election of Directors — Code of Ethics and Complaint Procedure.”

We have adopted the Code of Ethics, which applies to all of our directors, officers, and employees. The Code of Ethics operates as a tool to help our directors, officers, and employees understand and adhere to the high ethical standards we expect. Our Code of Ethics can be found on our website at www.lantronix.com. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of the Code of Ethics by posting such information on our website at the address specified above.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated herein by reference to the sections in the Proxy Statement under the headings “Compensation Discussion and Analysis,” “Compensation Committee Interlocks and Insider Participation in Compensation Decisions,” “Compensation Committee Report,” “Executive Officers,” “Summary Compensation Table,” “Grant of Plan Based Awards,” “Outstanding Equity Awards,” “Option Exercises and Stock Vested,” “Pension Benefits,” and “Nonqualified Deferred Compensation.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners, directors and executive officers is set forth under “Election of Directors” and “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions is set forth under “Election of

Directors" and Other Information — Related Party Transactions" in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal auditor fees and services is set forth under the proposal "Ratification of Appointment of Independent Registered Public Accountants" in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Consolidated Financial Statements

The following financial statements of the Company and related Report of Independent Registered Public Accounting Firm is filed as part of this Annual Report on Form 10-K.

2. Exhibits

The exhibits listed on the accompanying index to exhibits immediately following the financial statements are filed as part of, or hereby incorporated by reference into, this Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Lantronix, Inc.
Irvine, California

We have audited the accompanying consolidated balance sheets of Lantronix, Inc. as of June 30, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lantronix, Inc. as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of Lantronix, Inc.'s internal control over financial reporting as of June 30, 2009 included in the accompanying Management's Report on Internal Control Over Financial Reporting and, accordingly, we do not express an opinion thereon.

/s/ McGladrey & Pullen, LLP

Irvine, California
September 24, 2009

LANTRONIX, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2009	June 30, 2008
Assets		
Current Assets:		
Cash and cash equivalents	$9,137	$7,434
Accounts receivable (net of allowance for doubtful accounts of		
$130 and $173 at June 30, 2009 and 2008, respectively)	1,851	4,166
Inventories, net	6,479	8,038
Contract manufacturers' receivable	655	676
Prepaid expenses and other current assets	529	566
Total current assets	18,651	20,880
Property and equipment, net	2,230	2,271
Goodwill	9,488	9,488
Purchased intangible assets, net	265	382
Other assets	122	144
Total assets	$30,756	$33,165
Liabilities and stockholders' equity		
Current Liabilities:		
Accounts payable	$5,626	$7,684
Accrued payroll and related expenses	1,414	2,203
Warranty reserve	224	342
Restructuring reserve	76	744
Short-term debt	667	-
Other current liabilities	3,221	4,221
Total current liabilities	11,228	15,194
Non-Current Liabilities:		
Long-term liabilities	117	210
Long-term capital lease obligations	309	515
Long-term debt	778	-
Total non-current liabilities	1,204	725
Total liabilities	12,432	15,919
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value; 5,000,000 shares authorized;		
none issued and outstanding	-	-
Common stock, $0.0001 par value; 200,000,000 shares authorized;		
60,540,526 and 60,312,363 shares issued and outstanding at		
June 30, 2009 and 2008, respectively	6	6
Additional paid-in capital	189,579	187,626
Accumulated deficit	(171,687)	(170,907)

Accumulated other comprehensive income	426	521
Total stockholders' equity	18,324	17,246
Total liabilities and stockholders' equity	$30,756	$33,165

See accompanying notes.

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

	Years Ended June 30, 2009	Years Ended June 30, 2008
Net revenue (1)	$49,147	$57,586
Cost of revenue	23,478	28,518
Gross profit	25,669	29,068
Operating expenses:		
Selling, general and administrative	19,517	23,892
Research and development	5,888	6,944
Restructuring charges	806	757
Amortization of purchased intangible assets	72	72
Total operating expenses	26,283	31,665
Loss from operations	(614)	(2,597)
Interest expense, net	(186)	(150)
Other income, net	19	120
Loss before income taxes	(781)	(2,627)
Benefit for income taxes	(1)	(119)
Net loss	$(780)	$(2,508)
Net loss per share (basic and diluted)	$(0.01)	$(0.04)
Weighted average shares (basic and diluted)	60,486	60,134
(1) Includes net revenue from related parties	$962	$974

See accompanying notes.

LANTRONIX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at June 30, 2007	59,879,488	$ 6	$ 184,953	$ (168,173)	$ 442	$ 17,228
Stock options exercised	129,396	-	75	-	-	75
Employee stock purchase plan	303,479	-	254	-	-	254
Share-based compensation	-	-	1,287	-	-	1,287
Issuance of warrants in connection with shareholder settlement	-	-	1,057	-	-	1,057
Cumulative effect to prior year accumulated deficit related to the adoption of FIN 48	-	-	-	(226)	-	(226)
Components of comprehensive loss:						
Translation adjustments	-	-	-	-	176	176
Change in net unrealized income on investment	-	-	-	-	7	7
Reclassification adjustment for net realized gain on sale of investment					(104)	(104)
Net loss	-	-	-	(2,508)	-	(2,508)
Comprehensive loss	-	-	-	-	-	(2,429)
Balance at June 30, 2008	60,312,363	$ 6	$ 187,626	$ (170,907)	$ 521	$ 17,246
Shares issued pursuant to stock awards, net	42,650	-	6	-	-	6
Employee stock purchase plan	185,513	-	81	-	-	81
Share-based compensation	-	-	1,866	-	-	1,866
Components of comprehensive loss:						
Translation adjustments	-	-	-	-	(95)	(95)
Net loss	-	-	-	(780)	-	(780)
Comprehensive loss	-	-	-	-	-	(875)
Balance at June 30, 2009	60,540,526	$ 6	$ 189,579	$ (171,687)	$ 426	$ 18,324

See accompanying notes.

F-5

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

	Years Ended June 30, 2009	2008
Operating activities		
Net loss	$(780)	$(2,508)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation	1,866	1,287
Restructuring charges	806	757
Depreciation	762	551
Provision for inventories	24	404
Amortization of purchased intangible assets	117	103
(Recovery) provision for doubtful accounts	(12)	71
Gain on sale of investment	-	(104)
Provision for former director loan	-	35
Changes in operating assets and liabilities:		
Accounts receivable	2,327	(826)
Inventories	1,535	2,539
Contract manufacturers' receivable	21	594
Prepaid expenses and other current assets	(73)	27
Other assets	20	4
Accounts payable	(2,055)	(3,340)
Accrued payroll and related expenses	(747)	164
Warranty reserve	(118)	(104)
Restructuring reserve	(1,474)	(13)
Other liabilities	(927)	486
Net cash provided by operating activities	1,292	127
Investing activities		
Purchases of property and equipment, net	(676)	(683)
Proceeds from sale of marketable securities	-	104
Net cash used in investing activities	(676)	(579)
Financing activities		
Proceeds from term loan	2,000	-
Payment of term loan	(555)	-
Net proceeds from issuances of common stock	87	329
Payment of capital lease obligations	(305)	(223)
Net cash provided by financing activities	1,227	106
Effect of foreign exchange rate changes on cash	(140)	198
Increase (decrease) in cash and cash equivalents	1,703	(148)
Cash and cash equivalents at beginning of period	7,434	7,582
Cash and cash equivalents at end of period	$9,137	$7,434
Supplemental disclosure of cash flow information		
Interest paid	$200	$193

Income taxes paid	$7	$103

See accompanying notes.

F-6

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

1. Summary of Significant Accounting Policies

The Company

Lantronix, Inc. (the “Company”), incorporated in California in June 1989 and re-incorporated in the State of Delaware in May 2000, is engaged primarily in the design and distribution of networking and Internet connectivity products on a worldwide basis. The actual assembly and a portion of the engineering of the Company’s products are outsourced to third parties.

The Company has incurred losses from operations and prior to the fiscal year ended June 30, 2008 reported negative operating cash flows. As of June 30, 2009, the Company had an accumulated deficit of $171.7 million and cash and cash equivalents of $9.1 million. The Company believes that its existing cash and cash equivalents, and any cash generated from operations, will be sufficient to fund its working capital requirements, capital expenditures and other obligations through the next twelve months. Long-term the Company may face significant risks associated with the successful execution of its business strategy and may need to raise additional capital in order to fund more rapid expansion, to expand its marketing activities, to develop new or enhance existing services or products, and to respond to competitive pressures or to acquire complementary services, businesses, or technologies. If the Company is not successful in generating sufficient cash flow from operations, it may need to raise additional capital through public or private financing, strategic relationships, or other arrangements.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. At June 30, 2009, approximately $896,000 of the Company’s net tangible assets (primarily cash held in foreign bank accounts) were located outside of the U.S. Such assets are unrestricted with regard to foreign liquidity needs, however, the ability of the Company to utilize such assets to satisfy liquidity needs outside of such foreign locations may be subject to approval by the foreign location board of directors.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The industry in which the Company operates is characterized by rapid technological change and short product life cycles. As a result, estimates made in preparing the consolidated financial statements include the allowance for doubtful accounts, sales returns and allowances, inventory reserves, allowance for officer loans, goodwill and purchased intangible asset valuations, deferred income tax asset valuation allowances, warranty reserves, and restructuring costs. To the extent there are material differences between estimates and the actual results, future results of operations will be affected.

Revenue Recognition

The Company does not recognize revenue until all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the Company’s price to the buyer is fixed or determinable; and collectability is reasonably assured. A significant portion of the Company’s sales are made to distributors under agreements which contain a limited right to return unsold product and price protection provisions. Therefore, the recognition of net revenue and related cost of revenue from sales to certain large distributors are deferred until the distributor resells the product. Net revenue from certain smaller distributors, for which point-of-sale or inventory information is not available, is recognized approximately 30 to 45 days after the shipment date. This estimate approximates the timing of the sale of the product by the distributor to the end user.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

When product revenues are recognized, the Company establishes an estimated allowance for future product returns based on historical returns experience; when price reductions are approved, it establishes an estimated liability for price protection payable on inventories owned by distributors. Should actual product returns or pricing adjustments exceed the Company’s estimates, additional reductions to revenue could result.

Net revenue from the licensing of software is recognized at the time of shipment (or at the time of resale in the case of software products sold through distributors), provided the Company has vendor-specific objective evidence of the fair value of each element of the software offering and collectability is probable. Additionally, the Company sells extended warranty services which extend the warranty period for an additional one to three years, depending upon the product. Warranty net revenue is recognized ratably over the warranty service period.

The following table presents our hardware and non-hardware sales as a percentage of total net revenue:

	Years Ended June 30,	
	2009	2008
Hardware	99.0%	99.0%
Non-hardware	1.0%	1.0%
Total net revenue	100.0%	100.0%

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company’s allowance for doubtful accounts is based on its assessment of the collectability of specific customer accounts, the aging of accounts receivable, the Company’s history of bad debts and the general condition of the industry. Accounts that are deemed uncollectible are written off against the allowance for doubtful accounts. If a major customer’s creditworthiness deteriorates, or the Company’s customers’ actual defaults exceed its historical experience, such estimates could change and impact reported results.

The Company also maintains a reserve for uncertainties relative to the collection of former officer and former director notes receivable. Factors considered in determining the level of this reserve include the value of the collateral securing the notes, the Company’s ability to effectively enforce collection rights and the ability of the former officer and former director to honor their obligations.

Concentration of Credit Risk

The Company’s accounts receivable are primarily derived from revenue earned from customers located throughout North America, Europe and Asia. The Company performs ongoing credit evaluations of its customers’ financial condition and maintains allowances for potential credit losses. Credit losses have historically been within management’s expectations. The Company generally does not require collateral or other security from its customers. The Company invests its excess cash in deposits with major banks, in U.S. Government agencies, state, municipal and county government notes and bonds.

Fair Value of Financial Instruments

The Company’s financial instruments consist principally of cash and cash equivalents, accounts receivable, notes receivable, contract manufacturers’ receivable, accounts payable and accrued liabilities. The Company believes all of the financial instruments’ recorded values approximate current values because of the nature and short duration of these instruments.

Foreign Currency Translation

The financial statements of foreign subsidiaries whose functional currency is not the U.S. dollar have been translated to U.S. dollars in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 52, “Foreign Currency Translation.” Foreign currency assets and liabilities are valued in U.S. dollars at the end-of-period exchange rates. Revenue and expenses are translated at average exchange rates in effect during each period. Exchange gains and losses from foreign currency translations are reported as a component of accumulated other comprehensive income within stockholders’ equity. Exchange gains and losses from foreign currency transactions are recognized in the consolidated statement of operations and historically have not been material.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of 90 days or less.

Inventories

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market. The Company provides reserves for excess and obsolete inventories determined primarily based upon estimates of future demand for the Company's products. Shipping and handling costs are classified as a component of cost of revenue in the consolidated statements of operations.

Inventory Sale and Purchase Transactions with Contract Manufacturers

Under certain circumstances, the Company sells raw materials to its contract manufacturers and subsequently repurchases finished goods from the contract manufacturers which contain such raw materials. Net sales of raw materials to the contract manufacturers are eliminated from the Company's net revenue as the Company intends to repurchase the raw materials from the contract manufacturers in the form of finished goods. Raw materials sold to the contract manufacturers which the Company intends to purchase as part of finished goods are recorded on the Company's consolidated balance sheets as contract manufacturers' receivable.

Property and Equipment

Property and equipment are carried at cost. Depreciation is provided using the straight-line method over the assets' estimated useful lives ranging from three to five years. Depreciation and amortization of leasehold improvements are computed using the shorter of the remaining lease term or five years. Major renewals and betterments are capitalized, while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed as incurred.

Capitalized Internal Use Software Costs

The Company capitalizes the costs of computer software developed or obtained for internal use in accordance with AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Capitalized computer software costs consist of purchased software licenses and implementation costs. The capitalized software costs are being amortized on a straight-line basis over a period of three to five years.

Goodwill and Purchased Intangible Assets

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), the Company tests goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis in the fourth fiscal quarter or more frequently if the Company believes indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting unit with its aggregate carrying value, including goodwill. The Company generally determines the fair value of its reporting unit using the market or income approach methodology of valuation that includes comparing to market values of similar companies, the discounted cash flow method as well as other generally accepted valuation methodologies. If the carrying amount of the reporting unit exceeds the reporting unit's fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

During the fourth fiscal quarters ended June 30, 2009 and 2008, the Company completed its annual goodwill impairment tests in accordance with SFAS 142 as of April 1, 2009 and 2008 and determined that no impairment was indicated as the estimated fair values exceeded their respective carrying values.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

The Company accounts for long-lived assets, including other purchased intangible assets, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using (i) quoted market prices and/or (ii) discounted expected future cash flows utilizing a discount rate consistent with the guidance provided in FASB Concepts Statement No. 7, "Using Cash Flow Information and Present Value in Accounting Measurements." Impairment is based on the excess of the carrying amount over the fair value of those assets.

Income Taxes

In accordance with SFAS 109, "Accounting for Income Taxes" ("SFAS 109"), income taxes are computed under the liability method. This method requires the recognition of deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and are reflected in the consolidated financial statements in the period of enactment. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

In June 2006, FASB issued FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes," by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, the financial statement effects of a tax position should initially be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold should initially and subsequently be measured as the largest amount of tax benefit that has a more likely than not likelihood of being realized upon ultimate settlement with a taxing authority. The Company adopted FIN 48 effective July 1, 2007 and the provisions of FIN 48 have been applied to all income tax positions commencing from that date. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits as income tax expense. The cumulative effect of applying the provisions of FIN 48 has been reported as an adjustment of $226,000 to the opening balance of our accumulated deficit as of July 1, 2007.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees over the requisite service period. The Company records amortization of share-based compensation expense ratably over the requisite service period of the grant or as market conditions are achieved. The Company estimates forfeitures in its calculation of share-based compensation.

Net Income (Loss) Per Share

Net income (loss) per share (basic) is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the fiscal year. Net income (loss) per share (diluted) is calculated by adjusting the weighted average number of common shares outstanding, assuming any dilutive effects of options using the treasury stock method.

Research and Development Costs

Costs incurred in the research and development of new products and enhancements to existing products are expensed as incurred. The Company believes its current process for developing products is essentially completed concurrently with the establishment of technological feasibility. Software development costs incurred after the establishment of technological feasibility have not been material and, therefore, have been expensed as incurred.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

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. 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.

Advertising Expenses

Advertising costs are expensed in the period incurred.

Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and displaying comprehensive income (loss) and its components in the consolidated financial statements. Accumulated other comprehensive income includes foreign currency translation adjustments and unrealized gains on investments.

Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the way companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company has only one reportable segment, networking and Internet connectivity.

Restructuring

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" requires that costs, including severance costs, associated with exit or disposal activities be recorded at their fair value when a liability has been incurred. Adjustments for changes in assumptions are recorded in the period such changes become known.

Recent Accounting Pronouncements

In June 2009, the FASB issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for the Company's interim reporting period ending on September 30, 2009. The Company does not anticipate the adoption of SFAS 168 will have a material impact on its balance sheets, results of operations or cash flows.

In May 2009, the FASB issued "Subsequent Events" ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This SFAS requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The disclosure requirement under this SFAS is effective for the Company's annual reporting for the fiscal year ended on June 30, 2009.

In December 2007, the FASB issued "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired in the business combination. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) will impact financial statements at the acquisition date and in subsequent periods. The Company will be required to apply the new guidance to any business combinations completed on or after July 1, 2009.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

In April 2009, the FASB issued FSP No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." The new guidance amends and clarifies the initial recognition and measurement, subsequent measurement and accounting, and related disclosures arising from contingencies in a business combination under SFAS No. 141(R), "Business Combinations". The Company will be required to apply the new guidance to any business combinations completed on or after July 1, 2009.

2. Supplemental Financial Information

Inventories

The following table presents details of the Company's inventories:

	June 30, 2009	2008
	(In thousands)	
Finished goods	$ 4,421	$ 5,707
Raw materials	1,537	1,836
Inventory at distributors	1,355	2,008
Large scale integration chips *	909	809
Inventories, gross	8,222	10,360
Reserve for excess and obsolete inventory	(1,743)	(2,322)
Inventories, net	$ 6,479	$ 8,038

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

Property and Equipment

The following table presents details of the Company's property and equipment:

	June 30, 2009	2008
	(In thousands)	
Computer and office equipment	$ 3,719	$ 3,410
Furniture and fixtures	1,134	1,118
Production and warehouse equipment	1,000	865
Construction-in-progress	400	165
Property and equipment, gross	6,253	5,558
Less accumulated depreciation	(4,023)	(3,287)
Property and equipment, net	$ 2,230	$ 2,271

The following table presents details of property and equipment recorded in connection with capital lease obligations:

June 30,

	2009	2008
	(In thousands)	
Property and equipment	$ 342	$ 632
Less accumulated depreciation	(139)	(281)
Total	$ 203	$ 351

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

The following table presents details of the unamortized costs capitalized as internal use software included in construction-in-progress and computer and office equipment:

	June 30, 2009	2008
	(In thousands)	
Capitalized internal use software	$ 1,164	$ 1,188

The following table presents the details of depreciation of capitalized internal use software:

	Years Ended June 30, 2009	2008
	(In thousands)	
Depreciation of capitalized internal use software	$ 324	$ 140

Purchased Intangible Assets

The following table presents details of the Company's purchased intangible assets:

		June 30, 2009			June 30, 2008		
	Useful Lives in Years	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
				(In thousands)			
Existing technology	1 - 5	$ 7,259	$ (7,193)	$ 66	$ 7,259	$ (7,149)	$ 110
Patent/core technology	6	839	(640)	199	839	(567)	272
Total purchased intangible assets		$ 8,098	$ (7,833)	$ 265	$ 8,098	$ (7,716)	$ 382

The following table presents the amount of purchased intangible assets that the Company will amortize to cost of revenues over the next three fiscal years:

	Years Ended June 30, 2010	2011	2012	Total
	(In thousands)			
Amount remaining to be amortized	$ 139	$ 72	$ 54	$ 265

Warranty Reserve

The following table presents details of the Company's warranty reserve:

	June 30, 2009	2008
	(In thousands)	
Beginning balance	$ 342	$ 446
Charged to cost of revenues	116	219
Usage	(234)	(323)
Ending balance	$ 224	$ 342

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

Other Liabilities

The following table presents details of the Company's other liabilities:

	June 30, 2009	2008
	(In thousands)	
Current		
Customer deposits and refunds	$ 1,129	$ 1,535
Deferred revenue	185	401
Capital lease obligations	236	292
Taxes payable	257	230
Reimbursable legal expense	38	88
Insurance payable	-	38
Other	1,376	1,637
Total other current liabilities	$ 3,221	$ 4,221
Long-term		
Deferred revenue	$ 110	$ 97
Other	7	113
Total other long-term liabilities	$ 117	$ 210

Advertising Expenses

The following table presents details of the Company's advertising expenses:

	Years Ended June 30, 2009	2008
	(In thousands)	
Advertising expenses	$ 348	$ 514

Interest Expense

The following table presents details of the Company's interest expense:

	Years Ended June 30, 2009	2008
	(In thousands)	
Interest expense	$ 207	$ 193

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

Computation of Net Loss per Share

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

	Years Ended June 30, 2009	2008
	(In thousands, except per share data)	
Numerator:		
Net loss	$ (780)	$ (2,508)
Denominator:		
Weighted-average shares outstanding	63,318	60,234
Less: Unvested common shares outstanding	(2,832)	(100)
Weighted average shares (basic and diluted)	60,486	60,134
Net loss per share (basic and diluted)	$ (0.01)	$ (0.04)

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

	Years Ended June 30, 2009	2008
	(In thousands)	
Common stock equivalents	8,565	4,036

Supplemental Cash Flow Information

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

	Years Ended June 30, 2009	2008
	(In thousands)	
Non-cash acquisition of property and equipment	$ 43	$ 726

3. Officer Loans

The Company has outstanding notes receivable from a former officer and a former director primarily related to taxes on exercised stock options. These notes are non-recourse, secured by shares of common stock, and bear interest at rates ranging from 5.19% to 7.50% per annum. Principal and any unpaid interest are due upon any transfer or disposition of the secured common stock.

One of the note holders is a former Chief Executive Officer who assumed the role of Chief Technology and Strategy Officer of the Company effective May 30, 2002 and resigned from the Company effective September 1, 2002. During fiscal 2002, the Company reduced the carrying amount of the former officer’s loans to zero by establishing a reserve for uncertainties relative to collection of the related notes receivable. Factors considered in determining the level of this reserve include the value of the collateral securing the notes, the ability of the Company to effectively enforce its collection rights and the ability of the former officer to honor his obligations to the Company.

Former officer and former director loans are included in other assets on the balance sheet.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

4. Restructuring Charges

During the fourth fiscal quarter ended June 30, 2008, the Company implemented a restructuring plan to optimize its organization to better leverage existing customer and partner relationships to drive revenue growth and profitability. As part of the restructuring plan, 10 employees from the senior-level ranks of the sales, marketing, operations and engineering groups were terminated. During the first fiscal quarter ended September 30, 2008, the Company implemented a second restructuring plan. As part of the second restructuring plan, an additional 29 employees from all ranks and across all functional groups of the Company were terminated. During the second fiscal quarter ended December 31, 2008, the Company incurred additional restructuring charges related to the termination of a senior-level employee and closure of a sales office in France. During the fourth fiscal quarter ended June 30, 2009, the Company incurred restructuring charges related to the consolidation of its corporate headquarters.

The following table presents a summary of the activity in the Company's restructuring reserve:

	Consolidation of Excess Facilities	Severance Related Costs	Total
		(In thousands)	
Restructuring reserve at June 30, 2008	-	744	744
Restructuring charge	154	652	806
Cash payments	(81)	(1,393)	(1,474)
Restructuring reserve at June 30, 2009	$ 73	$ 3	$ 76

5. Lines of Credit and Convertible Note Payable

Line of Credit

In August 2008, the Company entered into an amendment to its Line of Credit, which provides for a three-year $2.0 million Term Loan and a two-year $3.0 million Revolving Credit Facility. The Term Loan was funded on August 26, 2008 and is payable in 36 equal installments of principal and monthly accrued interest. There are no borrowings outstanding on the Revolving Credit Facility as of the fiscal year ended, June 30, 2009.

Borrowings under the Term Loan and Revolving Credit Facility bear interest at the greater of 6.25% or prime rate plus 1.25% per annum. If the Company achieves two consecutive quarters of positive EBITDAS (as defined in the Loan Agreement) greater than $1.00, and only for so long as the Company maintains EBITDAS greater than $1.00 at the end of each subsequent fiscal quarter, then the borrowings under the Term Loan and Revolving Credit Facility will bear interest at the greater of 5.75% or prime rate plus 0.75% per annum. The Company paid a fully earned, non-refundable commitment fee of $35,000 and is required to pay an additional $35,000 on the first anniversary of the effective date of the Term Loan.

The Company's obligations under the Term Loan and Revolving Credit Facility are secured by substantially all of the Company's assets, including its intellectual property.

Availability under the Lines of Credit

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

	June 30, 2009	2008
	(In thousands)	
Available borrowing capacity	$ 426	$ 3,163
Outstanding letters of credit	$ 732	$ 732

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

6. Stockholders' Equity

Share-Based Plans

The Company has one active share-based plan under which non-qualified and incentive stock options have been granted to employees, non-employees and board members. In addition, the Company has granted restricted stock awards to employees and board members under this share-based plan. The Company also has an employee stock purchase plan for all eligible employees. The board of directors determines eligibility, vesting schedules and exercise prices for options and shares granted under the plans. The Company issues new shares to satisfy stock option exercises, restricted stock grants, and stock purchases under its share-based plans. No income tax benefit was realized from activity in the Company's share-based plans during the fiscal years ended June 30, 2009 and 2008.

The following table presents a summary of the shares authorized for grant under each plan:

	June 30, 2009 Shares Authorized for Grant
2000 Stock Plan ("2000 Plan")	18,000,000
2000 Employee Stock Purchase Plan ("ESPP")	2,700,000
Total shares authorized for grant	20,700,000

Under the 2000 Plan, the number of shares available for issuance is increased annually on the first day of the calendar year by an amount of shares equal to the lesser of (i) 2,000,000 shares, (ii) 5% of the outstanding shares on such date or (iii) a lesser amount as determined by the board of the directors. As a result of the Company's acquisitions, the Company assumed stock options granted under stock option plans established by each acquired company; no additional options will be granted under those plans. Share-based awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant. Option awards generally have a term of 10 years. Share-based award generally vest and become exercisable over a one- to four-year service period. The Company has granted share-based awards with market conditions whereby vesting is accelerated upon achieving certain stock price thresholds. In addition, the board of directors has approved a share-based performance plan whereby employees will be paid in vested common shares if minimum revenue, income and management objectives are met.

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

	Years Ended June 30, 2009	2008
	(In thousands)	
Cost of revenues	$ 63	$ 99
Selling, general and administrative	1,315	847
Research and development	488	341
Total share-based compensation	$ 1,866	$ 1,287

The following table presents a summary of share-based compensation for the Company's share-based plans:

	Years Ended June 30, 2009	2008
	(In thousands)	
Stock option	$ 1,193	$ 1,091
Restricted stock	647	4
ESPP	26	192
Total share-based compensation	$ 1,866	$ 1,287

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

The following table presents a summary of remaining unrecognized share-based compensation expense for the Company's share-based plans:

Vesting Condition	Remaining Unrecognized Compensation Cost (In thousands)	Weighted-Average Remaining Years To Vest
Stock Option Awards:		
Service based	$ 1,031	
Market and service based	755	
All stock option awards	$ 1,786	1.6
Restricted Stock Awards:		
Service based	$ 1,094	
Market and service based	49	
All restricted stock awards	$ 1,143	3.0

Stock Option Awards

The fair value of each stock option grant was estimated on the grant date using the Black-Scholes-Merton ("BSM") option-pricing formula. To the extent that the stock option grant included market conditions, the Company used a lattice model to estimate the fair value for each stock option grant. Expected volatilities were based on the historical volatility of the Company's stock price. The expected term of options granted subsequent to the adoption of SFAS 123R was derived using the simplified method as defined in the SEC's Staff Accounting Bulletin 107, "Implementation of FASB 123R." To the extent that stock option grants included market conditions and do not meet the rules for the simplified method, the Company used a lattice model to estimate the expected term of stock options granted. The risk-free rate for periods within the contractual life of the stock option grant was based on the U.S. Treasury interest rates in effect at the time of grant.

The fair value of options granted was estimated using the following weighted-average assumptions for all of the Company's stock option plans:

	Years Ended June 30, 2009	2008
Expected term (in years)	5.79	5.98
Expected volatility	0.78	0.78
Risk-free interest rate	2.54%	2.94%
Dividend yield	0.00%	0.00%

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

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

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands, except share and per share data)			
Balance at June 30, 2008	8,516,552	$ 1.22		
Options granted	1,614,230	0.53		
Options forfeited	(972,894)	0.96		
Options expired	(1,472,652)	1.24		
Options exercised	(12,650)	0.47		
Balance at June 30, 2009	7,672,586	$ 1.10	7.5	$ 12
Vested or expected to vest at June 30, 2009	7,287,075	$ 1.12	7.5	$ 10
Options exercisable at June 30, 2009	3,564,227	$ 1.49	6.0	$ 3

The following table presents a summary of option grant-date fair value and intrinsic value information for all of the Company's stock option plans:

	Years Ended June 30, 2009	2008
	(In thousands, except per share data)	
Weighted-average grant-date fair value per share	$ 0.36	$ 0.58
Intrinsic value of options exercised	$ 1	$ 65

Nonvested Share Awards

The following table presents a summary of the activity for all of the Company's nonvested shares:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Balance of nonvested shares at June 30, 2008	100,000	$ 0.83
Granted	3,054,032	0.51
Forfeited	(291,635)	0.50
Vested	(30,000)	0.83
Balance of nonvested shares at June 30, 2009	2,832,397	$ 0.52

The following table presents a summary of the total fair value of shares vested for all of the Company's nonvested share awards:

	Years Ended June 30,	
	2009	2008
	(In thousands)	
Fair value of shares vested	$ 15	$ -

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

Market-Based Share Awards

During the fiscal year ended June 30, 2008, the Company granted market-based option and restricted stock awards to certain employees and directors. The market-based share awards cliff vest over 3-years; however, the vesting may accelerate upon the Company's stock price reaching the following thresholds for 120 consecutive days: (i) 30% vests at $1.50; (ii) 30% vests at $2.50; and (iii) 40% vests at $4.00. The vesting percentages do not cumulate.

A lattice model was used to estimate the fair value and expected life for the market-based option awards. The following table presents a summary of option activity for the Company's market-based option awards:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands, except share and per share data)			
Balance at June 30, 2008	2,776,771	$ 0.79		
Options granted	-	-		
Options forfeited	(480,000)	0.77		
Options expired	-	-		
Options exercised	-	-		
Balance at June 30, 2009	2,296,771	$ 0.79	8.7	$ -
Vested or expected to vest at June 30, 2009	2,137,472	$ 0.79	8.7	$ -
Options exercisable at June 30, 2009	689,033	$ 0.79	8.7	$ -

The fair value of market-based nonvested shares was determined upon the closing trading price of the Company's shares on the grant date. A lattice model was used to estimate the expected life for the market-based nonvested shares. The following table presents a summary of the activity for the Company's market-based nonvested shares:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Balance of nonvested shares at June 30, 2008	100,000	$ 0.83
Granted	-	-
Forfeited	-	-
Vested	(30,000)	0.83
Balance of nonvested shares at June 30, 2009	70,000	$ 0.83

Performance-Based Share Awards

During September 2008 and November 2008, the board of directors approved Performance Plans for the fiscal year ended June 30, 2009 to be paid in vested common shares if minimum revenue, non-GAAP income and management objectives were met. On August 18, 2009, the board of directors approved a payout of approximately 30% on the fiscal 2009 Performance Plan, which resulted in the issuance of 473,989 fully vested common shares and an expense to share-based compensation of approximately $303,000 for the fiscal year ended June 30, 2009.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

Employee Stock Purchase Plan

The number of shares available for issuance is increased annually on the first day of the Company's fiscal year in an amount equal to the lesser of (i) 150,000 shares, (ii) 2% of the outstanding shares on such date or (iii) a lesser amount as determined by the board of directors. Under the 2000 Employee Stock Purchase Plan (or "ESPP"), each eligible employee may purchase common stock at each semi-annual purchase date (the last business day of February and August each year), but not more than 15% of the participant's compensation, as defined. The purchase payable per share will be equal to eighty-five percent (85%) of the lower of (i) the closing selling price per share of common stock on the employee's entry date into the two-year offering period in which that semi-annual purchase date occurs and (ii) the closing selling price per share of common stock on the semi-annual purchase date. Participants may discontinue their participation in the ESPP or may increase or decrease the rate of their payroll deductions during the ESPP offering period. During the fiscal year ended June 30 2009, the board of directors approved a resolution to suspend the ESPP.

The following table presents a summary of activity under the Company's ESPP:

	Years Ended June 30,	
	2009	2008
Shares available for issuance at beginning of fiscal year	203,283	356,762
Shares reserved for issuance	-	150,000
ESPP shares issued	(185,513)	(303,479)
Shares available for future issuance at end of fiscal year	17,770	203,283

The fair value of ESPP shares was estimated using the following weighted-average assumptions:

	Years Ended June 30,	
	2009	2008
Expected term (in years)	0.5 to 2.0	0.5 to 2.0
Expected volatility	0.86	0.86
Risk-free interest rate	2.75%	3.50%
Dividend yield	0.00%	0.00%

The following table presents a summary of ESPP purchase price and intrinsic value information:

	Years Ended June 30,	
	2009	2008
	(In thousands, except per share data)	
Weighted-average purchase price of common shares	$ 0.44	$ 0.84
Intrinsic value of ESPP shares on purchase date	$ 14	$ 45

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is composed of accumulated translation adjustments as of June 30, 2009 and 2008.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

7. 401(k) Plan

The Company has a savings plan (the "Plan") which is qualified under Section 401(k) of the Internal Revenue Code. Eligible employees may elect to make contributions to the Plan through salary deferrals up to 15% of their base pay, subject to limitations. The Company's contributions are discretionary and are subject to limitations. Historically, the Company contributed $0.50 for each $1.00 of employee salary deferral contributions up to a maximum of 6% of the employee's annual gross wages, subject to limitations. During the fiscal year ended June 30, 2009, the Company suspended its discretionary contributions to the Plan.

The following table presents 401(k) matching contributions:

	Years Ended June 30, 2009 (In thousands)	2008
401(k) matching contributions	$ 37	$ 306

8. Stock Warrants

During March 2008, the Company issued warrants to purchase 1,079,615 shares of Lantronix common stock to class action plaintiffs as final consideration for a shareholder settlement liability. The warrants have an exercise price of $4.68 and expire on February 10, 2011.

9. Litigation

From time to time, the Company is subject to other legal proceedings and claims in the ordinary course of business. 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 involving a former executive officer. The Company may have an obligation to continue to indemnify the former executive officer and defend him in the litigation regarding the securities violation with which he has been charged. As of June 30, 2009 and June 30, 2008, the Company had $38,000 and $88,000, respectively, of reimbursable legal expenses recorded as a liability on its consolidated balance sheets.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

10. Income Taxes

The income tax provision (benefit) consists of the following components:

	Years Ended June 30, 2009 (In thousands)	2008
Current:		
Federal	$ -	$ -
State	10	15
Foreign	(11)	(134)
	(1)	(119)
Deferred:		
Federal	-	-
State	-	-
	-	-
Benefit for income taxes	$ (1)	$ (119)

The following table presents U.S. and foreign income (loss) before income taxes:

	Years Ended June 30, 2009 (In thousands)	2008
United States	$ (1,229)	$ (2,355)
Foreign	448	(272)
Loss from operations	$ (781)	$ (2,627)

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are as follows:

	Years Ended June 30, 2009 (In thousands)	2008
Deferred tax assets:		
Tax losses and credits	$ 33,044	$ 30,525
Reserves not currently deductible	2,716	3,392
Deferred compensation	1,481	887
Inventory capitalization	1,163	1,352
Marketing rights	830	994
Depreciation	63	-
Gross deferred tax assets	39,297	37,150
Valuation allowance	(37,470)	(35,246)
Deferred tax assets, net	1,827	1,904
Deferred tax liabilities:		

State taxes		(1,768	)		(1,279	)
Depreciation		-			(335	)
Other		(59	)		(290	)
Deferred tax liabilities		(1,827	)		(1,904	)
Net deferred tax assets (liabilities)	$	-		$	-	

F-23

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

The following table presents a reconciliation of the income tax provision (benefit) to taxes computed at the U.S. federal statutory rate:

	Years Ended June 30, 2009	2008
	(In thousands)	
Statutory federal provision (benefit) for income taxes	$ (266)	$ (892)
Increase (decrease) resulting from:		
Permanent differences	174	29
Change in valuation allowance	173	607
Foreign tax rate variances	(163)	138
Deferred compensation	87	129
Investment in foreign subsidiaries	(12)	11
Other	6	39
Reduction to uncertain tax positions	-	(180)
Benefit for income taxes	$ (1)	$ (119)

As of June 30, 2009, the Company has net operating loss carryovers of $80.2 million and $57.8 million for federal and state income tax purposes, respectively. The federal and state net operating loss carryovers begin to expire in fiscal years 2021 and 2013, respectively.

The Company has recorded a valuation allowance against its net deferred tax assets. If or when realized, the tax benefits relating to, and the reversal of, approximately $4.3 million of the valuation allowance will be accounted for as an increase in additional paid-in capital as a result of tax deductible compensation arising from stock option exercises. The valuation allowance was established due to uncertainties surrounding the realization of the deferred tax assets.

Due to the “change of ownership” provision of the Tax Reform Act of 1986, utilization of the Company’s net operating loss carryforwards and tax credit carryforwards may be subject to an annual limitation against taxable income in future periods. As a result of the annual limitation, a portion of these carryforwards may expire before ultimately becoming available to reduce future income tax liabilities.

Deferred income taxes were not provided on undistributed earnings of certain foreign subsidiaries because such undistributed earnings are expected to be reinvested indefinitely.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

The following table summarizes the Company’s liability for uncertain tax positions

	Years Ended June 30, 2009 (In thousands)	2008
Liability for uncertain tax positions	$ 78	$ 78
Accrued interest and penalties related to uncertain tax positions	85	75
Total liability	$ 163	$ 153

The Company had $6.8 million of gross unrecognized tax benefits as of June 30, 2009 and 2008. Of the total gross unrecognized tax benefits at June 30, 2009, $6.6 million was recorded as a reduction to deferred tax assets, which caused a corresponding reduction in the Company's valuation allowance of $6.6 million. To the extent such portion of unrecognized tax benefits is recognized at a time such valuation allowance no longer exists, the recognition would reduce the effective tax rate.

The Company does not anticipate that the amount of unrecognized tax benefits as of June 30, 2009 will significantly increase or decrease within the next 12 months.

At June 30, 2009, the Company's fiscal 2002 through 2008 tax years remain open to examination by the Federal tax authorities. The Company's fiscal 2002 through fiscal 2008 tax years remain open to examination by the state taxing authorities. The Company's fiscal 2002 through fiscal 2008 tax years remain open to examination by the foreign taxing authorities. 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.

11. Commitments and Contingencies

Leases

The Company leases office equipment and its office and warehouse facilities under non-cancelable capital and operating leases. In 2005, the Company renewed its office and warehouse facility lease in Irvine, California, commencing in August 2005 and expiring in July 2010.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

The following schedule represents minimum lease payments for all non-cancelable operating and capitalized leases as of June 30, 2009:

Years Ended June 30,	Capital Leases	Operating Leases	Total
	(In thousands)		
2010	$ 272	$ 870	$ 1,142
2011	271	278	549
2012	42	123	165
2013	20	-	20
2014	-	-	-
Total	605	$ 1,271	$ 1,876
Amounts representing interest	(60)		
Present value of net minimum lease payments	545		
Less: capital lease obligations, short-term portion			
(included in other current liabilities)	236		
Capital lease obligations, long-term portion	$ 309		

The following table presents facilities rent expense:

	Years Ended June 30, 2009	2008
	(In thousands)	
Facilities rent expense	$ 891	$ 921

12. Subsequent Events

The Company has evaluated subsequent events through September 28, 2009, which is the date the Company filed its Annual Report on Form 10-K for fiscal 2009 with the Securities and Exchange Commission. With the exception of the items listed below, there are no further subsequent events for disclosure.

On September 17, 2009, the Company entered into a building lease agreement (the “Lease”) for its corporate headquarters with the Irvine Company, LLC (the “Lessor”). The lease shall commence on the date which is the earlier to occur of: (i) the commencement by the Company of its regular business operations in the premises, or (ii) December 1, 2009. The Company’s existing lease with the Lessor shall terminate effective as of the day preceding the Lease commencement date. The aggregate basic rent payable under the Lease during the 72-month lease term is $2,654,616. The Company is also obligated to pay as additional rent its proportionate share of Lessor's operating expenses. The Lease requires the Company to deliver to the Lessor an irrevocable stand-by letter of credit in the amount of $58,545 as security in the case of default. The Lessor is obligated to provide a tenant improvement allowance of $325,800 for tenant improvements, as defined by the Lease.

On August 18, 2009, eligible employees were granted awards of options to purchase common stock under the Company's LTIP. Under the terms of the LTIP, eligible employees will receive a total of 4,124,732 options to purchase common shares. 25% of the options vest on September 1, 2010, and an additional 25% of the options vest each year thereafter, all subject to the recipients' continued employment. The LTIP option awards were made from the Company's 2000 Stock Plan. The exercise price was equal to the fair market value of the Company's common stock on the date of grant as listed on the Nasdaq Capital Market.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

13. Significant Geographic, Product Line, Customer and Supplier Information

Geographic

The following table presents the Company's sales within geographic regions as a percentage of net revenue:

	Years Ended June 30, 2009	2008
Americas	57.3%	57.6%
EMEA	28.6%	28.9%
Asia Pacific	14.1%	13.5%
Total	100.0%	100.0%

The following table presents sales to significant countries as a percentage of net revenue:

	Years Ended June 30, 2009	2008
U.S.	43.0%	46.0%
Germany	15.0%	16.0%
Canada	12.0%	9.0%

Product Line

The following table presents the Company's net revenue by product line:

	Years Ended June 30, 2009	2008
	(In thousands)	
Device enablement	$ 39,955	$ 44,993
Device management	7,387	8,694
Non-core	1,805	3,899
Total net revenues	$ 49,147	$ 57,586

Customers

The following table presents sales to the Company's significant customers and a related party as a percentage of net revenue:

	Years Ended June 30, 2009	2008
Top five customers (1)	38%	38%
Ingram Micro	11%	8%
Tech Data	8%	13%

Related parties	2%	2%

(1) Includes Ingram Micro and Tech Data.

No other customer represented more than 10% of the Company's annual net revenue during these fiscal years. Two international customers, transtec AG and barix AG, are related parties due to common ownership by the Company's largest stockholder and Lantronix director, Bernhard Bruscha.

LANTRONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2009

Suppliers

The Company does not own or operate a manufacturing facility. Four independent third-party contract manufacturers located in Asia manufacture substantially all of the Company's products. In addition, two independent third party foundries located in Asia manufacture substantially all of the Company's large scale integration chips. Any sudden demand for an increased amount of products or sudden reduction or elimination of any existing source or sources of products could result in a material delay in the shipment of the Company's products. Any problems associated with the manufacturing facilities or the delivery, quality or cost of the Company's products could have a material adverse effect on the Company's business, results of operations and financial condition.

14. Quarterly Financial Data (Unaudited)

The following table presents unaudited quarterly financial data of the Company. In the Company's opinion, this information has been prepared on a basis consistent with that of its audited consolidated financial statements and all necessary material adjustments, consisting of normal recurring accruals and adjustments, have been included to present fairly the unaudited quarterly financial data. The Company's quarterly results of operations for these periods are not necessarily indicative of future results of operations.

	Quarter Ended Fiscal 2009				
	Sept 30,	Dec 31,	Mar 31,	June 30,	Total
	(In thousands, except per share data)				
Net revenue	$ 14,212	$ 12,885	$ 10,655	$ 11,395	$ 49,147
Gross profit	$ 7,524	$ 6,943	$ 5,569	$ 5,633	$ 25,669
Net income (loss)	$ 184	$ (148)(1)	$ (263)	$ (553)(2)	$ (780)
Basic and diluted net income (loss) per share	$ 0.00	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01) *

	Quarter Ended Fiscal 2008				
	Sep 30,	Dec 31,	Mar 31,	June 30,	Total
	(In thousands, except per share data)				
Net revenue	$ 13,054	$ 15,277	$ 14,541	$ 14,714	$ 57,586
Gross profit	$ 6,441	$ 7,863	$ 7,334	$ 7,430	$ 29,068
Net income (loss)	$ (1,653)	$ 983	$ (464)	$ (1,374)(3)	$ (2,508)
Basic and diluted net income (loss) per share	$ (0.03)	$ 0.02	$ (0.01)	$ (0.02)	$ (0.04) *

* Annual per share amounts may not agree to the sum of the quarterly per share amounts due to differences between average shares outstanding during the periods.

(1) Includes restructuring charge of $593,000.
(2) Includes restructuring charge of $108,000.
(3) Includes restructuring charge of $757,000.

F-28

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of Lantronix, Inc.	8 – K	001-16027	99.1	07/29/2005	
3.2	Amended and Restated Bylaws as amended on July 28, 2005	8 – K	001-16027	99.2	07/29/2005	
4.1	Form of Registrant's common stock certificate	S – 1, Amend. No. 1	333-37508		06/13/2000	
10.1	Form of Indemnification Agreement entered into by Registrant with each of its directors and executive officers	S – 1, Amend. No. 1	333-37508		06/13/2000	
10.2	1993 Stock Option Plan and forms of agreements thereunder	S – 1, Amend. No. 1	333-37508		06/13/2000	
10.3	1994 Nonstatutory Stock Option Plan and forms of agreements thereunder	S – 1, Amend. No. 1	333-37508		06/13/2000	
10.4	2000 Stock Plan and forms of agreement thereunder	S – 8,	333-103395	4.1	02/24/2003	
10.4.1	Form of Stock Option Agreement	10 – K	001-16027	10.4.1	09/11/07	
10.5	Amendment to the 2000 Stock Plan	S – 8	333-103395	4.2	02/24/2003	
10.6	2000 Employee Stock Purchase Plan, amended and restated as of November 18, 2004	S – 8,	333-121000	4.1	12/06/2004	
10.7	Employment Agreement between Registrant and Fred Thiel	S – 1	333-37508		05/19/2000	
10.8	Employment Agreement between Registrant and Steve Cotton	S – 1	333-37508		05/19/2000	
10.9	Employment Agreement between Registrant and Johannes Rietschel	S – 1	333-37508		05/19/2000	
10.10	Lease Agreement between Registrant and The Irvine Company	S – 1, Amend. No. 1	333-37508		06/13/2000	
10.11	First Amendment to Lease Agreement between Registrant and Irvine Technology Partners III dated as of August 10, 1995	S – 1 Amend. No. 1	333-37508		06/13/2000	
10.12	Second Amendment to Lease Agreement between Registrant and Irvine Technology Partners III dated as of July 6, 2000	10 – K	001-16027	10.03	09/28/2000	
10.13	Third Amendment to Lease Agreement between Registrant and Irvine Technology Partners dated as of March 16, 2005	8 – K	001-16027	10.04	03/22/2005	
10.14	Research and Development Agreement between Registrant and Gordian	S – 1, Amend. No. 1	333-37508		06/13/2000	

	* Confidential treatment pursuant to Rule 406				
10.15	Distributor Contract between Registrant and Tech Data Corporation	S – 1, Amend. No. 1	333-37508		06/13/2000
	* Confidential treatment pursuant to Rule 406				
10.16	Distributor Contract between Registrant and Ingram Micro Inc.	S – 1, Amend. No. 1	333-37508		06/13/2000
	* Confidential treatment pursuant to Rule 406				
10.17	Offer to Exchange Outstanding Options, dated December 19, 2002	Schedule TO	001-16027	99(a)(1)	12/19/2002
10.18	Loan and Security Agreement between Registrant and Silicon Valley Bank dated February 14, 2002	10 – Q	001-16027	10.16	02/14/2002
10.19	Amendment to Loan Documents between Registrant and Silicon Valley Bank dated February 15, 2005	8 – K	001-16027	10.17	02/15/2005

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.20	Letter from Ernst & Young LLP, dated January 21, 2005	8 – K	001-16027	16.1	01/21/2005	
10.21	Loan and Security Agreement between Registrant and Silicon Valley Bank dated May 31, 2006.	8 – K	001-16027		06/02/2006	
10.22	Consulting, Severance and Release Agreement effective as of January 22, 2007 between Registrant and James Kerrigan.	8 – K	001-16027	10.1	04/27/2007	
10.23	Severance Agreement effective as of May 15, 2007 between the Registrant and Marc Nussbaum.	8 – K	001-16027	10.1	06/15/2007	
10.24	Severance Agreement effective as of May 15, 2007 between the Registrant and Reagan Sakai.	8 – K	001-16027	10.1	06/20/2007	
10.25	Agreement effective February 19, 2008 between the Registrant and Jerry Chase	8 – K	001-16027	10.1	02/26/2008	
10.26	Amendment to the 2000 Stock Plan	8 – K	001-16027	10.1	03/06/2008	
10.27	Amendment to Loan and Security Agreement between the Registrant Silicon Valley Bank	10 – K	001-16027	10.27	09/19/2008	
10.28	Form of Performance Award Agreement	8 – K	001-16027	10.1	11/19/2008	
10.29	Form of Long-Term Incentive Award Agreement	8 – K	001-16027	10.2	11/19/2008	
10.30	Amendment to Letter Agreement effective as of December 26, 2008 between Registrant and Jerry D. Chase.	10 – Q	001-16027	10.1	02/13/2009	
10.31	Amended and Restated Severance Agreement effective as of December 29, 2008 between Registrant and Reagan Y. Sakai.	10 – Q	001-16027	10.2	02/13/2009	
10.32	Second Amendment to Letter Agreement effective as of February 12, 2009 between Registrant and Jerry D. Chase.	10 – Q	001-16027	10.3	02/13/2009	
10.33	Amended and Restated Bylaws of Lantronix, Inc.	10 – Q	001-16027	3.1	05/14/2009	
10.34	Lease Agreement between Registrant and the Irvine Company, LLC dated September 17, 2009	8 – K	001-106027	10.1	09/18/2009	
10.35	Amendment to 2000 Stock Plan	10 – K				X
21.1	Subsidiaries of Registrant	10 – K				X
23.1	Consent of Independent Registered Public Accounting Firm, McGladrey & Pullen, LLP					X
24.1	Power of Attorney (see page II-2)					
31.1	Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002					X
31.2	Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of Sarbanes Oxley Act of 2002					X

S-2

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Lantronix has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Irvine, State of California, on the 28th day of September, 2009.

LANTRONIX, INC.

By: /s/ REAGAN Y. SAKAI
REAGAN Y. SAKAI
CHIEF FINANCIAL OFFICER

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Reagan Y. Sakai, his attorney-in-fact, with the power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Form 10-K and to file the same, with all exhibits thereto in all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Lewis Solomon Lewis Solomon	Chairman of the Board	September 28, 2009
/s/ Jerry D. Chase Jerry D. Chase	President and Chief Executive Officer and Director (Principal Executive Officer)	September 28, 2009
/s/ Reagan Y. Sakai Reagan Y. Sakai	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	September 28, 2009
/s/ Curtis Brown Curtis Brown	Director	September 28, 2009
/s/ Bernhard Bruscha Bernhard Bruscha	Director	September 28, 2009

/s/ Larry Sanders Larry Sanders	Director	September 28, 2009
/s/ Howard T. Slayen Howard T. Slayen	Director	September 28, 2009
/s/ Thomas M. Wittenschlaeger Thomas M. Wittenschlaeger	Director	September 28, 2009