CHOICEPOINT INC
Form DEF 14A
March 21, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant ¨ Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

ChoicePoint Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

ChoicePoint Inc.

1000 Alderman Drive

Alpharetta, Georgia 30005

Dear Shareholders,

It is my pleasure to invite you to attend the 2007 Annual Meeting of Shareholders of ChoicePoint Inc., which will be held at The Peabody Memphis, 149 Union Avenue, Memphis, Tennessee 38103, on Tuesday, May 1, 2007 at 10:00 a.m., local time.

Information concerning the meeting, the nominees for the Board of Directors and other business to be conducted at the meeting is contained in the Notice of Annual Meeting of Shareholders and related Proxy Statement which follow.

It is important that your shares be represented at the meeting in order for the presence of a quorum to be assured and for your vote to be counted. Please return your signed proxy card promptly, whether or not you plan to attend the meeting. You also may vote by telephone or via the Internet by following the instructions on your proxy card. Your vote is very important to ChoicePoint.

We appreciate your support in helping ChoicePoint create a safer, more secure society through the responsible use of information. On behalf of the officers and directors of ChoicePoint, we wish to thank you for your continuing support of ChoicePoint.

Derek V. Smith
Chairman and Chief Executive Officer

Alpharetta, Georgia

March 21, 2007

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, PLEASE COMPLETE, SIGN, DATE AND RETURN YOUR PROXY OR VOTE BY TELEPHONE OR BY THE INTERNET.

CHOICEPOINT INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On May 1, 2007

NOTICE IS HEREBY GIVEN that ChoicePoint Inc. will hold the 2007 annual meeting of its shareholders (the Annual Meeting) at The Peabody Memphis, 149 Union Avenue, Memphis, Tennessee 38103, on Tuesday, May 1, 2007 at 10:00 a.m. local time, for the following purposes:

(1) To elect three directors for terms expiring in 2008;

(2) To approve an amendment to ChoicePoint s Articles of Incorporation and Amended and Restated Bylaws to provide for majority voting for directors in uncontested elections;

(3) To approve an amendment to the ChoicePoint Inc. 2006 Omnibus Incentive Plan to increase the number of shares available for grant thereunder from 1,500,000 to 2,700,000 shares;

(4) To ratify the appointment of Deloitte & Touche LLP as ChoicePoint s independent registered public accountants for the fiscal year ending December 31, 2007; and

(5) To transact any other business properly brought before the Annual Meeting or any adjournment or postponement thereof.

The Board of Directors is not currently aware of any other matters that will come before the Annual Meeting. Only ChoicePoint shareholders of record at the close of business on March 16, 2007 are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof.

Regardless of whether you plan to attend the Annual Meeting in person, you are urged to vote promptly by dating, signing and returning the enclosed proxy card in the accompanying envelope, or by voting by telephone or via the Internet as instructed on your proxy card.

By Order of the Board of Directors,

DAVID W. DAVIS
Corporate Secretary

Alpharetta, Georgia

March 21, 2007

CHOICEPOINT INC.

1000 Alderman Drive

Alpharetta, Georgia 30005

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

To be Held May 1, 2007

The 2007 Annual Meeting of Shareholders of ChoicePoint Inc. (ChoicePoint, the Company, our, we or us) will be held on Tuesday, May 1, 2007, at The Peabody Memphis, 149 Union Avenue, Memphis, Tennessee 38103, beginning promptly at 10:00 a.m., local time (the Annual Meeting). Your proxy is being solicited by the ChoicePoint Board of Directors (the Board of Directors or Board). It is anticipated that this proxy statement and the accompanying proxy card will first be mailed to holders of our common stock on or about March 21, 2007.

ABOUT THE MEETING

Why am I receiving these proxy materials?

You are receiving these proxy materials because you own shares of common stock in ChoicePoint. This proxy statement describes proposals on which we would like you, as a shareholder, to vote. It also gives you information on these proposals so that you can make an informed decision.

When you vote by proxy, you appoint Derek V. Smith, Douglas C. Curling and David W. Davis as your representatives at the Annual Meeting. Messrs. Smith, Curling and Davis will vote your shares, as you have instructed them, at the Annual Meeting. This way, your shares will be voted whether or not you attend the Annual Meeting. Even if you plan to attend the Annual Meeting, it is a good idea to vote in advance of the Annual Meeting in the event your plans change.

If an issue properly comes up for vote at the Annual Meeting that is not on the proxy card, Messrs. Smith, Curling and Davis will vote your shares, under your proxy, in accordance with their best judgment.

What am I voting on?

You are being asked to vote on:

- the election of three directors for terms expiring in 2008;
- approval of amendments to ChoicePoint s Articles of Incorporation and Amended and Restated Bylaws (Bylaws) to provide for majority voting for directors in uncontested elections;
- approval of an amendment to the ChoicePoint Inc. 2006 Omnibus Incentive Plan (the 2006 Plan) to increase the number of shares of the Company s common stock available for grant thereunder from 1,500,000 shares to 2,700,000 shares; and

the ratification of the appointment of Deloitte & Touche LLP (Deloitte) as the Company s independent registered public accountants for the fiscal year ending December 31, 2007.

No cumulative voting rights are authorized and dissenters rights are not applicable to these matters.

Who is entitled to vote?

Shareholders as of the close of business on March 16, 2007 are entitled to notice of, and to vote at the Annual Meeting. This is referred to as the record date. Each share of ChoicePoint common stock is entitled to one vote.

How do I vote?

You may vote by mail. You may vote by mail by signing and dating your proxy card or voting instruction form and mailing it in the enclosed, prepaid and addressed envelope.

You may vote by telephone. You may vote by telephone by calling the toll-free telephone number on your proxy card or voting instruction form on a touch-tone phone. Be sure to have your proxy card or voting instruction form available. Telephone voting facilities for shareholders of record will be available 24 hours a day and will close at 11:59 p.m. Eastern Daylight Time on April 30, 2007. If you hold your shares in the name of a bank or broker, your ability to vote by telephone depends on their voting processes. Please follow the directions on your proxy card or voting instruction form carefully.

You may vote by Internet. If you are a shareholder of record, you may vote by Internet by visiting the Internet site www.investorvote.com. Internet voting for shareholders of record will be available 24 hours a day and will close at 11:59 p.m. Eastern Daylight Time on April 30, 2007. If you hold your shares in the name of a bank or broker, your ability to vote by Internet depends on their voting processes. Please follow the directions on your proxy card carefully.

You may also vote in person at the Annual Meeting. Written ballots will be available to any shareholder as of the record date who wants to vote at the Annual Meeting. If you hold your shares in street name (through a broker or other nominee, such as a bank), you must obtain a legal proxy from your bank or broker in order to vote at the Annual Meeting.

How many shares must be present in order to hold the Annual Meeting?

As of March 16, 2007, 75,943,796 shares of common stock were issued and outstanding. Holders of a majority of the outstanding shares as of the record date, equal to 37,971,899 shares, must be either present at the Annual Meeting in person or represented by proxy in order to hold the Annual Meeting and conduct business. This is called a quorum.

What does it mean if I receive more than one proxy card?

It means that you have multiple accounts at the transfer agent and/or with brokers. Please vote all proxy cards to ensure that all your shares are voted. You may wish to consolidate as many of your transfer agent or brokerage accounts as possible under the same name and address for better customer service.

What if I change my mind after I return my proxy?

If you are a shareholder of record, you may revoke your proxy and change your vote at any time before the polls close at the Annual Meeting. You may do this by:

- sending written notice to our Corporate Secretary at 1000 Alderman Drive, Alpharetta, Georgia 30005;
- signing another proxy with a later date;
- voting again by telephone or Internet; or
- voting in person at the Annual Meeting.

If you hold your shares in street name, you may submit new voting instructions by contacting your bank, stockbroker or other holder of record. You may also vote in person at the Annual Meeting if you obtain a legal proxy as described above.

How may I vote for each of the proposals?

With respect to the election of nominees for director, you may:

vote FOR the election of each of the three nominees for director;

WITHHOLD AUTHORITY to vote for any of the three nominees; or

WITHHOLD AUTHORITY to vote for one or more of the nominees and vote FOR the remaining nominee or nominees.
With respect to the proposals to: (a) approve the amendments to the Articles of Incorporation and Bylaws to provide for majority voting; (b) approve the amendment to the 2006 Plan; and (c) ratify the appointment of Deloitte as ChoicePoint s independent registered public accountants for the fiscal year ending December 31, 2007, you may:

vote FOR the proposal;

vote AGAINST the proposal; or

ABSTAIN from voting on the proposal.

How many votes must the nominees for election as director receive to be elected?

If a quorum is present at the Annual Meeting, the nominees that receive the greatest number of affirmative votes of the nominees for terms expiring in 2008, known as a plurality, will be elected to serve as directors. Shares that are not voted and shares for which votes are withheld will not affect the outcome of the election for directors. Withholding authority to vote for a particular nominee will not prevent that nominee from being elected.

What happens if a nominee is unable to stand for election?

The Board of Directors may, by resolution, provide for a lesser number of directors or designate a substitute nominee. In the latter event, shares represented by proxies may be voted for a substitute nominee.

How many votes must the approval of the amendments to the Articles of Incorporation and Bylaws to provide for majority voting for directors receive to pass?

The approval of the amendment to the Articles of Incorporation requires the affirmative vote of a majority of shares entitled to vote on the matter. The approval of the amendment to the Bylaws only requires that the number of votes cast favoring the action exceed the number of votes cast opposing the action. However, the amendments to the Articles of Incorporation and the Bylaws are intended to achieve the same purpose of providing majority voting for the Board of Directors. Therefore, the amendment to the Bylaws is being submitted to shareholders contingent on the amendment to the Articles of Incorporation also being approved. Accordingly, the combined proposal to approve both amendments will only be approved if a quorum is present at the Annual Meeting and the proposal receives the affirmative vote of a majority of shares entitled to vote on the matter. Abstentions will have the same effect as a vote against approving this proposal.

How many votes must the approval of the amendment to the 2006 Plan receive to pass?

If a quorum is present at the Annual Meeting, the proposal to approve the amendment to the 2006 Plan must receive the affirmative vote of a majority of the votes cast on this proposal, provided that the total number of votes cast on this matter represents greater than 50% of ChoicePoint s outstanding shares entitled to vote. Abstentions are counted as votes cast on this proposal and, as a result, have the same effect as a vote against the proposal.

How many votes must the ratification of the appointment of Deloitte as ChoicePoint s independent registered public accountants receive to pass?

If a quorum is present at the Annual Meeting, the proposal to ratify the appointment of Deloitte as ChoicePoint s independent registered public accountants for the fiscal year ending December 31, 2007 will be

approved if the number of votes cast favoring the action exceeds the number of votes cast opposing the action. Abstentions are neither counted as votes cast for or against this proposal and, as a result, have no effect on the outcome of the vote.

What happens if I sign and return my proxy card but do not provide voting instructions?

If you return a signed proxy card but do not provide voting instructions, your shares will be voted FOR the election of each of the three named director nominees, FOR the approval of the amendments to the Company s Articles of Incorporation and Bylaws, FOR the approval of the amendment to the 2006 Plan and FOR the ratification of the appointment of Deloitte as ChoicePoint s independent registered public accountants for the fiscal year ending December 31, 2007. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

Will my shares be voted if I do not sign and return my proxy card?

If your shares are held in street name, your bank or brokerage firm may vote your shares under certain circumstances. These circumstances include certain routine matters, such as the election of directors and the ratification of independent registered public accountants. Therefore, if you do not vote your shares, your bank or brokerage firm may either vote your shares on routine matters or leave your shares unvoted. When a bank or brokerage firm votes its customers unvoted shares on routine matters, these shares are also counted for purposes of establishing a quorum to conduct business at the Annual Meeting.

A bank or brokerage firm cannot vote customers shares on non-routine matters such as the amendment to the 2006 Plan without direction from the beneficial owner. Therefore, if your shares are held in street name and you do not vote your shares, your shares will not be voted on non-routine matters. These broker non-votes are counted for purposes of establishing a quorum for the Annual Meeting; however, broker non-votes are neither counted as votes cast for or against a matter presented for shareholder consideration and, as a result, have no effect on the outcome of the vote.

Where do I find the voting results of the Annual Meeting?

We will announce preliminary voting results at the Annual Meeting and will publish the final results in the Company s Quarterly Report on Form 10-Q for the quarter ending June 30, 2007. The report will be filed with the Securities and Exchange Commission (the SEC), and you will be able to get a copy by contacting our Corporate Secretary at (770) 752-6000, the SEC at (800) SEC-0330 for the location of the nearest public reference room, through our Web site at www.choicepoint.com or the SEC s EDGAR system at www.sec.gov.

CORPORATE GOVERNANCE

The Board of Directors represents the shareholders interests in achieving a successful business and increasing shareholder value in long-term financial returns and has always been committed to the highest level of corporate governance. The Board has a responsibility to its shareholders, employees, customers, and to the communities where it operates, to ensure that the Company operates with the highest professional, ethical, legal and socially responsible standards and to use information responsibly while helping our customers manage economic risks and threats to society.

Director Independence

Since ChoicePoint became a public company, the Board of Directors has been comprised of a majority of independent directors, as currently required by the New York Stock Exchange listing standards. In July 2002, the Board of Directors created the position of lead director, whose primary responsibility is to preside over the

regular executive sessions of the Board of Directors in which management directors and other members of management do not participate. The non-management directors elected Charles I. Story as lead director to preside over these executive sessions.

The Board of Directors has affirmatively determined that each of the directors and nominees for director is independent under the New York Stock Exchange listing standards, and the ChoicePoint categorical independence standards, with the exception of Derek V. Smith and Douglas C. Curling, each of whom is considered an inside director because of his employment with the Company. In addition, in 2006 the Board of Directors determined that James M. Denny, who served as a director until his retirement at the 2006 Annual Meeting of Shareholders, was independent under the New York Stock Exchange listing standards and the ChoicePoint categorical independence standards.

Each of our independent directors is affiliated with one or more companies to which ChoicePoint made payments, or from which ChoicePoint received revenue, in 2006. The Board of Directors considered each of these transactions in determining that each of these directors was independent.

The ChoicePoint Board of Directors has adopted the following categorical director independence standards, which are available on the ChoicePoint web site at www.choicepoint.com:

In no event will a director be considered independent if:

- the director was employed by the Company or any of its direct or indirect subsidiaries within the preceding three years;

- an immediate family member of the director was employed by the Company or any of its direct or indirect subsidiaries as an executive officer within the preceding three years;

- an immediate family member of the director is a current employee of the Company s internal or external auditor and participates in the firm s audit, assurance or tax compliance (but not tax planning) practice;

- the director or any immediate family member received more than $100,000 during any 12-month period within the last three years in direct compensation from the Company or any of its direct or indirect subsidiaries, other than director and committee fees and pension or other forms of deferred compensation for prior service (as long as such compensation is not contingent in any way on continued service);

- the director or an immediate family member is a current partner of a firm that is the Company s internal or external auditor;

- the director is a current employee at a firm that is the Company s internal or external auditor;

- the director or an immediate family member of the director was within the last three years (but is no longer) a partner or employee of the Company s internal or external auditor and personally worked on the Company s audit within that time;

- an executive officer of the Company was on the compensation committee of the board of directors of a company that employed either the director or an immediate family member of the director as an executive officer; or

- the director is or within the last three years was an executive officer or an employee, or an immediate family member of the director is or within the last three years was an executive officer, of a company that made payments to, or received payments from, the Company for property or services in an amount which, in any single fiscal year, exceeded the greater of $1 million, or 2% of the other company s consolidated gross revenues.

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The following relationships will not be considered to be material relationships that would impair a director s independence:

- if a director is an executive officer of another company which is indebted to the Company, or to which the Company is indebted, and the total amount of the indebtedness is less than 1% of the total consolidated assets of the indebted company;
- if a director serves as an executive officer, director or trustee, or an immediate family member of the director serves as an executive officer, of a charitable organization and the Company s charitable contributions to the organization in any of the last three fiscal years, in the aggregate, are less than 1% of that organization s latest publicly-available consolidated gross revenues (or annual charitable receipts, if revenue information is not available) or $50,000, whichever is greater; and
- if a director is a director of a company that made payments to, or received payments from, the Company for property or services in an amount which, in any single fiscal year did not exceed the greater of $1 million or 2% of the other company s consolidated gross revenues.

Corporate Governance Guidelines

The ChoicePoint Inc. Corporate Governance Guidelines incorporate the practices and policies under which the Board has operated, including the requirement that a majority of directors be outside, independent directors and that the Audit Committee, Management Compensation and Benefits Committee (the Compensation Committee) and the Corporate Governance and Nominating Committee be comprised solely of independent directors. Principal topics addressed by the Corporate Governance Guidelines include:

- Board composition, including Board size, independence of directors, number of independent directors, lead director position and succession planning;
- Board functions, including executive sessions of non-employee directors, length of Board service, access to management, Board retirement and management development and succession planning; and
- Board committees, including responsibilities for each committee, nomination and selection of directors, director compensation, board assessment, Chief Executive Officer evaluation and retention of independent advisors.

The Corporate Governance and Nominating Committee periodically reviews and amends the Corporate Governance Guidelines as needed. The Privacy and Public Responsibility Committee, Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee have each adopted a written charter. A copy of each such charter, as well as the ChoicePoint Inc. Code of Conduct, Code of Ethics for Senior Financial Officers and Business Unit Leaders and the Corporate Governance Guidelines may be found on the Company s Web site at www.choicepoint.com. Copies will be provided to interested parties without charge who request a copy in writing to the Corporate Secretary, ChoicePoint Inc., 1000 Alderman Drive, Alpharetta, Georgia 30005.

Nominees for Director

The Corporate Governance and Nominating Committee will consider nominees recommended by the Board of Directors, management and shareholders. The Corporate Governance and Nominating Committee is authorized to retain third-party executive search firms to identify candidates.

The Corporate Governance and Nominating Committee will consider certain factors when selecting Board candidates, including, but not limited to, the current composition and diversity of skills of the Board, expertise and experience of a director leaving the Board, expertise required for a particular Board committee or if there is a corporate need for specific skills. The Corporate Governance and Nominating Committee seeks the following characteristics when considering a prospective candidate for the Board:

A desire to serve on the Board primarily to contribute to the growth and prosperity of ChoicePoint and help create long-term value for its shareholders;

- Individuals who possess the highest personal and professional ethics, integrity and values;
- Business or professional knowledge and experience that will contribute to the effectiveness of the Board and the committees of the Board, and will replace, when possible, important attributes possessed by directors who have retired or will retire in the near future;
- The ability to understand and exercise sound judgment on issues related to the goals of ChoicePoint;
- A willingness and ability to devote the time and effort required to serve effectively on the Board, including preparation for and attendance at Board and committee meetings;
- An understanding of the interests of shareholders, customers, employees and the general public, the intention and ability to act in the interests of all shareholders and an understanding of the use of information to help create a safer, more secure society;
- A position of leadership in his or her field of endeavor which may include business, government, community or education; and
- Free of interests or affiliations that could give rise to a biased approach to directorship responsibilities and/or a conflict of interest, and free of any material business relationship with ChoicePoint except for the employment relationship of an inside director.

The Corporate Governance and Nominating Committee will identify a specific area of business expertise that will best benefit the Company and based on this determination, and the criteria required for potential nominees, candidates possessing the targeted skills and requirements will be identified. Once a prospective nominee has been identified, the Chairman of the Board will initiate discussions with a prospective candidate and make appropriate recommendations to the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee will consider the qualifications of the potential candidate and make a recommendation to the full Board. Candidates are subject to ChoicePoint s background screening process.

Any shareholder who wishes to recommend a prospective candidate for the Board of Directors for consideration by the Corporate Governance and Nominating Committee may do so by submitting in writing the nominee s name and qualifications in accordance with the Bylaws to the following address: ChoicePoint Inc., 1000 Alderman Drive, Alpharetta, Georgia 30005, Attn: Corporate Secretary. The Corporate Governance and Nominating Committee evaluates nominees in the same manner, regardless of whether the nominee was recommended by a shareholder, a director or the Corporate Governance and Nominating Committee.

Communications with Directors

Shareholders and other interested parties wishing to communicate with the Board of Directors, any of its committees, the director selected to preside over meetings of the non-employee directors, the non-employee directors as a group or one or more individual directors regarding relevant business issues or who wish to make concerns regarding ChoicePoint should send all written communications to: ChoicePoint Inc., 1000 Alderman Drive, Alpharetta, Georgia 30005, Attn: Corporate Secretary. Written correspondence will be forwarded to the appropriate directors.

Board Meetings and Committees

The Board of Directors met six times during 2006. The Board of Directors has established several standing committees, which met at various intervals as indicated below. All directors attended at least 75% of the meetings of the Board of Directors and the various committees of which they were members. The Company has not adopted a formal policy regarding Board members attendance at the Company s annual shareholder meetings; however, the Company encourages all Board members to attend the annual shareholder meetings. Each of the Company s directors attended the 2006 Annual Meeting of Shareholders.

Executive Committee

The members of the Executive Committee are Messrs. Smith (Chairman), Langone, Murray and Story. The Executive Committee did not meet, but took action by written consent, five times during 2006. This committee is authorized to exercise the powers of the Board of Directors in the management of all of the affairs of ChoicePoint during the intervals between Board of Directors meetings, subject to the Board of Directors direction and certain statutory limitations.

Management Compensation and Benefits Committee

The members of the Compensation Committee are Messrs. Murray (Chairman) and McCoy and Ms. Szostak. The Compensation Committee met twice during 2006 and took action by written consent five times. This committee is responsible for all decisions regarding compensation of the Chief Executive Officer, Chief Financial Officer and the three other most highly-compensated executive officers (collectively, the Named Executive Officers) and incentive compensation awards for ChoicePoint s restricted employees as defined in the 2006 Plan. The Compensation Committee is also responsible for establishing and approving compensation policies, management incentive compensation plans and other material benefit plans. In administering the incentive plans, the Compensation Committee delegates authority for day-to-day administration and interpretation of the plans, including selection of non-elected officer participants, determination of award levels for such participants (within plan parameters and subject to an approximate aggregate range of such awards authorized by the Compensation Committee), and approval of award documents, to elected officers of the Company. However, the Compensation Committee may not delegate any authority under those plans for matters affecting the compensation and benefits of the Company s elected officers. For a discussion of the Company s process and procedures for the consideration and determination of executive compensation, including the role of executive officers in determining or recommending the amount or form of executive compensation, please see Compensation Discussion and Analysis. In 2006, the Compensation Committee engaged Mercer Human Resources Consulting, Inc. to review existing employment agreements and an employment agreement template and recommend terms and conditions for the renewal of existing employment agreements and for use of the template for new agreements.

The Board has affirmatively determined that all members of the Compensation Committee are independent under the New York Stock Exchange listing standards.

Audit Committee

The members of the Audit Committee are Messrs. McCoy (Chairman) and Story and Ms. Conley. The Audit Committee met seven times during 2006. This committee is responsible for reviewing and recommending to the Board of Directors the engagement or discharge of the Company s independent registered public accountants, reviewing with independent registered public accountants the scope, plan for and results of the audit engagement, reviewing the scope and results of ChoicePoint s internal audit department, reviewing the adequacy of ChoicePoint s system of internal accounting controls, reviewing the status of material litigation and corporate compliance, overseeing the information security program and any other matters the Audit Committee deems appropriate. The Board of Directors has determined that each member is qualified as an Audit Committee Financial Expert, within the meaning of SEC regulations, and possesses related financial management expertise, within the meaning of the listing standards of the New York Stock Exchange. The Board has affirmatively determined that all members of the Audit Committee are independent under the New York Stock Exchange listing standards and Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). The Company has established the Audit Committee in accordance with Rule 10A-3 promulgated under the Exchange Act.

Privacy and Public Responsibility Committee

The members of the Privacy and Public Responsibility Committee are Dr. Hamre (Chairman) and Messrs. Curling and Robinson. The Privacy and Public Responsibility Committee met twice in 2006. This committee is responsible for reviewing and monitoring legislation, recommending policies to the Board of Directors as to

privacy matters affecting ChoicePoint and overseeing the discharge of duties by the Company s Office of Credentialing, Compliance and Privacy, as well as monitoring and evaluating the Company s corporate citizenship programs and activities for the support of charitable, political and educational organizations, and community and government relations.

Corporate Governance and Nominating Committee

The members of the Corporate Governance and Nominating Committee are Messrs. Langone (Chairman), McCoy and Murray, Dr. Hamre and Ms. Szostak. The Corporate Governance and Nominating Committee met twice during 2006. This committee is responsible for identifying corporate governance issues, creating corporate governance policies, identifying and recommending potential candidates for election to the Board of Directors. In addition, the Corporate Governance and Nominating Committee periodically reviews the amount and form of director compensation. The Board has affirmatively determined that all members of the Corporate Governance and Nominating Committee are independent under the New York Stock Exchange listing standards.

Compensation Committee Interlocks and Insider Participation

Prior to the 2006 Annual Meeting of Shareholders, the members of the Compensation Committee were Messrs. Murray (Chairman) and McCoy and Dr. Hamre. Since the 2006 Annual Meeting of Shareholders, the Compensation Committee has been comprised of Messrs. Murray (Chairman) and McCoy and Ms. Szostak. None of the members of the Compensation Committee is a former or current officer or employee of the Company or any of its subsidiaries. None of ChoicePoint s executive officers currently serve on the Compensation Committee or Board of Directors of any other company of which any member of the Company s Compensation Committee or Board of Directors is an executive officer.

PROPOSAL NO. 1 ELECTION OF CHOICEPOINT DIRECTORS

The Board of Directors has currently fixed the number of ChoicePoint directors at ten. In 2006, shareholders approved amendments to the Articles of Incorporation and the Bylaws to eliminate the classified board structure. The amendments did not shorten the term of any Board member, and the current slate of directors will continue to serve for their elected terms. If elected at the Annual Meeting, the class of directors whose terms expire in 2007 will serve a one-year term. Thereafter, upon expiration of each director s term, he or she will be elected on an annual basis and the Board will be fully declassified in 2009.

The terms of Ray M. Robinson, Derek V. Smith and M. Anne Szostak will expire at the Annual Meeting and each will stand for reelection. The Board of Directors has nominated Messrs. Robinson and Smith and Ms. Szostak to stand for reelection at the Annual Meeting.

Each nominee is currently a director of ChoicePoint, and each nominee has consented to serve as a director if elected. If elected, the nominees will serve for the terms indicated and until their successors are elected and qualified. If any nominee for director shall be unable to serve, the persons named in the proxy may vote for a substitute nominee.

There are no family relationships between any director, person nominated to be a director or any executive officer of ChoicePoint or its subsidiaries.

Set forth below is information about the director nominees and about the incumbent directors whose terms will expire in 2008 and 2009.

Nominees for Terms Expiring in 2008

Ray M. Robinson, 59, has served as a director of ChoicePoint since December 2004. Mr. Robinson has served as Vice Chairman of the East Lake Community Foundation since 2005 and served as its Chairman from 2003 to 2005. He is the President Emeritus of Atlanta s East Lake Golf Club and served as its President from 2003 to January 2006. He was President of the Southern Region of AT&T Corporation from 1996 until his

retirement in May 2003. Mr. Robinson currently serves as a director of Aaron Rents, Inc., a provider of rental, lease ownership and specialty retailing of consumer electronics, residential and office furniture and appliances, Acuity Brands, Inc., a producer of lighting equipment and specialty products, Avnet, Inc., a distributor of electronic components, enterprise network and computer equipment and embedded subsystems, AMR Corporation, a passenger airlines company, and Citizens Bancshares Corporation, the holding company for Citizens Trust Bank.

Derek V. Smith, 52, is the Chairman and Chief Executive Officer of the Company. Mr. Smith has served as Chairman of the Board since May 1999 and as Chief Executive Officer and a director of the Company since May 1997. He also served as President of the Company from May 1997 until April 2002.

M. Anne Szostak, 56, has served as a director of ChoicePoint since December 2005. She has served as President and Chief Executive Officer of Szostak Partners, LLC, a consulting firm that advises businesses on strategic and human resources issues, since 2004. From 1994 to 2004, she served as Executive Vice President and Corporate Director of Human Resources of FleetBoston Financial Corporation and served in a variety of executive positions with FleetBoston Financial Corporation since 1973. Ms. Szostak also serves as a director of Tupperware Brands Corporation, a manufacturer of food storage, preparation and serving items, Spherion Corporation, a provider of temporary staffing, managed services and permanent placement services, and Belo Corp, a media company.

Incumbent Directors Whose Terms Expire in 2008

Dr. John J. Hamre, 56, has served as a director of ChoicePoint since May 2002. Dr. Hamre has served as President and Chief Executive Officer of the Center for Strategic and International Studies, a non-partisan, non-profit research institute, since April 2000. Dr. Hamre served as U.S. Deputy Secretary of Defense from 1997 until 2000 and as Comptroller under the Secretary of Defense from 1993 to 1997. Dr. Hamre received his Ph.D., with distinction, in 1978 from the School of Advanced International Studies, Johns Hopkins University. He serves as a director of ITT Industries, Inc., a manufacturer of engineering products, SAIC, Inc., a leading provider of scientific, engineering, systems integration and technical services and solutions, MITRE Corporation, a federally-chartered research and engineering organization providing technical services to the federal government, and also serves as an advisory board member for several organizations.

John B. McCoy, 63, has served as a director of ChoicePoint since December 2003. He served as Chairman of the Board of Bank One Corporation, a bank holding company, from 1987 to 1998 and as its Chief Executive Officer from 1984 to 1999. From June 2000 to December 2003, he served as Chairman of Corillian Corporation, a provider of online banking and software services. Mr. McCoy currently serves as a director of AT&T Inc., a telecommunications service provider, and Cardinal Health, Inc., a provider of health care services.

Terrence Murray, 67, has served as a director of ChoicePoint since May 2002. He served as Chairman of the Board of FleetBoston Financial Corporation, a diversified financial services company, from 2001 to 2002 and served as Chairman, President and Chief Executive Officer from 1982 through 2001, except in 1988, when he served only as President and from 2000 to 2001, when he served as Chairman and Chief Executive Officer. He serves as a director of A.T. Cross Company, a producer of writing instruments and CVS Corporation, a retail drugstore chain.

Incumbent Directors Whose Terms Expire in 2009

E. Renae Conley, 49, has served as a director of ChoicePoint since April 2006. Ms. Conley has served as President and Chief Executive Officer of Entergy Louisiana, LLC and of Entergy Gulf States, Inc. Louisiana, since 2000, where she is responsible for the companies electric distribution system, natural gas distribution operations, regulatory and governmental affairs, customer service, economic development programs and financial performance.

Douglas C. Curling, 52, has served as a director of ChoicePoint since May 2000. He has served as the Company s President since April 2002 and as Chief Operating Officer since May 1999. He served as Chief Operating Officer and Treasurer from May 1999 to May 2000 and served as Executive Vice President, Chief Financial Officer and Treasurer of the Company from 1997 until May 1999.

Kenneth G. Langone, 71, has served as a director of ChoicePoint since May 2000. Mr. Langone has served as Chairman, President and Chief Executive Officer of Invemed Associates LLC, an investment banking and brokerage firm, since 1974. He also serves as a director of The Home Depot, Inc., a home improvement retailer, Unifi, Inc., a producer of textile yarns, YUM! Brands, Inc., a food services company, and several private corporations.

Charles I. Story, 52, has served as a director of ChoicePoint since June 1997. He has served as President of ECS Group, Inc., a provider of business consulting services for executive talent development, since January 2005. He served as President and CEO of INROADS, Inc., an international non-profit training and development organization, from January 1993 until October 2005. He also serves as a director of Briggs & Stratton Corporation, a producer of gasoline engines, and as an advisory director to Regions Bank.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF MESSRS. ROBINSON AND SMITH AND MS. SZOSTAK AS DIRECTORS TO HOLD OFFICE UNTIL THE 2008 ANNUAL MEETING OF SHAREHOLDERS AND UNTIL THEIR RESPECTIVE SUCCESSORS ARE ELECTED AND QUALIFIED.

PROPOSAL NO. 2 AMENDMENTS TO THE ARTICLES OF INCORPORATION AND TO THE

BYLAWS TO PROVIDE FOR MAJORITY VOTING FOR DIRECTORS

ChoicePoint continues to strive to enhance its corporate governance practices, as evidenced by the Board of Directors decisions in 2006 to terminate the Shareholder Rights Plan and to request shareholder approval to declassify the Board. The Board, in its continuing review and consideration of emerging corporate governance issues, has determined that it is in the best interests of the Company and its shareholders to amend the Company s Articles of Incorporation and Bylaws to allow for majority voting in uncontested elections of directors.

Currently, directors are elected by a plurality vote. Under a plurality voting standard, nominees for director receiving the most for votes are elected and votes that are not cast and votes cast to withhold authority to vote on the proposal have no impact. Many shareholder proponents believe plurality voting does not adequately permit shareholders to have a true voice in the election of directors. Under the majority voting standard provided for in the proposed amendments, the number of for votes cast in favor of a director nominee must be greater than the number of against votes received by the director nominee in an uncontested election. The amendments also provide that if an incumbent director is not reelected, the director shall offer to tender his or her resignation to the Board of Directors. The Corporate Governance and Nominating Committee will make a recommendation to the Board on whether to accept or reject the director s offer to tender his or her resignation, or whether other action should be taken. The Board will act on the Corporate Governance and Nominating Committee s recommendation and publicly disclose its decision within 90 days from the date of the certification of the Annual Meeting election results. The director who offers to tender his or her resignation will not participate in the Board s decision. If the failure of a nominee to be elected at the annual meeting results in a vacancy on the Board, that vacancy can be filled by action of the Board. In the event of a contested election, a plurality voting standard will apply to guard against a failed election contest in which no candidate receives a majority of for votes.

The Board adopted, subject to shareholder approval, an amendment to Section 2.3 of the Bylaws to change the standard for the election of Directors in uncontested elections from a plurality voting standard to a majority

voting standard. The amendment to the Bylaws will become effective upon approval of the amendment of Article III of the Articles of Incorporation. If approved by our shareholders, the amendment to the Articles of Incorporation will become effective upon the filing of the Articles of Amendment with the Georgia Secretary of State. ChoicePoint would make such filing promptly after the Annual Meeting. The new majority vote standard would be applicable to the election of directors at the 2008 Annual Meeting of Shareholders, unless such election is a contested election. The specific language of the proposed amendments to the Articles of Incorporation and Bylaws are set forth below.

Article III of the Articles of Incorporation would be amended by deleting it in its entirety, and by replacing it with the following:

Except as otherwise provided in these Articles of Incorporation or pursuant to the terms of any authorized series of Preferred Stock or by action of the Board of Directors pursuant to the Georgia Business Corporation Code, the vote required for shareholder action on all matters shall be the minimum vote required by the Georgia Business Corporation Code.

Each director nominee shall be elected to the Board of Directors by a vote of the majority of the votes cast with respect to that director nominee s election at any meeting for the election of directors at which a quorum is present, provided that if the number of nominees exceeds the number of directors to be elected, the director nominees shall be elected by a plurality of the votes cast. For purposes of this Article III, a majority of the votes cast means that the number of shares voted for a director nominee must exceed the number of votes cast against that director nominee.

If an incumbent director is not elected by a majority of votes cast (unless, pursuant to the immediately preceding paragraph, the director election standard is a plurality), the incumbent director shall promptly offer to tender his or her resignation to the Board of Directors. The Corporate Governance and Nominating Committee will make a recommendation to the Board of Directors on whether to accept or reject the director s offer to tender his or her resignation, or whether other action should be taken. The Board of Directors will act on the Corporate Governance and Nominating Committee s recommendation and publicly disclose its decision within 90 days from the date of the certification of the election results. An incumbent director who offers to tender his or her resignation will not participate in the Corporate Governance and Nominating Committee s or the Board of Directors recommendation or decision, or any deliberations related thereto. An incumbent director who has offered to tender his or her resignation pursuant to this Article III shall promptly tender such resignation upon the Board of Directors acceptance of such offer. References to the Corporate Governance and Nominating Committee shall include any successor committee.

If a director s resignation is accepted by the Board of Directors pursuant to this Article III, or if a nominee for director is not elected and the nominee is not an incumbent director, then the Board of Directors may fill the resulting vacancy pursuant to the provisions of Section (a)(3) of Article IV of these Articles of Incorporation or may decrease the size of the Board of Directors pursuant to Section (a)(1) of Article IV of these Articles of Incorporation.

Section 2.3 of the Bylaws would be amended by deleting it in its entirety, and by replacing it with the following:

2.3 Each director nominee shall be elected to the Board of Directors by a vote of the majority of the votes cast with respect to that director nominee s election at any meeting for the election of directors at which a quorum is present, provided that if the number of nominees exceeds the number of directors to be elected, the director nominees shall be elected by a plurality of the votes cast. For purposes of this Section 2.3, a majority of the votes cast means that the number of shares voted for a director nominee must exceed the number of votes cast against that director nominee.

If an incumbent director is not elected by a majority of votes cast (unless, pursuant to the immediately preceding paragraph, the director election standard is a plurality), the incumbent director shall promptly offer to tender his or her resignation to the Board of Directors. The Corporate Governance and Nominating

Committee will make a recommendation to the Board of Directors on whether to accept or reject the director s offer to tender his or her resignation, or whether other action should be taken. The Board of Directors will act on the Corporate Governance and Nominating Committee s recommendation and publicly disclose its decision within 90 days from the date of the certification of the election results. An incumbent director who offers to tender his or her resignation will not participate in the Corporate Governance and Nominating Committee s or the Board of Directors recommendation or decision, or any deliberations related thereto. An incumbent director who has offered to tender his or her resignation pursuant to this Section 2.3 shall promptly tender such resignation upon the Board of Directors acceptance of such offer. References to the Corporate Governance and Nominating Committee shall include any successor committee.

If a director s resignation is accepted by the Board of Directors pursuant to this Section 2.3, or if a nominee for director is not elected and the nominee is not an incumbent director, then the Board of Directors may fill the resulting vacancy pursuant to the provisions of Section 2.4 or may decrease the size of the Board of Directors pursuant to Section 2.2.

If this proposal is not approved, pursuant to the Company s current Articles of Incorporation and Bylaws, directors will continue to be elected by plurality voting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE AMENDMENTS TO THE ARTICLES OF INCORPORATION AND THE BYLAWS TO PROVIDE FOR MAJORITY VOTING FOR DIRECTORS.

CHOICEPOINT SECURITY OWNERSHIP OF CERTAIN

BENEFICIAL OWNERS AND MANAGEMENT

The following table reflects information, as of February 28, 2007, with respect to the beneficial ownership of ChoicePoint common stock by (1) persons known to ChoicePoint to be the beneficial owners of more than five percent of the ChoicePoint common stock in accordance with Section 13(d) of the Exchange Act; (2) each of the executive officers of ChoicePoint named in the summary compensation table which follows; (3) each director and director nominee of ChoicePoint; and (4) all of the directors, director nominees and executive officers of ChoicePoint as a group. Share ownership information represents those shares as to which the individual holds sole voting and investment power, except as otherwise indicated. After giving effect to ChoicePoint share repurchases executed as of February 28, 2007, the number of outstanding shares of ChoicePoint common stock as of such date was 76,340,534.

Name and Address	Number of Shares (1)	Percent of Class (%)
Baron Capital Group, Inc BAMCO, Inc. Baron Capital Management, Inc. Baron Asset Fund Ronald Baron 767 Fifth Avenue New York, NY 10153	9,214,516(2)	12.1
Oppenheimer Capital LLC 1345 Avenue of the Americas, 49th Floor New York, NY 10105	5,310,683(3)	7.0
Capital Research and Management Company American Funds Insurance Series Growth Funds 333 South Hope Street Los Angeles, CA 90071	5,175,000(4)	6.8
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	4,262,101(5)	5.6
E. Renae Conley	3,000	*
Douglas C. Curling	1,019,944(6)	1.3
John J. Hamre	12,250	*
Kenneth G. Langone	1,970,011(7)	2.6
David T. Lee	547,362	*
John B. McCoy	7,000(8)	*
Terrence Murray	12,250	*
Ray M. Robinson	2,000	*
Derek V. Smith	2,980,818(9)	3.8

Charles I. Story	51,244	*
Steven W. Surbaugh	328,590(10)	*
M. Anne Szostak	3,000	*
David E. Trine	137,446	*
All Executive Officers, Directors, and Nominees as a Group (17 persons)	7,259,192	9.1

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* Represents beneficial ownership of less than 1.0% of the outstanding shares of ChoicePoint common stock.

(1) Includes shares issuable pursuant to stock options exercisable on February 28, 2007, or within 60 days thereafter, as follows: Mr. Curling 837,470 shares; Dr. Hamre 11,666 shares; Mr. Langone 24,332 shares; Mr. Lee 344,230 shares; Mr. Murray 11,666 shares; Mr. Smith 1,997,564 shares; Mr. Story 48,332 shares; Mr. Surbaugh 120,000 shares and Mr. Surbaugh s spouse 100,000 shares; Mr. Trine 79,995 shares and other executive officers 104,551 shares.

(2) This information is based on a Schedule 13G/A filed with the SEC on February 14, 2007 by Baron Capital Group, Inc., BAMCO, Inc., Baron Capital Management, Inc., Baron Asset Fund and Ronald Baron. According to the Schedule 13G/A, Baron Capital Group, Inc. has sole voting power and sole dispositive power covering 150,000 shares and shared voting power for 8,704,016 shares and shared dispositive power covering 9,064,516 shares. BAMCO, Inc. has shared voting power covering 8,302,600 shares and shared dispositive power covering 8,619,700 shares. Baron Capital Management, Inc. has sole voting and sole dispositive power covering 150,000 shares, shared voting power covering 401,416 shares and shared dispositive power covering 444,816 shares. Baron Asset Fund has shared voting and dispositive power covering 3,700,000 shares and Ronald Baron has sole voting power and sole dispositive power covering 150,000 shares, shared voting power covering 8,704,016 shares and shared dispositive power covering 9,064,516 shares.

(3) This information is based on a Schedule 13G filed with the SEC on February 9, 2007 by Oppenheimer Capital LLC (Oppenheimer). According to the Schedule 13G, Oppenheimer has sole voting power covering 1,594,848 shares and sole dispositive power covering 5,310,683 shares.

(4) This information is based on a Schedule 13G filed with the SEC on February 12, 2007 by Capital Research and Management Company (Capital Research) and American Funds Insurance Series Growth Fund (American Funds). According to the Schedule 13G, Capital Research has sole voting power covering 1,175,000 shares and sole dispositive power covering 5,175,000 shares, and American Funds has no voting power or dispositive power with respect to any such shares.

(5) This information is based on a Schedule 13G/A filed with the SEC on February 13, 2007 by T. Rowe Price Associates, Inc. (Price Associates). According to the Schedule 13G/A, Price Associates has sole voting power covering 945,148 shares and sole dispositive power covering 4,262,101 shares, which are owned by various individual and institutional investors, for which Price Associates serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

(6) Includes 19,270 shares held in a trust and 5,983 shares held in custodial accounts for his children. Excludes 50,000 shares of restricted stock granted under the 1997 Omnibus Stock Incentive Plan, the receipt of which the officer has elected to defer under the ChoicePoint Inc. Deferred Compensation Plan No. 2, 25,000 deferred shares issued under the 1997 Omnibus Stock Incentive Plan, 75,000 deferred shares issued under the 2003 Omnibus Incentive Plan and a contribution, equivalent to 39,000 shares, to his account under the ChoicePoint Inc. Deferred Compensation Plan.

(7) Includes 971,553 shares owned by Invemed Securities, Inc. and 209 shares owned by his wife. Mr. Langone is Chairman of Invemed Securities, Inc. Includes 740,000 shares owned directly by Mr. Langone that are held in a margin account.

(8) Includes 4,000 shares held in a family trust.

(9) Includes 400 shares owned by his wife and 37,917 shares held in trusts for his children. Excludes 100,000 shares of restricted stock granted under the 1997 Omnibus Stock Incentive Plan, the receipt of which the officer has elected to defer under the ChoicePoint Deferred Compensation Plan No. 2, 50,000 deferred shares issued under the 1997 Omnibus Stock Incentive Plan, 150,000 deferred shares issued under the 2003 Omnibus Incentive Plan and a contribution, equivalent to 78,000 shares, to his account under the ChoicePoint Inc. Deferred Compensation Plan.

(10) Includes 13,333 shares owned by his wife, 6,000 shares held in trusts for his daughters and 27 shares owned by his daughter.

The Board of Directors alignment with the Company s shareholders is further demonstrated by the number of common share equivalents and share equivalent units denominated in the Company s common stock held by each director. While these equity holdings are not reflected in the table set forth above, they represent a significant interest as follows: Ms. Conley 89.80 common share equivalents and 3,773 share equivalent units; Dr. Hamre 6,310.27 common share equivalents and 8,908 share equivalent units; Mr. Langone 8,908 share equivalent units; Mr. McCoy 4,629.88 common share equivalents and 9,958 share equivalent units; Mr. Murray 8,908 share equivalent units; Mr. Robinson 2,533.92 common share equivalents and 6,975 share equivalent units; Mr. Story 2,991.71 common share equivalents and 8,908 share equivalent units; and Ms. Szostak 3,801 share equivalent units.

COMPENSATION DISCUSSION AND ANALYSIS

*This Compensation Discu="bottom" width="1%">$*14,829 $28,331 $27,343

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

See accompanying notes.

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LANTRONIX, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes.

LANTRONIX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Lantronix, Inc. (the "Company" or "Lantronix") have been prepared by the Company in accordance with generally accepted accounting principles ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2007, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on September 11, 2007. They contain all normal recurring accruals and adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at December 31, 2007, and the consolidated results of its operations and cash flows for the three and six months ended December 31, 2007 and 2006. All intercompany accounts and transactions have been eliminated. It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three and six months ended December 31, 2007 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

2. Computation of Net Income (Loss) per Share

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

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

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

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

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

3. Inventories

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

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

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

4. Warranty

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

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

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

5. Bank Line of Credit and Debt

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

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

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

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

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

6. Share-Based Compensation

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

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

The following table presents stock option grant date information:

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

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2007		2006		2007		2006	
	(In thousands)							
Cost of revenues	$	26	$	24	$	53	$	36
Selling, general and administrative		132		202		402		411
Research and development		74		96		186		188
Total share-based compensation	$	232	$	322	$	641	$	635

7. Income Taxes

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

uncertain tax positions.

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

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

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

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

8. Comprehensive Income (Loss)

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

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

9. Litigation Settlements

Securities Litigation Settlements

Securities Class Action Lawsuits ("Class Action")

Beginning on May 15, 2002, a number of securities class actions were filed against the Company and certain of its current and former directors and former officers alleging violations of the federal securities laws. These actions were consolidated into a single action pending in the United States District Court for the Central District of California entitled In re Lantronix, Inc. Securities Litigation, Case No. CV 02-3899 GPS (JTLx). After the Court appointed a lead plaintiff, amended complaints were filed by the plaintiff, and the defendants filed various motions to dismiss directed at particular allegations. Through that process, certain of the allegations were dismissed by the Court.

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

through improper revenue recognition and failure to comply with GAAP.

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

10. Litigation

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

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

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

Cautionary Statement

You should read the following discussion and analysis in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained elsewhere in this Quarterly Report on Form 10-Q. The information contained in this Quarterly Report is not a complete description of our business. We urge you to carefully review and consider the various disclosures made by us in this Quarterly Report and in our other reports filed with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the fiscal year ended June 30, 2007 and subsequent reports on our Current Reports on Form 8-K.

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

Overview

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

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

The following describes our device networking product lines:

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

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

The following describes our non-core product line:

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

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

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

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

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

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

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

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

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

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

Critical Accounting Policies and Estimates

The accounting policies that have the greatest impact on our financial condition and results of operations and that require the most judgment are those relating to revenue recognition, warranty reserves, allowance for doubtful accounts, inventory valuation, valuation of deferred income taxes, goodwill and purchased intangible assets and legal settlement costs. These policies are described in further detail in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007. There have been no significant changes in our critical accounting policies and estimates during the six months ended December 31, 2007 as compared to what was previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

Recent Accounting Pronouncements

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

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Consolidated Results of Operations

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

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

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

Net Revenues by Product Line

The following table presents net revenues by product line:

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

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

The following table presents net revenues by product line:

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

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

Net Revenues by Region

The following table presents net revenues by geographic region:

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

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

The following table presents net revenues by geographic region:

	Six Months Ended December 31,					
	2007	% of Net Revenue	2006	% of Net Revenue	Change $	%
	(In thousands, except percentages)					
Americas	$ 16,843	59.5%	$ 17,229	63.0%	$ (386)	(2.2%)
EMEA	7,510	26.5%	6,711	24.5%	799	11.9%
Asia Pacific	3,978	14.0%	3,403	12.5%	575	16.9%
Net revenues	$ 28,331	100.0%	$ 27,343	100.0%	$ 988	3.6%

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

Gross Profit

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

The following table presents gross profit:

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

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

The following table presents gross profit:

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

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

Selling, General and Administrative

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

The following table presents selling, general and administrative expenses:

	Three Months Ended December 31,				Change	
	2007	% of Net Revenues	2006	% of Net Revenues	$	%
	(In thousands, except percentages)					
Personnel-related expenses	$ 2,922		$ 3,189		$ (267)	(8.4%)
Professional fees & outside services	768		847		(79)	(9.3%)
Advertising and marketing	663		842		(179)	(21.3%)
Facilities	389		477		(88)	(18.4%)
Share-based compensation	132		202		(70)	(34.7%)
Depreciation	93		66		27	40.9%
Other	364		434		(70)	(16.1%)
Selling, general and administrative	$ 5,331	34.9%	$ 6,057	40.8%	$ (726)	(12.0%)

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

The following table presents selling, general and administrative expenses:

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

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

Research and Development

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

The following table presents research and development expenses:

	Three Months Ended December 31,					
	2007	% of Net Revenues	2006	% of Net Revenues	Change $	%
	(In thousands, except percentages)					
Personnel-related expenses	$ 1,333		$ 1,339		$ (6)	(0.4%)
Facilities	216		148		68	45.9%
Professional fees & outside services	53		137		(84)	(61.3%)
Share-based compensation	74		96		(22)	(22.9%)
Depreciation	14		11		3	27.3%
Other	68		151		(83)	(55.0%)
Research and development	$ 1,758	11.5%	$ 1,882	12.7%	$ (124)	(6.6%)

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

The following table presents research and development expenses:

	Six Months Ended December 31,					
	2007	% of Net Revenues	2006	% of Net Revenues	Change $	%

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

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

Provision for Income Taxes

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

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

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

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

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

Other Income, Net

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

The following tables present other income, net:

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

Cash Flows

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

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

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

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

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

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

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

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

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

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

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

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

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

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

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

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

Foreign Currency Risk

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

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

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

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Interim Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of our fiscal quarter ended December 31, 2007. Based upon that evaluation, our Interim Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our Interim Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure.

(b) Changes in internal controls over financial reporting

There have been no changes in our internal controls over financial reporting identified during the fiscal quarter that ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

(1) Includes Ingram Micro and Tech Data.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Current or future litigation could adversely affect us.

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

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

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

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

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

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

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

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

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

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

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

The following table presents our sales within geographic regions:

	Six Months Ended December 31,								
			% of Net			% of Net	Change		
		2007	Revenue		2006	Revenue	$		%
	(In thousands, except percentages)								
Americas	$	16,843	59.5%	$	17,229	63.0%	$	(386)	(2.2%)
EMEA		7,510	26.5%		6,711	24.5%		799	11.9%
Asia Pacific		3,978	14.0%		3,403	12.5%		575	16.9%
Net revenues	$	28,331	100.0%	$	27,343	100.0%	$	988	3.6%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business interruptions could adversely affect our business.

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

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

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

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

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

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

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

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

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

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

Item 5. Other Information

None.

Item 6. Exhibits

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

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

SIGNATURES

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

Date: February 8, 2008

LANTRONIX, INC.
(Registrant)

By: /s/ Reagan Y. Sakai
Reagan Y. Sakai
Interim Chief Executive Officer
Chief Financial Officer and Secretary
(Principal Executive and Financial Officer)