

LANTRONIX INC
Form 10-Q
May 02, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
^x1934**

For the quarterly period ended March 31, 2013

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
^oACT OF 1934**

For the transition period from _____ to _____.

Commission file number: 1-16027

LANTRONIX, INC.

(Exact name of registrant as specified in its charter)

Delaware

33-0362767

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

167 Technology Drive, Irvine, California

(Address of principal executive offices)

92618

(Zip Code)

(949) 453-3990

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Edgar Filing: LANTRONIX INC - Form 10-Q

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

LANTRONIX, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED

March 31, 2013

INDEX

	Page
PART I. FINANCIAL INFORMATION	1
Item 1. Financial Statements	1
Unaudited Condensed Consolidated Balance Sheets at March 31, 2013 and June 30, 2012	1
Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2013 and 2012	2
Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2013 and 2012	3
Notes to Unaudited Condensed Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosures about Market Risk	18
Item 4. Controls and Procedures	18
PART II. OTHER INFORMATION	18
Item 1. Legal Proceedings	18
Item 1A Risk Factors	18
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	19

Item 3. Defaults Upon Senior Securities	19
Item 4. Mine Safety Disclosures	19
Item 5. Other Information	19
Item 6. Exhibits	20

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

	March 31, 2013	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$7,154	\$11,374
Accounts receivable, net	2,808	2,674
Contract manufacturers' receivable	529	622
Inventories, net	9,177	5,955
Prepaid expenses and other current assets	437	549
Deferred tax assets	657	657
Total current assets	20,762	21,831
Property and equipment, net	1,751	1,605
Goodwill	9,488	9,488
Other assets	81	87
Total assets	\$32,082	\$33,011
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$4,355	\$3,563
Accrued payroll and related expenses	1,580	2,100
Warranty reserve	226	232
Short-term debt	333	667
Other current liabilities	3,720	3,342
Total current liabilities	10,214	9,904
Non-current liabilities:		
Long-term capital lease obligations	66	48
Long-term debt	-	167
Deferred tax liabilities	657	657
Other non-current liabilities	270	303
Total non-current liabilities	993	1,175
Total liabilities	11,207	11,079

Commitments and contingencies

Stockholders' equity:

Common stock	1	1
Additional paid-in capital	203,663	203,049
Accumulated deficit	(183,160)	(181,517)
Accumulated other comprehensive income	371	399
Total stockholders' equity	20,875	21,932
Total liabilities and stockholders' equity	\$32,082	\$33,011

See accompanying notes.

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

	Three Months		Nine Months	
	Ended		Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Net revenue (1)	\$12,164	\$12,134	\$35,528	\$33,770
Cost of revenue	6,547	6,215	18,407	17,508
Gross profit	5,617	5,919	17,121	16,262
Operating expenses:				
Selling, general and administrative	4,685	4,087	13,672	13,492
Research and development	1,717	1,775	4,991	5,116
Restructuring Charges	–	17	–	286
Amortization of purchased intangible assets	–	18	–	54
Total operating expenses	6,402	5,897	18,663	18,948
Income (loss) from operations	(785)	22	(1,542)	(2,686)
Interest expense, net	(14)	(26)	(45)	(76)
Other income (expense), net	10	(13)	(8)	(50)
Loss before income taxes	(789)	(17)	(1,595)	(2,812)
Provision for income taxes	12	24	48	50
Net loss	\$(801)	\$(41)	\$(1,643)	\$(2,862)
Net loss per share (basic and diluted)	\$(0.05)	\$(0.00)	\$(0.11)	\$(0.27)
Weighted-average common shares (basic and diluted)	14,580	10,585	14,572	10,576
Net revenue from related parties	\$221	\$238	\$894	\$649

(1) Includes net revenue from related parties

See accompanying notes.

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

	Nine Months Ended March 31, 2013 2012	
Operating activities		
Net loss	\$(1,643)	\$(2,862)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	640	543
Depreciation	629	683
Provision for excess and obsolete inventories	163	539
Gain on reversal of foreign currency translation	(28)	–
Restructuring charges	–	286
Amortization of purchased intangible assets	–	54
Changes in operating assets and liabilities:		
Accounts receivable	(134)	233
Contract manufacturers' receivable	93	105
Inventories	(3,385)	1,870
Prepaid expenses and other current assets	112	(128)
Other assets	6	92
Accounts payable	592	(3,932)
Accrued payroll and related expenses	(520)	276
Warranty reserve	(6)	(41)
Restructuring accrual	–	(246)
Other liabilities	365	(391)
Net cash used in operating activities	(3,116)	(2,919)
Investing activities		
Purchases of property and equipment	(507)	(446)
Net cash used in investing activities	(507)	(446)
Financing activities		
Payment of term loan	(501)	(500)
Minimum tax withholding paid on behalf of employees for restricted shares	(26)	(30)
Payment of capital lease obligations	(70)	(125)
Net proceeds from issuances of common stock	–	18
Net cash used in financing activities	(597)	(637)
Decrease in cash and cash equivalents	(4,220)	(4,002)
Cash and cash equivalents at beginning of period	11,374	5,836
Cash and cash equivalents at end of period	\$7,154	\$1,834

LANTRONIX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Lantronix, Inc. (referred to in these unaudited condensed consolidated financial statements as “Lantronix,” “we,” “us,” or “our”) have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Securities and Exchange Commission (“SEC”) Regulation S-X. Accordingly, they should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2012, included in our Annual Report on Form 10-K filed with the SEC on August 30, 2012. The unaudited condensed consolidated financial statements contain all normal recurring accruals and adjustments that in the opinion of management, are necessary to present fairly the consolidated financial position of Lantronix at March 31, 2013, and the consolidated results of our operations for the three and nine months ended March 31, 2013 and the consolidated cash flows for the nine months ended March 31, 2013. All intercompany accounts and transactions have been eliminated. It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three and nine months ended March 31, 2013 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

Recent Accounting Pronouncements

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

In February 2013, the FASB issued additional guidance to improve the reporting of reclassifications out of accumulated other comprehensive income (“AOCI”). For significant items reclassified out of AOCI to net income in their entirety during a reporting period, companies must report the effect on the line items in the statement where net income is presented. This can be done on the face of the statement in certain circumstances or in the notes. For public companies, this guidance is effective on a prospective basis for fiscal years and interim periods within those years

beginning after December 15, 2012. We do not expect the adoption of this guidance will have a material impact on our financial statements.

2. Supplemental Financial Information

Inventories

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

	March 31, 2013	June 30, 2012
	(In thousands)	
Raw materials	\$2,242	\$1,375
Finished goods	5,501	3,162
Finished goods held by distributors	1,382	1,182
Large scale integration chips *	52	236
Inventories, net	\$9,177	\$5,955

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

Other Liabilities

The following table presents details of our other liabilities:

	March 31, 2013	June 30, 2013
	(In thousands)	
Current		
Customer deposits and refunds	\$1,156	\$939
Accrued raw materials purchases	988	648
Deferred revenue	116	132
Capital lease obligations	58	78
Taxes payable	231	238
Other accrued liabilities	1,171	1,307
Total other current liabilities	\$3,720	\$3,342
Non-current		
Deferred rent	\$148	\$203
Deferred revenue	122	100
Total other non-current liabilities	\$270	\$303

Computation of Net Loss per Share

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

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

	Three Months Ended March 31, 2013		Nine Months Ended March 31, 2012	
		2012	2013	2012
	(In thousands, except per share data)			
Numerator:				
Net loss	\$(801)	\$(41)	\$(1,643)	\$(2,862)
Denominator:				
Weighted-average shares	14,580	10,635	14,572	10,626

Edgar Filing: LANTRONIX INC - Form 10-Q

Less: Unvested common shares		–	(50)	–	(50)	
Weighted-average common shares outstanding (basic and diluted)		14,580	10,585	14,572	10,576	
Net loss per share (basic and diluted)			\$(0.05)	\$(0.00)	\$(0.11)	\$(0.27)

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

	Three Months Ended March 31, 2013 2012		Nine Months Ended March 31, 2013 2012	
	(In thousands)			
Common stock equivalents	1,537	1,169	1,895	1,648

Supplemental Cash Flow Information

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

	Nine Months Ended March 31, 2013 2012 (In thousands)	
Non-cash acquisition of property and equipment under capital leases	\$ 68	\$ 91
Accrued property and equipment paid for in the subsequent period	\$ 200	\$ –

Accumulated Other Comprehensive Income

As a result of the final dissolution of our foreign subsidiary in France, during the quarter ended March 31, 2013, we reclassified to other income \$28,000 in accumulated foreign currency translation adjustments related to this subsidiary that were previously suspended in accumulated other comprehensive income.

3. Warranty Reserve