

REFINITIV

DELTA REPORT

10-Q

LTRX - LANTRONIX INC

10-Q - DECEMBER 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	497
CHANGES	108
DELETIONS	143
ADDITIONS	246

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, December 31, 2024**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 1-16027

LANTRONIX, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

33-0362767
(I.R.S. Employer Identification No.)

48 Discovery, Suite 250, Irvine, California
(Address of principal executive offices)

92618
(Zip Code)

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

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

Title of each class
Common Stock, \$0.0001 par value

Trading Symbol(s)
LTRX

Name of each exchange on which registered
The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☒

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 **November 1, 2024 January 31, 2025**, there were **38,475,343 38,789,664** shares of the registrant's common stock outstanding.

LANTRONIX, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED
SEPTEMBER 30, DECEMBER 31, 2024

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the three months ended **September 30, 2024** **December 31, 2024** (the “Report”) contains forward-looking statements within the meaning of the federal securities laws, which statements are subject to substantial risks and uncertainties. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this Report, or incorporated by reference into this Report, are forward-looking statements. Throughout this Report, we have attempted to identify forward-looking statements by using words such as “may,” “believe,” “will,” “could,” “project,” “anticipate,” “expect,” “estimate,” “should,” “continue,” “potential,” “plan,” “forecasts,” “goal,” “seek,” “intend,” other forms of these words or similar words or expressions or the negative thereof. Additionally, statements concerning future matters such as our expected earnings, revenues, expenses and financial condition, our expectations with respect to the development of new products, **our expectations regarding the benefits of our acquisition of Netcomm Wireless Pty Ltd, our expected reduction in labor force**, and other statements regarding matters that are not historical are forward-looking statements.

We have based our forward-looking statements on management’s current expectations and projections about trends affecting our business and industry and other future events. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Forward-looking statements are subject to substantial risks and uncertainties that could cause our future business, financial condition, results of operations or performance to differ materially from our historical results or those expressed or implied in any forward-looking statement contained in this Report. Factors which could have a material adverse effect on our operations and future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to, those set forth under “[Risk Factors](#)” in Item 1A of Part II of this Report, as such factors may be updated, amended or superseded from time to time by subsequent public filings with the Securities and Exchange Commission. In addition, actual results may differ as a result of additional risks and uncertainties of which we are currently unaware or which we do not currently view as material to our business.

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

We qualify all of our forward-looking statements by these cautionary statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANTRONIX, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2024	June 30, 2024	December 31, 2024	June 30, 2024
Assets				
Current assets:				
Cash and cash equivalents	\$ 26,395	\$ 26,237	\$ 19,210	\$ 26,237
Accounts receivable, net	30,801	31,279	30,472	31,279
Inventories, net	29,533	27,698	29,070	27,698
Contract manufacturers' receivables	2,722	1,401		
Contract manufacturers' receivables			3,473	1,401
Prepaid expenses and other current assets	3,169	2,335	3,329	2,335
Total current assets	92,620	88,950	85,554	88,950
Property and equipment, net	3,642	4,016	3,155	4,016
Goodwill	27,824	27,824	30,491	27,824
Intangible assets, net	4,000	5,251	4,910	5,251
Lease right-of-use assets	9,165	9,567	9,430	9,567
Other assets	607	600	683	600
Total assets	\$ 137,858	\$ 136,208	\$ 134,223	\$ 136,208
Liabilities and stockholders' equity				
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable	\$ 17,149	\$ 10,347	\$ 15,975	\$ 10,347
Accrued payroll and related expenses	3,440	5,836	2,968	5,836
Current portion of long-term debt, net	3,057	3,002	3,056	3,002
Other current liabilities	11,859	10,971	11,436	10,971
Total current liabilities	35,505	30,156	33,435	30,156
Long-term debt, net	12,409	13,219	11,630	13,219
Other non-current liabilities	11,014	11,478	11,245	11,478
Total liabilities	58,928	54,853	56,310	54,853
Commitments and contingencies (Note 8)				
Commitments and contingencies (Note 9)				
Stockholders' equity:				
Stockholders' equity:				
Common stock	4	4	4	4
Additional paid-in capital	304,078	304,001	305,433	304,001
Accumulated deficit	(225,523)	(223,021)	(227,895)	(223,021)
Accumulated other comprehensive income	371	371	371	371
Total stockholders' equity	78,930	81,355		
Total liabilities and stockholders' equity	\$ 137,858	\$ 136,208		
Total stockholders' equity			77,913	81,355
Total liabilities and stockholders' equity			\$ 134,223	\$ 136,208

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Three Ended December 31,	Months	Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
Net revenue	\$ 34,423	\$ 33,031	\$ 31,161	\$ 37,038	\$ 65,584	\$ 70,069
Cost of revenue	19,948	18,934	17,877	22,007	37,825	40,941
Gross profit	14,475	14,097	13,284	15,031	27,759	29,128
Operating expenses:						
Selling, general and administrative	9,496	9,170	8,811	10,224	18,278	19,394
Research and development	4,956	5,106	4,984	4,725	9,940	9,831
Restructuring, severance and related charges	900	20	193	530	1,093	550
Acquisition-related costs			208	—	237	—
Fair value remeasurement of earnout consideration	—	(9)	—	—	—	(9)
Amortization of intangible assets	1,251	1,384	1,248	1,310	2,499	2,694
Total operating expenses	16,603	15,671	15,444	16,789	32,047	32,460
Loss from operations	(2,128)	(1,574)	(2,160)	(1,758)	(4,288)	(3,332)
Interest expense, net	(119)	(338)	(126)	(232)	(245)	(570)
Other income (expense), net	(37)	19	8	(23)	(29)	(4)
Loss before income taxes	(2,284)	(1,893)	(2,278)	(2,013)	(4,562)	(3,906)
Provision (benefit) for income taxes	218	(7)				
Provision for income taxes			94	580	312	573
Net loss	\$ (2,502)	\$ (1,886)	\$ (2,372)	\$ (2,593)	\$ (4,874)	\$ (4,479)
Net loss per share - basic and diluted	\$ (0.07)	\$ (0.05)	\$ (0.06)	\$ (0.07)	\$ (0.13)	\$ (0.12)
Weighted-average common shares - basic and diluted	38,024	36,982	38,631	37,354	38,330	37,170

See accompanying notes to unaudited condensed consolidated financial statements.

LANTRONIX, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Three Months Ended September 30, 2024						Three Months Ended December 31, 2024					
	Accumulated						Accumulated					
	Additional		Other		Total	Additional		Other		Total		
	Common Stock	Paid-In	Accumulated	Comprehensive		Common Stock	Paid-In	Accumulated	Comprehensive			
	Shares	Amount	Capital	Deficit	Income	Stockholders' Equity	Shares	Amount	Capital	Deficit	Income	Equity
Balance at June 30, 2024	37,872	\$ 4	\$ 304,001	\$ (223,021)	\$ 371	\$ 81,355						
Balance at September 30, 2024							38,474	\$ 4	\$ 304,078	\$ (225,523)	\$ 371	\$ 78,930
Shares issued pursuant to stock awards, net	602	—	19	—	—	19	314	—	201	—	—	201
Tax withholding paid on behalf of employees for restricted shares	—	—	(1,542)	—	—	(1,542)	—	—	(359)	—	—	(359)
Share-based compensation	—	—	1,600	—	—	1,600	—	—	1,513	—	—	1,513
Net loss	—	—	—	(2,502)	—	(2,502)	—	—	—	(2,372)	—	(2,372)
Balance at September 30, 2024	38,474	\$ 4	\$ 304,078	\$ (225,523)	\$ 371	\$ 78,930						
Balance at December 31, 2024							38,788	\$ 4	\$ 305,433	\$ (227,895)	\$ 371	\$ 77,913

	Three Months Ended September 30, 2023							Three Months Ended December 31, 2023												
							Accumulated													
			Additional		Accumulated		Other		Total				Additional		Accumulated		Other		Total	
	Common Stock		Paid-In		Accumulated		Comprehensive		Stockholders'		Common Stock		Paid-In		Accumulated		Comprehensive		Stockholders'	
	Shares	Amount	Capital	Deficit	Income	Equity		Shares	Amount	Capital	Deficit	Income	Equity		Shares	Amount	Capital	Deficit	Income	Equity
Balance at June 30, 2023	36,875	\$ 4	\$ 295,686	\$ (218,505)	\$ 371	\$ 77,556														
Balance at September 30, 2023								37,260	\$ 4	\$ 297,007	\$ (220,391)	\$ 371	\$ 76,991							
Shares issued pursuant to stock awards, net	385	—	93	—	—	93		216	—	406	—	—	406							
Tax withholding paid on behalf of employees for restricted shares	—	—	(514)	—	—	(514)		—	—	(204)	—	—	(204)							
Share-based compensation	—	—	1,742	—	—	1,742		—	—	2,176	—	—	2,176							

Net loss	—	—	—	(1,886)	—	(1,886)	—	—	—	(2,593)	—	(2,593)
Balance at												
September 30, 2023	37,260	\$ 4	\$ 297,007	\$ (220,391)	\$ 371	\$ 76,991						
Balance at												
December 31, 2023					37,476	\$ 4	\$ 299,385	\$ (222,984)	\$ 371	\$ 76,776		
Six Months Ended December 31, 2024												
	Common Stock		Additional Paid-In Capital		Accumulated Deficit		Accumulated Other Comprehensive Income		Total Stockholders' Equity			
	Shares	Amount										
Balance at June 30, 2024	37,872	\$ 4	\$ 304,001	\$ (223,021)	\$ 371	\$ 81,355						
Shares issued pursuant to stock awards, net	916	—	220	—	—	220						
Tax withholding paid on behalf of employees for restricted shares	—	—	(1,901)	—	—	(1,901)						
Share-based compensation	—	—	3,113	—	—	3,113						
Net loss	—	—	—	(4,874)	—	(4,874)						
Balance at December 31, 2024	38,788	\$ 4	\$ 305,433	\$ (227,895)	\$ 371	\$ 77,913						
Six Months Ended December 31, 2023												
	Common Stock		Additional Paid-In Capital		Accumulated Deficit		Accumulated Other Comprehensive Income		Total Stockholders' Equity			
	Shares	Amount										
Balance at June 30, 2023	36,875	\$ 4	\$ 295,686	\$ (218,505)	\$ 371	\$ 77,556						
Shares issued pursuant to stock awards, net	601	—	500	—	—	500						
Tax withholding paid on behalf of employees for restricted shares	—	—	(719)	—	—	(719)						
Share-based compensation	—	—	3,918	—	—	3,918						
Net loss	—	—	—	(4,479)	—	(4,479)						
Balance at December 31, 2023	37,476	\$ 4	\$ 299,385	\$ (222,984)	\$ 371	\$ 76,776						

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Six Months Ended December 31,	
	2024	2023	2024	2023
Operating activities				
Net loss	\$ (2,502)	\$ (1,886)	\$ (4,874)	\$ (4,479)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Adjustments to reconcile net loss to net cash provided by operating activities:				
Share-based compensation	1,600	1,742	3,113	3,918
Depreciation and amortization	543	528	1,116	1,027
Amortization of intangible assets	1,251	1,384	2,499	2,694
Amortization of manufacturing profit in acquired inventory associated with acquisitions	—	317	—	506
Amortization of deferred debt issuance costs	24	27	21	55
Fair value remeasurement of earnout consideration	—	(9)	—	(9)
Changes in operating assets and liabilities, net of assets and liabilities acquired:				
Accounts receivable	478	(2,423)	1,711	(2,699)
Inventories	(1,835)	3,623	(400)	6,456
Contract manufacturers' receivable	(1,321)	2,389		
Contract manufacturers' receivables			(2,072)	1,252
Prepaid expenses and other current assets	(834)	(233)	(994)	(177)
Lease right-of-use assets	481	481	933	966
Other assets	(7)	11	(83)	(117)
Accounts payable	6,790	(3,591)	5,413	(2,830)
Accrued payroll and related expenses	(2,396)	108	(2,910)	872
Other liabilities	391	5,030	(470)	5,317
Net cash provided by operating activities	2,663	7,498	3,003	12,752
Investing activities				
Purchases of property and equipment	(157)	(486)	(241)	(1,189)
Cash payment for acquisition			(6,458)	—
Net cash used in investing activities	(157)	(486)	(6,699)	(1,189)
Financing activities				
Net proceeds from issuances of common stock	19	93	220	500
Tax withholding paid on behalf of employees for restricted shares	(1,542)	(514)	(1,901)	(719)
Earnout consideration paid for acquisition			—	(1,262)
Payment of borrowings on term loan	(779)	(518)	(1,556)	(1,297)
Payment of lease liabilities	(46)	(46)	(94)	(91)
Net cash used in financing activities	(2,348)	(985)	(3,331)	(2,869)
Increase in cash and cash equivalents	158	6,027		
Increase (decrease) in cash and cash equivalents			(7,027)	8,694
Cash and cash equivalents at beginning of period	26,237	13,452	26,237	13,452
Cash and cash equivalents at end of period	\$ 26,395	\$ 19,479	\$ 19,210	\$ 22,146

See accompanying notes to unaudited condensed consolidated financial statements.

LANTRONIX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, December 31, 2024

1. Company and Significant Accounting Policies

Company

Lantronix, Inc., which we refer to herein as the Company, Lantronix, we, our, or us, is a global leader in of compute and connectivity solutions, targeting high-growth industries markets such as Smart Cities, Automotive, and Enterprise markets. Our products and services empower companies to capitalize on succeed in the expanding growing internet of things (“IoT”) market by delivering customizable solutions that address each layer of the IoT stack, enable artificial intelligence (“AI”) edge intelligence.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Lantronix have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Securities and Exchange Commission (“SEC”) Regulation S-X. Accordingly, they should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2024, included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2024, which was filed with the SEC on September 9, 2024. 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 September 30, 2024 December 31, 2024, the consolidated results of our operations for the three and six months ended September 30, 2024 December 31, 2024 and our consolidated cash flows for the three six months ended September 30, 2024 December 31, 2024. All intercompany accounts and transactions have been eliminated.

Significant Accounting Policies

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. 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 September 30, 2024 December 31, 2024 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

Recent Accounting Pronouncements

Disaggregated Expenses Disclosures

In November 2024, the Financial Accounting Standards Board (“FASB”) issued final guidance requiring public business entities to disclose, on an annual and interim basis, disaggregated information about certain income statement expense line items. The required information includes purchases of inventory, employee compensation, depreciation, intangible asset amortization and depletion. The standard will be effective for Lantronix beginning with our annual financial statements for the fiscal year ending June 30, 2028. We have not yet determined the impact of adopting this guidance on our financial statements.

Income Tax Disclosures

In December 2023, the FASB issued a final standard on improvements to income tax disclosures. The new standard requires disaggregated information about a company's effective tax rate reconciliation and information on income taxes paid. The standard will be effective for Lantronix beginning with our annual financial statements for the fiscal year ending June 30, 2026. We have not yet determined the impact of adopting this guidance on our financial statements.

Segment Disclosures

In November 2023, the FASB issued a new Accounting Standards Update (“ASU”) requiring incremental disclosures related to a public company’s reportable segments. The new guidance was issued primarily to provide financial statement users with more disaggregated expense information about a company’s reportable segments. The guidance does not change the definition of a segment, the method for determining segments, or the criteria for aggregating operating segments into reportable segments. The guidance is effective for Lantronix on a retrospective basis beginning with our annual financial statements for the fiscal year ending June 30, 2025. We **are evaluating this guidance and currently** do not anticipate its adoption to materially impact our financial statements.

2. Revenue

Revenue is recognized upon the transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We apply the following five-step approach in determining the amount and timing of revenue to be recognized: (i) identifying the contract with a customer, (ii) identifying the performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the performance obligations in the contract and (v) recognizing revenue when the performance obligation is satisfied. On occasion we enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations.

Revenue is recognized exclusive of (i) any taxes collected from customers, which are subsequently remitted to governmental authorities and (ii) shipping and handling costs collected from customers.

Products

Most of our product revenue is recognized as a distinct single performance obligation when products are tendered to a carrier for delivery, which represents the point in time that our customer obtains control of the promised products. A smaller portion of our product revenue is recognized when our customer receives delivery of the promised products.

A significant portion of our products are sold to distributors under agreements which contain (i) limited rights to return unsold products and (ii) price adjustment provisions, both of which are accounted for as variable consideration when estimating the amount of revenue to recognize. We base our estimates for returns and price adjustments primarily on historical experience; however, we also consider contractual allowances, approved pricing adjustments and other known or anticipated returns and price adjustments in a given period. Such estimates are generally made at the time of shipment to the customer and updated at the end of each reporting period as additional information becomes available and only to the extent that it is probable that a significant reversal of any incremental revenue will not occur. Our estimates of accrued variable consideration are included in other current liabilities in the accompanying unaudited condensed consolidated balance sheets.

Services

Revenues from our extended warranty, technical support and maintenance services are generally recognized ratably over the applicable service period. Although not significant to date, revenues from sales of our software-as-a-service (“SaaS”) solutions are recognized ratably over the applicable service period as well.

We prepay sales commissions related to certain of these contracts, which are incremental costs of obtaining the contract. We capitalize these costs and expense them ratably on a straight-line basis over the life of the contract. At September 30, 2024 December 31, 2024, prepaid sales commissions included in prepaid expenses and other current assets totaled \$254,000 305,000 and those included in other assets totaled \$186,000 206,000.

Engineering Services

We derive a portion of our revenues from engineering and related consulting service contracts with customers. Revenues from professional engineering services are generally recognized as services are performed. These contracts generally include performance obligations in which control is transferred over time because the customer either simultaneously receives and consumes the benefits provided or our performance on the contract creates or enhances an asset that the customer controls. These contracts typically provide services on the following basis:

- Time & Materials (“T&M”) – services consist of revenues from software modification, consulting implementation, training and integration services. These services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary depending on the actual time and materials incurred based on the customer’s needs.
- Fixed Price – arrangements to render specific consulting and software modification services which tend to be more complex.

Performance obligations for T&M contracts qualify for the “Right to Invoice” practical expedient within the revenue guidance. Under this practical expedient, we may recognize revenue, over time, in the amount to which we have a right to invoice. In addition, we are not required to estimate variable consideration upon inception of the contract and reassess the estimate each reporting period. We have determined that this method best represents the transfer of services as, upon billing, we have a right to consideration from a customer in an amount that directly corresponds with the value to the customer of our performance completed to date.

We recognize revenue on fixed price contracts, over time, using an input method based on the proportion of our actual costs incurred (generally labor hours expended) to the total costs expected to complete the contract performance obligation. We have determined that this method best represents the transfer of services as the proportion closely depicts the efforts or inputs completed towards the satisfaction of a fixed price contract performance obligation.

Multiple Performance Obligations

From time to time, we may enter into contracts with customers that include promises to transfer multiple deliverables that may include sales of products, professional engineering services and other product qualification or certification services. Determining whether the deliverables in such arrangements are considered distinct performance obligations that should be accounted for separately versus together often requires judgment. We consider performance obligations to be distinct when the customer can benefit from the promised good or service on its own or by combining it with other resources readily available and when the promised good or service is separately identifiable from other promised goods or services in the contract. In such arrangements, we allocate revenue on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation.

Net Revenue by Product Line and Geographic Region

We organize our products and solutions into three product lines: Embedded IoT Solutions, IoT System Solutions, and Software & Services. Our Embedded IoT products are normally embedded into new designs. These products include application processing that delivers compute to meet customer needs for data transformation, computer vision, machine learning, augmented / virtual reality, audio / video aggregation and distribution, and custom applications at the edge. Our IoT System products include wired and wireless connections that enhance the value and utility of modern electronic systems and equipment by providing secure network connectivity, power for IoT end devices through Power over Ethernet ("PoE"), application hosting, protocol conversion, media conversion, secure access for distributed IoT deployments and many other functions. Our Software & Services products can be classified as either (i) our SaaS platform, which enables customers to easily deploy, monitor, manage, and automate across their global deployments, all from a single platform login, virtually connected as though directly on each device, (ii) engineering services, which is a flexible business model that allows customers to select from turnkey product development or team augmentation for accelerating complex areas of product development or (iii) extended warranty, support and maintenance.

We conduct our business globally and manage our sales teams by three geographic regions: the Americas; Europe, Middle East, and Africa (“EMEA”); and Asia Pacific Japan (“APJ”).

The following tables present our net revenue by product line and by geographic region. We present net revenues by geographic region generally based on the “ship-to” location of our customers for product sales and the “bill-to” location for services.

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
	(In thousands)		(In thousands)		(In thousands)	
Embedded IoT Solutions	\$ 13,387	\$ 11,373	\$ 10,784	\$ 11,764	\$ 24,171	\$ 23,137
IoT System Solutions	18,759	19,036	18,592	23,022	37,351	42,058
Software & Services	2,277	2,622	1,785	2,252	4,062	4,874
	<u>\$ 34,423</u>	<u>\$ 33,031</u>	<u>\$ 31,161</u>	<u>\$ 37,038</u>	<u>\$ 65,584</u>	<u>\$ 70,069</u>

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
	(In thousands)		(In thousands)		(In thousands)	
Americas	\$ 17,420	\$ 22,933	\$ 16,386	\$ 20,601	\$ 33,806	\$ 43,534
EMEA	10,484	6,591	9,036	12,886	19,520	19,477
Asia Pacific Japan	6,519	3,507	5,739	3,551	12,258	7,058
	<u>\$ 34,423</u>	<u>\$ 33,031</u>	<u>\$ 31,161</u>	<u>\$ 37,038</u>	<u>\$ 65,584</u>	<u>\$ 70,069</u>

The following table presents product revenues and service revenues as a percentage of our total net revenue:

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
Product revenues	93%	93%	94%	94%	94%	93%
Service revenues	7%	7%	6%	6%	6%	7%

Service revenues are comprised primarily of professional services, software license subscriptions, and extended warranties.

Contract Balances

In certain instances, the timing of revenue recognition may differ from the timing of invoicing to our customers. We record a contract asset receivable when revenue is recognized prior to invoicing, and a contract or deferred revenue liability when revenue is recognized subsequent to invoicing. With respect to product shipments, we expect to fulfill contract obligations within one year and so we have elected not to separately disclose the amount nor the timing of recognition of these remaining performance obligations. For contract balances related to contracts that include services and multiple performance obligations, refer to the deferred revenue discussion below.

Deferred Revenue

Deferred revenue is primarily comprised of unearned revenue related to our extended warranty, support and maintenance services and certain software services. These services are generally invoiced at the beginning of the contract period and revenue is recognized ratably over the service period. Current and non-current deferred revenue balances represent revenue allocated to the remaining unsatisfied performance obligations at the end of a reporting period and are respectively included in other current liabilities and other non-current liabilities in the accompanying unaudited condensed consolidated balance sheets.

The following table presents the changes in our deferred revenue balance for the **three six** months ended **September 30, 2024** **December 31, 2024** (in thousands):

Balance, June 30, 2024	\$	5,753	\$ 5,753
New performance obligations		878	1,891
Recognition of revenue from satisfying performance obligations		(1,188)	(2,404)
Balance, September 30, 2024		5,443	
Balance, December 31, 2024			5,240
Less: non-current portion of deferred revenue		(2,564)	(2,520)
Current portion, September 30, 2024	\$	2,879	
Current portion, December 31, 2024			\$ 2,720

We currently expect to recognize substantially all of the non-current portion of deferred revenue over the next 2 to 5 years.

3. Supplemental Financial Information Acquisition

Inventories On December 23, 2024 (the “Closing Date”), we finalized the acquisition of Netcomm Wireless Pty Ltd (“Netcomm”), a subsidiary of DZS Inc., for all of its enterprise IoT business assets for \$6,458,000 in cash. The acquisition complements our focus on Enterprise and Smart City vertical markets and adds products to enhance our connectivity solutions in areas such as critical infrastructure, asset monitoring and telecommunications.

	September 30, 2024	June 30, 2024
	(In thousands)	
Finished goods	\$ 16,228	\$ 14,167
Raw materials	13,305	13,531
Inventories	<u>\$ 29,533</u>	<u>\$ 27,698</u>

A summary of the purchase consideration for the acquisition is as follows (in thousands):

Cash paid, including initial working capital adjustments	\$ 6,458
Total purchase consideration	<u>\$ 6,458</u>

We recorded the tangible and intangible assets and liabilities acquired based on their estimated fair values as of the Closing Date and allocated the remaining purchase consideration to goodwill. Our valuation assumptions of acquired assets and assumed liabilities require significant estimates, especially with respect to intangible assets. Updates to the valuation of certain assets acquired and liabilities assumed may result in changes to the recorded amounts of assets and liabilities, with corresponding adjustments to goodwill in subsequent periods. We expect to complete the purchase price allocation within 12 months of the Closing Date.

The preliminary purchase price allocation is as follows (in thousands):

Accounts receivable, net	\$	904
Inventories, net		972
Amortizable intangible assets		2,158
Goodwill		2,667
Accounts payable and other accrued liabilities		(243)
Total consideration	\$	6,458

The factors that contributed to a purchase price resulting in the recognition of goodwill include our belief that this acquisition will create a more diverse IoT company with respect to product offerings and our belief that we are committed to improving cost structures in accordance with our operational and restructuring plans which should result in a realization of cost savings and an improvement of overall efficiencies.

Depending on the structure of a particular acquisition, goodwill and identifiable intangible assets may not be deductible for tax purposes. We have preliminarily determined that goodwill and identifiable intangible assets related to this acquisition are deductible.

Acquisition-related costs were expensed in the periods in which the costs were incurred.

The valuation of identifiable intangible assets and their estimated useful lives are as follows:

	Asset Fair Value (In thousands)	Weighted Average Useful Life (In years)
Customer relationships	\$ 1,358	7.0
Developed technology	439	5.0
Trademarks and trade names	88	2.0
Customer backlog	273	1.0

The intangible assets are amortized on a straight-line basis over the estimated weighted-average useful lives.

Valuation Methodology

The customer relationships were valued using the multi-period excess earnings method, which estimates revenues and cash flows derived from this asset and also considers portions of the cash flows that can be attributed to the use of other supporting assets so that these cash flows can be excluded. The useful lives of customer relationships are estimated based primarily upon the probability of loss associated with two major customers and customer turnover data for the other customers. Order backlog was estimated to be substantially fulfilled within a year of the Closing Date.

Developed technology and trades names were valued using the relief-from-royalty method. This method is an income approach that estimates the portion of a company's earnings attributable to an asset based on the royalty rate the company would have paid for the use of the asset if it did not own it. Royalty payments are estimated by applying a royalty rate to the prospective revenue attributable to the intangible asset. The resulting annual royalty payments are tax-affected and then discounted to present value.

Assumptions used in forecasting cash flows for each of the identified intangible assets included consideration of the following:

- Historical performance including sales and profitability
- Business prospects and industry expectations
- Estimated economic life of the asset
- Development of new technologies
- Acquisition of new customers
- Attrition of existing customers
- Obsolescence of technology over time

Supplemental Pro Forma Information

The following supplemental pro forma data summarizes our results of operations for the periods presented, as if we completed the acquisition as of the first day of our fiscal year ended June 30, 2024. The supplemental pro forma data reports actual operating results adjusted to include the pro forma effect and timing of the impact of amortization expense of identified intangible assets, the purchase accounting effect on inventories acquired, and transaction costs. In accordance with the pro forma acquisition date, we recorded in the six months ended December 31, 2023 supplemental pro forma data acquisition-related costs of \$208,000, with a corresponding reduction in the six months ended December 31, 2024 supplemental pro forma data. Additionally, we recorded (i) additional amortization expense of \$299,000 and (ii) cost of goods sold from manufacturing profit in acquired inventory of \$135,000 in the six months ended December 31, 2023 supplemental pro forma data, and additional amortization expense of \$163,000 in the six months ended December 31, 2024 supplemental pro forma data to represent amortization for the full fiscal year-to-date period.

Net revenue related to products from the acquisition of Netcomm did not contribute to our total net revenue for the six months ended December 31, 2024. As of the Closing Date, we began to immediately integrate the acquisition into existing operations, engineering groups, sales distribution networks and management structure, making it generally impracticable to determine the post-acquisition earnings on a standalone basis.

Supplemental pro forma data is as follows:

	Six Months Ended December 31,	
	2024	2023
	(In thousands, except per share amounts)	
Pro forma net revenue	\$ 67,445	\$ 75,241
Pro forma net loss	\$ (4,597)	\$ (3,869)
Pro forma net loss per share:		
Basic and Diluted	\$ (0.12)	\$ (0.10)

4. Supplemental Financial Information

Inventories

	December 31, 2024	June 30, 2024
	(In thousands)	
Finished goods	\$ 17,973	\$ 14,167
Raw materials	11,097	13,531
Inventories	<u>\$ 29,070</u>	<u>\$ 27,698</u>

Other Liabilities

The following table presents details of our other liabilities:

	September 30, 2024	June 30, 2024	December 31, 2024	June 30, 2024
	(In thousands)		(In thousands)	
Current				
Accrued variable consideration	\$ 2,279	\$ 1,796	\$ 2,825	\$ 1,796
Customer deposits and refunds	264	436	287	436
Accrued raw materials purchases	227	126	170	126
Deferred revenue	2,879	3,017	2,720	3,017
Lease liability	1,689	1,767	1,694	1,767
Taxes payable	667	772	623	772
Warranty reserve	848	840	835	840
Other accrued operating expenses	3,006	2,217	2,282	2,217
Total other current liabilities	<u>\$ 11,859</u>	<u>\$ 10,971</u>	<u>\$ 11,436</u>	<u>\$ 10,971</u>
Non-current				
Lease liability	\$ 8,202	\$ 8,563	\$ 8,408	\$ 8,563
Deferred tax liability	248	179	317	179
Deferred revenue	2,564	2,736	2,520	2,736
Total other non-current liabilities	<u>\$ 11,014</u>	<u>\$ 11,478</u>	<u>\$ 11,245</u>	<u>\$ 11,478</u>

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 September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
	(In thousands, except per share data)		(In thousands, except per share data)			
Numerator:						
Net loss	\$ (2,502)	\$ (1,886)	\$ (2,372)	\$ (2,593)	\$ (4,874)	\$ (4,479)
Denominator:						
Weighted-average common shares outstanding - basic and diluted	38,024	36,982	38,631	37,354	38,330	37,170
Net loss per share - basic and diluted	\$ (0.07)	\$ (0.05)	\$ (0.06)	\$ (0.07)	\$ (0.13)	\$ (0.12)

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

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
	(In thousands)		(In thousands)		(In thousands)	
Common stock equivalents	621	667	508	608	543	560

Intangible Assets

The following table presents details of intangible assets:

	September 30, 2024			June 30, 2024			December 31, 2024			June 30, 2024	
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			(In thousands)			(In thousands)			(In thousands)	
Developed technology	\$ 6,331	\$ (5,587)	\$ 744	\$ 6,331	\$ (5,293)	\$ 1,038	\$ 6,770	\$ (5,878)	\$ 892	\$ 6,331	\$ (5,293)
Customer relationships	17,528	(14,272)	3,256	17,528	(13,315)	4,213	18,640	(15,229)	3,411	17,528	(13,315)
Order backlog							273	—	273	—	—
Trademark and trade name							88	—	88	—	—
	<u>\$ 23,859</u>	<u>\$ (19,859)</u>	<u>\$ 4,000</u>	<u>\$ 23,859</u>	<u>\$ (18,608)</u>	<u>\$ 5,251</u>	<u>\$ 25,771</u>	<u>\$ (21,107)</u>	<u>\$ 4,664</u>	<u>\$ 23,859</u>	<u>\$ (18,608)</u>

We do not currently have any intangible assets with indefinite useful lives.

As of September 30, 2024 December 31, 2024, future estimated amortization expense is as follows:

Years Ending June 30,		
(In thousands)		
2025 (remainder)	\$ 2,433	\$ 1,479
2026	1,177	1,631
2027	326	621
2028	64	338
2029		273
Thereafter		322
	\$ 4,000	\$ 4,664

Restructuring, Severance and Related Charges

During the three and six months ended September 30, 2024 December 31, 2024, we incurred charges of approximately \$900,000 193,000 and \$1,093,000, respectively, related to certain headcount reductions in our sales, engineering, and operations groups. We may incur additional charges in future periods as we identify additional cost savings and efficiencies related to our business.

The following table presents details of the liability we recorded related to restructuring, severance and related activities:

		Six Months Ended December 31, 2024 (In thousands)
Beginning balance	\$	253
Charges		1,093
Payments		(1,194)
Ending balance	\$	152
		Three Months Ended September 30, 2024 (In thousands)
Beginning balance	\$	253
Charges		900
Payments		(754)
Ending balance	\$	399

These balances are recorded in accrued payroll and related expenses in the accompanying unaudited condensed consolidated balance sheets.

In January 2025, we undertook a reduction in our labor force to better align staffing needs with our business objectives. We expect the severance and related charges in connection with this action to approximate \$1,300,000 to \$1,500,000, which will be recorded in the three months ending March 31, 2025.

Supplemental Cash Flow Information

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

	Six Months Ended December 31,	
	2024	2023
	(In thousands)	
Accrued property and equipment paid for in the subsequent period	\$ 14	\$ 24

	Three Months Ended September 30,	
	2024	2023
	(In thousands)	
Accrued property and equipment paid for in the subsequent period	\$ 12	\$ 339

4.5. Warranty Reserve

The standard warranty periods we provide for our products typically range from one to five years. Certain products carry a limited lifetime warranty, which requires us to repair or replace a defective product or offer a refund of a portion of the purchase price based on a depreciated value at our option. We establish reserves for estimated product warranty costs at the time revenue is recognized based upon our historical warranty experience, and for any known or anticipated product warranty issues.

The following table presents details of our warranty reserve, which is included in other current liabilities in the unaudited condensed consolidated balance sheets:

	Three Months Ended	Year Ended	Six Months Ended	Year Ended
	September 30,	June 30,	December 31,	June 30,
	2024	2024	2024	2024
	(In thousands)		(In thousands)	
Beginning balance	\$ 840	\$ 788	\$ 840	\$ 788
Charged to cost of revenue	130	376	220	376
Usage	(122)	(324)	(225)	(324)
Ending balance	\$ 848	\$ 840	\$ 835	\$ 840

5.6. Bank Loan Agreements

In September 2022 we entered into a Third Amendment to the Third Amended and Restated Loan and Security Agreement (the “Amendment”) with Silicon Valley Bank (“SVB”), pertaining to our existing term loan and revolving credit facility (together, the “Senior Credit Facilities”), which amends that certain Third Amended and Restated Loan and Security Agreement, dated as of August 2, 2021, as amended by the First Amendment to Third Amended and Restated Loan and Security Agreement, dated as of October 21, 2021, as amended by the Second Amendment to Third Amended and Restated Loan and Security Agreement, dated as of February 15, 2022 by and among Lantronix and SVB (collectively with the Amendment, the “Loan Agreement”).

The Amendment, among other things, provided for an additional term loan in the original principal amount of \$5,000,000 that was originally scheduled to mature on August 2, 2025. The Senior Credit Facilities bears interest at Term Secured Overnight Financing Rate (“SOFR”) or the Prime Rate, at the option of Lantronix, plus a margin that ranges from 3.10% to 4.10% in the case of Term SOFR and 1.50% to 2.50% in the case of the Prime Rate, depending on our total leverage with a Term SOFR floor of 1.50% and a Prime Rate floor of 3.25%. The Amendment reduced the minimum liquidity requirement from \$5,000,000 to \$4,000,000. As a condition to entering into the Amendment, we were obligated to pay a nonrefundable facility increase fee in the amount of \$25,000. The Senior Credit Facilities are secured by substantially all of our assets.

In April 2023, we entered into a Letter Agreement (the “Letter Agreement”) with SVB, which, among other matters, amended the Loan Agreement to reduce the former requirement to hold 85% of our company-wide cash balances at SVB to 50%, and provided a waiver of any event of default under the Loan Agreement for any failure to comply with this covenant prior to the date of the Letter Agreement.

In September 2024, we entered into a Fourth Amendment to our Loan Agreement, pursuant to which the maturity of our Senior Credit Facilities was extended from August 2, 2025 to August 2, 2026.

The following table summarizes our outstanding debt under the Senior Credit Facilities:

	September 30, 2024	June 30, 2024	December 31, 2024	June 30, 2024
	(In thousands)		(In thousands)	
Outstanding borrowings on term loan	\$ 15,563	\$ 16,341	\$ 14,785	\$ 16,341
Less: Unamortized debt issuance costs	(97)	(120)	(99)	(120)
Net Carrying amount of debt	15,466	16,221	14,686	16,221
Less: Current portion	(3,057)	(3,002)	(3,056)	(3,002)
Non-current portion	\$ 12,409	\$ 13,219	\$ 11,630	\$ 13,219
Outstanding borrowings on revolving credit facility			\$ —	\$ —

During the three and six months ended September 30, 2024 December 31, 2024, we recognized \$380,000 335,000 and \$715,000, respectively, of interest expense in the accompanying unaudited condensed consolidated statements of operations related to interest and amortization of debt issuance associated with the borrowings under the Senior Credit Facilities.

Financial Covenants

The Senior Credit Facilities require Lantronix to comply with a minimum liquidity test, a maximum leverage ratio and a minimum fixed charge coverage ratio. We are currently in compliance with all financial covenants.

Liquidity

The Senior Credit Facilities require that we maintain a minimum liquidity of \$4,000,000\$4,000,000 at SVB, as measured at the end of each month.

Maximum leverage ratio

The Senior Credit Facilities require that we maintain a maximum leverage ratio, calculated as the ratio of funded debt to the consolidated trailing 12 month earnings before interest, taxes, depreciation and amortization, and certain other allowable exclusions of (i) 2.50 to 1.00 for each calendar quarter ending June 30, 2021 through and including September 30, 2022, (ii) 2.25 to 1.00 for each calendar quarter ending December 31, 2022 through and including September 30, 2023, and (iii) 2.00 to 1.00 for the calendar quarter ending December 31, 2023 and each calendar quarter thereafter.

Minimum fixed charge coverage ratio

The Senior Credit Facilities require that we maintain a minimum fixed charge coverage ratio, calculated as the ratio of consolidated trailing 12 month earnings before interest, taxes, depreciation and amortization, and certain other allowable exclusions, less capital expenditures and taxes paid, to the trailing twelve month principal and interest payments on all funded debt of 1.25 to 1.00 as measured at the end of each calendar quarter.

In addition, the Senior Credit Facilities contain customary representations and warranties, affirmative and negative covenants, including covenants that limit or restrict Lantronix and its subsidiaries' ability to incur liens, incur indebtedness, dispose of assets, make investments, make certain restricted payments, merge or consolidate and enter into certain speculative hedging arrangements. The Senior Credit Facilities include a number of events of default, including, among other things, non-payment defaults, covenant defaults, cross-defaults to other materials indebtedness, bankruptcy and insolvency defaults and material judgment defaults. If any event of default occurs (subject, in certain instances, to specified grace periods), the principal, premium, if any, interest and any other monetary obligations on all the then outstanding amounts under the Senior Credit Facilities may become due and payable immediately.

6.7. Stockholders' Equity

Restricted Stock Units ("RSUs")

The following table presents a summary of activity with respect to our RSUs:

	Number of Shares	Weighted- Average Grant Date Fair Value per Share	Number of Shares	Weighted- Average Grant Date Fair Value per Share
	(In thousands)		(In thousands)	
Balance of RSUs outstanding at June 30, 2024	1,881	\$ 4.89	1,881	\$ 4.89
Granted	464	3.63	1,205	3.34
Forfeited	(136)	4.42	(157)	4.53
Vested	(270)	4.91	(589)	5.06
Balance of RSUs outstanding at September 30, 2024	1,939	\$ 4.62		
Balance of RSUs outstanding at December 31, 2024			2,340	\$ 4.07

Performance Stock Units ("PSUs")

The following table presents a summary of activity with respect to our PSUs:

	Number of Shares (In thousands)
Balance of PSUs outstanding at June 30, 2024	1,669
Granted	539
Forfeited	(377)
Vested	(669)
Balance of PSUs outstanding at September 30, 2024	1,162
Balance of PSUs outstanding at December 31, 2024	

Stock Options

The following table presents a summary of activity with respect to our stock options:

	Weighted-		Weighted-	
	Average		Average	
	Exercise Price		Exercise Price	
	per Share		per Share	
	Number of		Number of	
	Shares		Shares	
	(In thousands)		(In thousands)	
Balance of options outstanding at June 30, 2024	567	\$ 4.13	567	\$ 4.13
Expired	(11)	2.16	(11)	2.16
Exercised	(230)	3.36	(230)	3.36
Balance of options outstanding at September 30, 2024	326	\$ 4.75		
Balance of options outstanding at December 31, 2024			326	\$ 4.75

Employee Stock Purchase Plan (“ESPP”)

The following table presents a summary of activity under our ESPP:

	Number of Shares (In thousands)
Shares available for issuance at June 30, 2024	181
Shares issued	(84)
Shares available for issuance at September 30, 2024 December 31, 2024	18197

Share-Based Compensation Expense

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

	Three Months Ended September 30,	
	2024	2023
	(In thousands)	
Cost of revenue	\$ 64	\$ 41
Selling, general and administrative	1,126	1,273
Research and development	410	428
Total share-based compensation expense	\$ 1,600	\$ 1,742

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023
	(In thousands)			
Cost of revenue	\$ 48	\$ 64	\$ 112	\$ 105
Selling, general and administrative	1,044	1,628	2,170	2,901
Research and development	421	484	831	912
Total share-based compensation expense	<u>\$ 1,513</u>	<u>\$ 2,176</u>	<u>\$ 3,113</u>	<u>\$ 3,918</u>

The following table presents the remaining unrecognized share-based compensation expense related to our outstanding share-based awards as of **September 30, 2024** December 31, 2024:

	Remaining Unrecognized Compensation Expense (In thousands)	Remaining Weighted- Average Years To Recognize	Remaining Unrecognized Compensation Expense (In thousands)	Remaining Weighted- Average Years To Recognize
Stock options	\$ 188	1.9	\$ 156	1.7
RSUs	7,560	2.2	8,604	2.2
PSUs	4,151	2.4	3,316	2.1
Stock purchase rights under ESPP	35	0.1	126	0.4
	<u>\$ 11,934</u>		<u>\$ 12,202</u>	

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

7.8. Income Taxes

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

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
	10%	0%	4%	29%	7%	15%
Effective tax rate						

The difference between our effective tax rates in the periods presented above and the federal statutory rate is primarily due to (i) a tax benefit from our domestic losses being recorded with a full valuation allowance, (ii) our current estimates of pre-tax profitability for the full fiscal year and (iii) the effect of foreign earnings taxed at rates differing from the federal statutory rate.

We have a net deferred tax liability of \$248,000 317,000 and \$179,000 at September 30, 2024 December 31, 2024 and June 30, 2024, respectively. This balance represents the excess of our indefinite-lived deferred tax liabilities over our indefinite-lived deferred tax assets and is recorded in other non-current liabilities on the accompanying unaudited condensed consolidated balance sheets.

The realization of deferred tax assets is dependent upon the generation of future taxable income. As required by Accounting Standards Codification Topic 740, we have evaluated the positive and negative evidence bearing upon our ability to realize our deferred tax assets. We have determined that it was more likely than not that Lantronix would not realize the deferred tax assets due to our cumulative losses and uncertainty of generating future taxable income and have therefore provided a full valuation allowance against our deferred tax assets as of September 30, 2024 December 31, 2024 and June 30, 2024.

8.9. Commitments and Contingencies

From time to time, we are subject to legal proceedings and claims in the ordinary course of business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, prospects, financial position, operating results or cash flows. We maintain insurance policies for settlements and judgments, as well as legal defense costs, although the amount of insurance coverage that we maintain may not be adequate to cover all claims or liabilities that may arise. In addition, provisions of the Company's Certificate of Incorporation, Bylaws and indemnification agreements entered into with current and former directors and officers require us, among other things, to indemnify these directors and officers against certain liabilities that may arise by reason of their status or service as directors or officers and to advance expenses to such directors or officers in connection therewith.

9. Subsequent Events

On November 7, 2024, we signed a definitive agreement to acquire from NetComm Wireless Pty Ltd ("NetComm"), a subsidiary of DZS, Inc., all of the assets of the enterprise IoT business for \$6,500,000 in cash together with assumptions of certain liabilities. The closing of the acquisition is subject to certain conditions. The transaction is expected to close during our second fiscal quarter ending December 31, 2024.

2022

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

The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements and the related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q for the three months ended September 30, 2024 December 31, 2024 (this "Report"). This discussion and analysis contains forward-looking statements that are based on our current expectations and reflect our plans, estimates and anticipated future financial performance. See the section of this Report entitled "Cautionary Note Regarding Forward-Looking Statements" for additional information. These statements involve numerous risks and uncertainties. Our actual results may differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including those set forth in "Risk Factors" in Part II, Item 1A of this Report.

Unless otherwise indicated by the context, all references to the "Company", "Lantronix", "we", "us", and "our" in this Quarterly Report on Form 10-Q include Lantronix, Inc. and its consolidated subsidiaries.

Overview

Lantronix, Inc. is a global leader in of compute and connectivity solutions, targeting high-growth industries markets such as Smart Cities, Automotive, and Enterprise markets. Our products and services empower companies to capitalize on succeed in the expanding growing internet of things ("IoT") market by delivering customizable solutions that address each layer of the IoT stack, enable artificial intelligence ("AI") edge intelligence.

We conduct our business globally and manage our sales teams by three geographic regions: the Americas; Europe, Middle East, and Africa ("EMEA"); and Asia Pacific Japan ("APJ").

Products and Solutions Overview

We organize our portfolio services and products into the following product lines: Embedded IoT Modules, IoT Systems Solutions, and Software and Engineering Services.

Embedded IoT Modules

Our portfolio of embedded products provides a comprehensive range of options, including Compute System-on-Module ("SOM") and System-in-Package ("SIP") solutions, complemented by wired and wireless network connectivity products. As the level of silicon integration continues to advance, our compute modules offer the capability to collect, analyze, and interpret digital information (e.g., Video, Audio or Sensor data) using specialized artificial intelligence ("AI")/machine learning algorithms.

IoT System Solutions

Our IoT Systems Solutions portfolio offers a wide range of fully functional standalone systems that provide routing, switching or gateway functionalities as well as telematics and media conversion. These products include wired and wireless connections that enhance the value and utility of modern electronic systems and equipment by providing secure network connectivity, power for IoT end devices through Power over Ethernet ("PoE"), application hosting, protocol conversion, media conversion, secure access for distributed IoT deployments and many other functions. By offering pre-certified products across multiple regions, Lantronix significantly reduces original equipment manufacturer customers' regulatory certification costs and speeds up their time-to-market.

Software and Services

Our SaaS software-as-a-service (“SaaS”) platform offers comprehensive single-pane-of-glass management for out-of-band (“OOB”) and IoT deployments. Our platform enables customers to easily deploy, monitor, manage and automate across their global deployments, all from a single platform login, virtually and seamlessly connected as if located directly on each device. Our platform eliminates the need to have 24/7 personnel on site and makes it easy to observe and address issues quickly, even in large-scale deployments.

We leverage our deep engineering expertise and product development best practices to deliver high-quality, innovative products cost-effectively and on schedule. Our engineering services model is flexible, offering either turnkey product development or team augmentation to accelerate complex product development challenges, such as camera tuning, voice control, machine learning, AI, computer vision, augmented/virtual reality, and more.

We also provide extended warranty, support and maintenance services related to our OOB and certain other product families.

Recent Developments

Acquisition

On December 23, 2024, we finalized the acquisition of Netcomm Wireless Pty Ltd (“Netcomm”), a subsidiary of DZS Inc., for all of its enterprise IoT business assets for \$6,458,000 in cash. The acquisition complements our focus on Enterprise and Smart City vertical markets and adds products to enhance our connectivity solutions in areas such as critical infrastructure, asset monitoring and telecommunications.

Refer to Note 3 of Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Report, which are incorporated herein by reference, for additional discussions regarding the acquisition.

Recent Accounting Pronouncements

Refer to Note 1 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, which is incorporated herein by reference, for a discussion of recent accounting pronouncements.

Critical Accounting Policies and Estimates

The accounting policies that have the greatest impact on our financial condition and results of operations and that require the most judgment are those relating to revenue recognition, sales returns and allowances, inventory valuation, restructuring charges, valuation of deferred income taxes, business combinations, valuation of goodwill and long-lived and intangible assets, and stock-based compensation, litigation and other contingencies, compensation. These policies are described in further detail in our Annual Report on Form 10-K for the year ended June 30, 2024 and filed with the Securities and Exchange Commission (the “SEC”) on September 9, 2024 (the “Form 10-K”) and have not changed significantly during the three six months ended September 30, 2024 December 31, 2024 as compared to what was previously disclosed in the Form 10-K.

Results of Operations – Three Months Ended September 30, 2024 December 31, 2024 Compared to the Three Months Ended September 30, 2023 December 31, 2023

Summary

In the three months ended September 30, 2024 December 31, 2024, our net revenue increased decreased by \$1,392,000 \$5,877,000 or 4.2% 15.9%, compared to the three months ended September 30, 2023 December 31, 2023. The increase decrease in net revenue was driven by a 17.7% increase 19.2% decrease in net revenue in our IoT System Solutions product line, as well as decreases in net revenue in our Embedded IoT Solutions product line partially offset by a 13.2% decrease in net revenue in of 8.3% and our Software & and Services product line and a 1.5% decrease in our IoT System Solutions product line, of 20.7%. We had a net loss of \$2,502,000 \$2,372,000 for the three months ended September 30, 2024 December 31, 2024 compared to a net loss of \$1,886,000 \$2,593,000 for the three months ended September 30, 2023 December 31, 2023. The increase decrease in net loss was primarily driven by an increase the result of a decrease in operating expenses of \$932,000 for the three months ended September 30, 2024 compared to the three months ended September 30, 2023, which mostly related to an increase in restructuring and severance charges. These changes were partially \$1,345,000 offset by the increase a decrease in revenue, gross margin of \$1,747,000.

Net Revenue

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

	Three Months Ended September 30,						Three Months Ended December 31,					
	% of Net		% of Net		Change		% of Net		% of Net		Change	
	2024	Revenue	2023	Revenue	\$	%	2024	Revenue	2023	Revenue	\$	%
	(In thousands, except percentages)						(In thousands, except percentages)					
Embedded IoT Solutions	\$ 13,387	38.9%	\$ 11,373	34.4%	\$ 2,014	17.7%	\$ 10,784	34.6%	\$ 11,764	31.8%	\$ (980)	(8.3%)
IoT System Solutions	18,759	54.5%	19,036	57.6%	(277)	(1.5%)	18,592	59.7%	23,022	62.2%	(4,430)	(19.2%)
Software & Services	2,277	6.6%	2,622	8.0%	(345)	(13.2%)	1,785	5.7%	2,252	6.0%	(467)	(20.7%)
	<u>\$ 34,423</u>	<u>100.0%</u>	<u>\$ 33,031</u>	<u>100.0%</u>	<u>\$ 1,392</u>	<u>4.2%</u>	<u>\$ 31,161</u>	<u>100.0%</u>	<u>\$ 37,038</u>	<u>100.0%</u>	<u>\$ (5,877)</u>	<u>(15.9%)</u>

	Three Months Ended September 30,						Three Months Ended December 31,					
	% of Net		% of Net		Change		% of Net		% of Net		Change	
	2024	Revenue	2023	Revenue	\$	%	2024	Revenue	2023	Revenue	\$	%
	(In thousands, except percentages)						(In thousands, except percentages)					
Americas	\$ 17,420	50.6%	\$ 22,933	69.4%	\$ (5,513)	(24.0%)	\$ 16,386	52.6%	\$ 20,601	55.6%	\$ (4,215)	(20.5%)
EMEA	10,484	30.5%	6,591	20.0%	3,893	59.1%	9,036	29.0%	12,886	34.8%	(3,850)	(29.9%)
APJ	6,519	18.9%	3,507	10.6%	3,012	85.9%	5,739	18.4%	3,551	9.6%	2,188	61.6%
	<u>\$ 34,423</u>	<u>100.0%</u>	<u>\$ 33,031</u>	<u>100.0%</u>	<u>\$ 1,392</u>	<u>4.2%</u>	<u>\$ 31,161</u>	<u>100.0%</u>	<u>\$ 37,038</u>	<u>100.0%</u>	<u>\$ (5,877)</u>	<u>(15.9%)</u>

Embedded IoT Solutions

Net revenue **increased** **decreased** primarily due to **lower unit sales** of (i) certain legacy products in our embedded ethernet connectivity product family in the Americas and APJ regions and (ii) our **wireless communications** products in the Americas and APJ regions. These decreases were partially offset by higher unit sales of our network interface cards in the Americas and EMEA regions and higher unit sales of our embedded compute product line products in the **APJ Americas** and **Americas** regions. This was partially offset by lower unit sales of our embedded ethernet connectivity products and network interface cards across all **APJ** regions.

IoT System Solutions

Net revenue decreased primarily due to (i) decreased unit sales of our **network switches** and **OOB** products **in the Americas and EMEA across all** regions and (ii) decreased unit sales of our **network switches converters and device servers** in the Americas and APJ regions. These reductions were mostly offset by sales of our custom solutions to a European smart energy grid provider that we ramped production for in the second half of the prior fiscal year, **region**.

Software & Services

Net revenue decreased primarily due to a decrease in our engineering services revenue in the **Americas and EMEA region regions** as **two of** well as lower revenues from our **large design extended warranty** services **projects transitioned** in the prior year from the design phase to full production, **Americas region**.

Gross Profit

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

The following table presents our gross profit:

	Three Months Ended September 30,					
	2024	% of Net Revenue	2023	% of Net Revenue	Change	
					\$	%
					(In thousands, except percentages)	
Gross profit	\$ 14,475	42.1%	\$ 14,097	42.7%	\$ 378	2.7%

	Three Months Ended December 31,					
	2024	% of Net Revenue	2023	% of Net Revenue	Change	
					\$	%
					(In thousands, except percentages)	
Gross profit	\$ 13,284	42.6%	\$ 15,031	40.6%	\$ (1,747)	(11.6%)

Gross profit as a percent of revenue (referred to as “gross margin”) decreased slightly increased due primarily to our product sales mix as embedded compute products contribute to a larger portion of revenues in the current period, quarter, along with slightly lower freight and overhead costs.

Selling, General and Administrative

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

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

	Three Months Ended September 30,					
	% of Net		% of Net		Change	
	2024	Revenue	2023	Revenue	\$	%
	(In thousands, except percentages)					
Personnel-related expenses	\$	5,321		\$	484	10.0%
Professional fees and outside services		1,521			(19)	(1.2%)
Advertising and marketing		466			(16)	(3.3%)
Facilities and insurance		411			(103)	(20.0%)
Share-based compensation		1,126			(147)	(11.5%)
Depreciation		351			17	5.1%
Other		300			110	57.9%
Selling, general and administrative	\$	9,496	27.6%	\$	9,170	27.8%
					\$	326
						3.6%

	Three Months Ended December 31,					
	% of Net		% of Net		Change	
	2024	Revenue	2023	Revenue	\$	%
	(In thousands, except percentages)					
Personnel-related expenses	\$	5,154		\$	(402)	(7.2%)
Professional fees and outside services		1,069			180	20.2%
Advertising and marketing		494			(59)	(10.7%)
Facilities and insurance		385			(615)	(61.5%)
Share-based compensation		1,044			(584)	(35.9%)
Depreciation		348			10	3.0%
Other		317			57	21.9%
Selling, general and administrative	\$	8,811	28.3%	\$	10,224	27.6%
					\$	(1,413)
						(13.8%)

Selling, general and administrative expenses increased decreased primarily due to an increase in personnel-related (i) lower sales conference and facilities-related costs, resulting from year-over-year compensation increases and changes in headcount. The increase was partially offset by (i) (ii) reduced share-based compensation costs mostly from reversals based on the value of certain forfeited new and outstanding awards, and (ii) (iii) lower facilities and related variable compensation costs from previous restructurings of certain non-essential operations, in our personnel-related expenses.

Research and Development

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

The following table presents our research and development expenses:

	Three Months Ended September 30,						Three Months Ended December 31,					
	% of Net		% of Net		Change		% of Net		% of Net		Change	
	2024	Revenue	2023	Revenue	\$	%	2024	Revenue	2023	Revenue	\$	%
	(In thousands, except percentages)						(In thousands, except percentages)					
Personnel-related expenses	\$ 3,272		\$ 3,259		\$ 13	0.4%	\$ 3,292		\$ 3,319		\$ (27)	(0.8%)
Facilities	648		619		29	4.7%	698		593		105	17.7%
Outside services	176		176		—	0.0%	82		116		(34)	(29.3%)
Product certifications	138		347		(209)	(60.2%)	205		5		200	4000.0%
Share-based compensation	410		428		(18)	(4.2%)	421		484		(63)	(13.0%)
Other	312		277		35	12.6%	286		208		78	37.5%
Research and development	\$ 4,956	14.4%	\$ 5,106	15.5%	\$ (150)	(2.9%)	\$ 4,984	16.0%	\$ 4,725	12.8%	\$ 259	5.5%

Research and development expenses decreased increased primarily due to lower higher product certification expenses resulting from the timing of costs incurred on related to various ongoing development projects.

Results of Operations – Six Months Ended December 31, 2024 Compared to the Six Months Ended December 31, 2023

Summary

In the six months ended December 31, 2024, our net revenue decreased by \$4,485,000 or 6.4%, compared to the six months ended December 31, 2023. The decrease in net revenue was driven by an 11.2% decrease in net revenue in our IoT System Solutions product line as well as a 16.7% decrease in our Software and Services production line. These decreases were partially offset by a 4.5% increase in net revenue in our Embedded IoT Solutions product line. We had a net loss of \$4,874,000 for the six months ended December 31, 2024 compared to a net loss of \$4,479,000 for the six months ended December 31, 2023. The increase in net loss was primarily driven by the decrease in revenues partially offset by a reduction in operating expenses of \$413,000 for the six months ended December 31, 2024 compared to the six months ended December 31, 2023, mostly due to lower selling, general and administrative costs in the current year period.

Net Revenue

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

	Six Months Ended December 31,					
	% of Net		% of Net		Change	
	2024	Revenue	2023	Revenue	\$	%
	(In thousands, except percentages)					
Embedded IoT Solutions	\$ 24,171	36.9%	\$ 23,137	33.0%	\$ 1,034	4.5%
IoT System Solutions	37,351	57.0%	42,058	60.0%	(4,707)	(11.2%)
Software & Services	4,062	6.1%	4,874	7.0%	(812)	(16.7%)
	<u>\$ 65,584</u>	<u>100.0%</u>	<u>\$ 70,069</u>	<u>100.0%</u>	<u>\$ (4,485)</u>	<u>(6.4%)</u>
	Six Months Ended December 31,					
	% of Net		% of Net		Change	
	2024	Revenue	2023	Revenue	\$	%
	(In thousands, except percentages)					
Americas	\$ 33,806	51.5%	\$ 43,534	62.1%	\$ (9,728)	(22.3%)
EMEA	19,520	29.8%	19,477	27.8%	43	0.2%
APJ	12,258	18.7%	7,058	10.1%	5,200	73.7%
	<u>\$ 65,584</u>	<u>100.0%</u>	<u>\$ 70,069</u>	<u>100.0%</u>	<u>\$ (4,485)</u>	<u>(6.4%)</u>

Embedded IoT Solutions

Net revenue increased primarily due to higher unit sales of our embedded compute product line driven by a video conferencing customer in the APJ region. This was partially offset by lower unit sales in some of our legacy embedded ethernet connectivity products across all regions and (ii) in our wireless communications products in the Americas region.

IoT System Solutions

Net revenue decreased primarily due to (i) decreased unit sales of our OOB products primarily in the Americas and (ii) decreased unit sales of our network switches in all regions. These reductions were partially offset by current year growth in unit sales of our custom solutions to a European smart energy grid provider that we ramped production for in the second half of the prior fiscal year.

Software & Services

Net revenue decreased primarily due to lower engineering services revenue in the EMEA region as two of our large design services projects transitioned in the prior year from the design phase to full production.

Gross Profit

The following table presents our gross profit:

	Six Months Ended December 31,					
	% of Net		% of Net		Change	
	2024	Revenue	2023	Revenue	\$	%
	(In thousands, except percentages)					
Gross profit	\$ 27,759	42.3%	\$ 29,128	41.6%	\$ (1,369)	(4.7%)

Gross profit as a percent of revenue (referred to as “gross margin”) increased slightly due primarily to lower overhead costs in the current year period.

Selling, General and Administrative

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

	Six Months Ended December 31,					
	% of Net		% of Net		Change	
	2024	Revenue	2023	Revenue	\$	%
	(In thousands, except percentages)					
Personnel-related expenses	\$ 10,485		\$ 10,393		\$ 92	0.9%
Professional fees and outside services	2,561		2,429		132	5.4%
Advertising and marketing	950		1,035		(85)	(8.2%)
Facilities and insurance	796		1,514		(718)	(47.4%)
Share-based compensation	2,170		2,901		(731)	(25.2%)
Depreciation	699		672		27	4.0%
Other	617		450		167	37.1%
Selling, general and administrative	\$ 18,278	27.9%	\$ 19,394	27.7%	\$ (1,116)	(5.8%)

Selling, general and administrative expenses decreased primarily due to (i) lower sales conference and facilities-related costs and (ii) reduced share-based compensation costs based on the value of new and outstanding awards.

Research and Development

The following table presents our research and development expenses:

	Six Months Ended December 31,				Change	
	% of Net		% of Net			
	2024	Revenue	2023	Revenue	\$	%
(In thousands, except percentages)						
Personnel-related expenses	\$ 6,564		\$ 6,578		\$ (14)	(0.2%)
Facilities	1,346		1,212		134	11.1%
Outside services	258		292		(34)	(11.6%)
Product certifications	343		352		(9)	(2.6%)
Share-based compensation	831		912		(81)	(8.9%)
Other	598		485		113	23.3%
Research and development	<u>\$ 9,940</u>	<u>15.2%</u>	<u>\$ 9,831</u>	<u>14.0%</u>	<u>\$ 109</u>	<u>1.1%</u>

Research and development expenses increased primarily due to (i) slightly higher facilities-related equipment and software costs and (ii) certain prototype and materials costs, which are included in the "Other" category in the table above.

Restructuring, Severance and Related Charges

During the three and six months ended September 30, 2024 December 31, 2024, we incurred charges of \$900,000 \$193,000 and \$1,093,000, respectively, related to headcount reductions. During the three and six months ended September 30, 2023 December 31, 2023, we incurred \$20,000 \$530,000 and \$550,000, respectively, of restructuring, severance and related charges.

In January 2025, we undertook a reduction in our labor force to better align staffing needs with our business objectives. We expect the severance and related charges in connection with this action to approximate \$1,300,000 to \$1,500,000, which will be recorded in the three months ending March 31, 2025.

We may incur additional restructuring, severance and related charges in future periods as we continue to identify cost savings and efficiencies related to our business.

Acquisition-Related Costs

During the three months ended December 31, 2024, we incurred approximately \$208,000 of costs primarily in connection with the acquisition of Netcomm. These costs were mainly comprised of banking, legal and other professional fees.

Interest Expense, Net

For the three and six months ended September 30, 2024 December 31, 2024 and September 30, 2023 December 31, 2023, we incurred net interest expense due to borrowings on our credit facilities. We also earn interest income on our domestic cash balance.

Other Income (Expense), Net

Our other income (expense), net, is comprised primarily of foreign currency remeasurement and transaction adjustments related to our foreign subsidiaries whose functional currency is the U.S. dollar.

Provision for Income Taxes

Refer to Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, which is incorporated herein by reference, for a discussion regarding our provision for income taxes.

Liquidity and Capital Resources

Liquidity

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

	September 30, 2024	June 30, 2024	Change	December 31, 2024	June 30, 2024	Change
		(In thousands)			(In thousands)	
Working capital	\$ 57,115	\$ 58,794	\$ (1,679)	\$ 52,119	\$ 58,794	\$ (6,675)
Cash and cash equivalents	\$ 26,395	\$ 26,237	\$ 158	\$ 19,210	\$ 26,237	\$ (7,027)

Our principal sources of cash and liquidity include our existing cash and cash equivalents, borrowings and amounts available under our existing term loan and revolving credit facility (together, the “Senior Credit Facilities”), and cash generated from operations. We are subject to a variable amount of interest on the principal balance of our Senior Credit Facilities and could be adversely impacted by rising interest rates in the future. We believe that our current cash holdings and net cash flows from operations are sufficient to satisfy our current obligations for the foreseeable future, and, assuming continued access to the undrawn amounts available under our Senior Credit Facilities, these combined sources will be sufficient to fund our material requirements for working capital, capital expenditures and other financial commitments for at least the next 12 months and beyond. We continue to monitor our existing banking relationships and the availability of potential alternate sources of credit based on market conditions and our ongoing capital requirements. There can be no guarantee that we would be able to obtain any needed alternate financing on acceptable terms, or at all, or that such a financing would not result in a default under the Loan Agreement (as defined in Note 5 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report). We anticipate that the primary factors affecting our cash and liquidity are net revenue, working capital requirements and capital expenditures.

We define cash and cash equivalents as highly liquid deposits with original maturities of 90 days or less when purchased. We maintain cash and cash equivalents balances at certain financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). There can be no assurance that our deposits in excess of the FDIC limits will be backstopped by the U.S., or that any bank or financial institution with which we do business will be able to obtain needed liquidity from other banks, government institutions or by acquisition in the event of a failure or liquidity crisis.

As of the date of this Report, we have full access to and control of our cash and cash equivalents balance at Silicon Valley Bank and our other banking institutions. Our emphasis is primarily on safety of principal and secondarily on maximizing yield on those funds. As of the date of this Report, we are in compliance with all covenants of the Loan Agreement.

Our future working capital requirements will depend on many factors, including the following: timing and amount of our net revenue; our product mix and the resulting gross margins; research and development expenses; selling, general and administrative expenses; and expenses associated with any strategic partnerships, acquisitions or infrastructure investments.

From time to time, we may seek additional capital from public or private offerings of our capital stock, borrowings under our existing or future credit lines or other sources in order to (i) develop or enhance our products, (ii) take advantage of strategic opportunities, (iii) respond to competition or (iv) continue to operate our business. We currently have a Form S-3 shelf registration statement on file with the SEC. If we issue equity securities to raise additional funds, our existing stockholders may experience dilution, and the new equity securities may have rights, preferences and privileges senior to those of our existing stockholders. If we issue debt securities to raise additional funds, we may incur debt service obligations, become subject to additional restrictions that limit or restrict our ability to operate our business, or be required to further encumber our assets. There can be no assurance that we will be able to raise any such capital on terms acceptable to us, if at all.

Bank Loan Agreements

Refer to Note 5.6 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, which is incorporated herein by reference, for a discussion of our loan agreements.

Cash Flows

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

	Three Months Ended September 30,			Six Months Ended December 31,		
	2024	2023	Change	2024	2023	Change
	(In thousands)			(In thousands)		
Net cash provided by operating activities	\$ 2,663	\$ 7,498	\$ (4,835)	\$ 3,003	\$ 12,752	\$ (9,749)
Net cash used in investing activities	(157)	(486)	329	(6,699)	(1,189)	(5,510)
Net cash used in financing activities	(2,348)	(985)	(1,363)	(3,331)	(2,869)	(462)

Operating Activities

Cash provided by operating activities during the three six months ended September 30, 2024 December 31, 2024 decreased compared to the prior year period. Cash from operations increased was positively impacted in the prior year period due to our reduction of inventories and receipt of customer deposits relating to the delivery deliveries to our European smart grid provider customer. In the current year period, inventories increased slightly, and we also made payments against previously accrued variable compensation balances, as discussed further below. For the three six months ended September 30, 2024 December 31, 2024, our net loss included \$3,418,000 \$6,749,000 of non-cash charges, while the changes in operating assets and liabilities provided net cash of \$1,747,000, \$1,128,000.

Our net inventories increased Accounts receivable decreased by \$1,835,000, \$807,000, or 6.6%, 2.6% from June 30, 2024 to September 30, 2024 December 31, 2024. The increase resulted decrease was primarily due to the higher volume of shipments that took place during the fourth quarter of our fiscal 2024 as well as the timing of various material receipts during payments from certain customers in the current quarter as compared to our shipments to customers, year period. The reduction was partially offset by \$904,000 of accounts receivable acquired in the Netcomm acquisition.

Accounts payable Inventories, net increased by \$6,802,000, \$1,372,000, or 65.7%, 5.0% from June 30, 2024 to September 30, 2024 December 31, 2024. The increase is was primarily due to the timing result of inventory receipts near \$972,000 of net inventories acquired in the end of the current quarter, as well as payments made to our vendors, Netcomm acquisition.

Accounts payable increased by \$5,628,000, or 54.4%, from June 30, 2024 to December 31, 2024 primarily due to the timing of inventory receipts and payments made to our vendors. Contract manufacturers' receivables increased by \$1,321,000, \$2,072,000, or 94.3% 147.9%, from June 30, 2024 to September 30, 2024 December 31, 2024. The increase is primarily due to timing of shipments of components to contract manufacturers during the current quarter period.

Accrued payroll and related expenses decreased by \$2,396,000 \$2,868,000 or 41.1% 49.1% from June 30, 2024 to September 30, 2024 December 31, 2024. The decrease is primarily due to accrued variable compensation paid out during the current quarter year period.

Investing Activities

Net cash used in investing activities for the three six months ended September 30, 2024 consisted December 31, 2024 includes the acquisition of purchases Netcomm, which used cash of \$6,458,000. We also purchased equipment totaling \$157,000, \$241,000, primarily for tooling at our contract manufacturers and certain research and development projects. Cash used during the three six months ended September 30, 2023 December 31, 2023 consisted of purchases of plant and equipment of \$486,000 \$1,189,000 primarily for research and development and certain business analysis tools.

Financing Activities

Net cash used in financing activities during the three six months ended September 30, 2024 December 31, 2024 and the three six months ended September 30, 2023 December 31, 2023 resulted primarily from tax withholdings paid on behalf of employees for restricted shares as well as principal payments on the Senior Credit Facilities. During the six months ended December 31, 2023 we also used cash to pay the contingent consideration related to the acquisition of Uplogix.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain 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") that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that this information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and our Interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2024 December 31, 2024. Based on such evaluation our Chief Executive Officer and Interim Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2024 December 31, 2024. Refer to the additional discussion below regarding the remediation of the previously disclosed material weakness.

Material Weakness in Internal Control Over Financial Reporting

As reported in our management's report on internal control over financial reporting within our Annual Report on Form 10-K for the fiscal year ended June 30, 2023, we identified a material weakness in internal control related to the design and implementation of information technology general controls related to the Company's information systems that are relevant to the preparation of consolidated financial statements. Specifically, management did not design and maintain user access controls to ensure appropriate segregation of duties and to adequately restrict user access to financial applications and data.

During the fiscal year ended June 30, 2024, management implemented its previously disclosed remediation plan to enhance the design of information technology general controls ("ITGCs") related to user access and proper segregation of duties. This plan included:

- Modifying user rights to significantly restrict access to certain key financial applications and functionality.
- Implementing additional review and approval requirements within the financial systems workflow.
- Creating new audit reports that require management review and approval of changes made to key attributes within the financial application.
- Improving and maintaining documentation underlying ITGCs to promote knowledge transfer upon personnel and function changes.
- Implementing an IT management review and testing plan to monitor user access, specifically focusing on financial applications.

As of June 30, 2024, management had implemented the remedial actions and controls described above concerning the material weakness. Due to the timing of the design and implementation of our remediation efforts during the fourth quarter of fiscal 2024, there was insufficient time to demonstrate consistent execution of certain controls and conclude on the operating effectiveness of internal control over financial reporting as of June 30, 2024. Subsequently, through September 30, 2024 December 31, 2024, management has determined that appropriate time has elapsed to demonstrate the operating effectiveness of the remediated controls through testing of a sufficient number of instances.

Changes in Internal Control over Financial Reporting

Other than the ongoing changes to our controls associated with remediating the material weakness described above, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(f) and 15d-15(f) of the Exchange Act that occurred during the quarter ended September 30, 2024 December 31, 2024, 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

Refer to Note 8 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Quarterly Report on Form 10-Q for the three months ended September 30, 2024 December 31, 2024 (this "Report"), which is incorporated herein by reference, for a discussion of legal proceedings.

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, as well as other information contained in this Report and in our other filings with the Securities and Exchange Commission ("SEC"). This section should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes thereto included in Part I, Item 1 of this Report, and "Management's Management's Discussion and Analysis of Financial Condition and Results of Operations" Operations included in Part I, Item 2 of this Report. If any of these risks or uncertainties actually occurs, our business, financial condition, results of operations or prospects could be materially harmed. In that event, the market price for our common stock could decline and you could lose all or part of your investment. In addition, risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business.

The risks and uncertainties discussed below update and supersede the risks and uncertainties previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2024, which was filed with the SEC on September 9, 2024. There have been no material changes to the risks and uncertainties previously disclosed in such Annual Report on Form 10-K, except for those risks marked with an asterisk (*) below.

Risks Related to Our Operations and Industry

We depend upon a relatively small number of distributor and end-user customers for a large portion of our revenue, and a decline in sales to these major customers would materially adversely affect our business, financial condition, and results of operations.

Historically, we have relied upon a small number of distributors and end-user customers for a significant portion of our net revenue. Our customer concentration could fluctuate, depending on future customer requirements, which will depend on market conditions in the industry segments in which our customers participate. The loss of one or more significant customers or a decline in sales to our significant customers could result in a material loss of sales and possible increase in excess inventories which would adversely affect our business, financial condition, and results of operations.

We have experienced and may in the future experience constraints in the supply of certain materials and components that could affect our operating results.

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, and potentially other components used in our products, will be phased out of production by the manufacturer. 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 may be unable to purchase sufficient components to meet our demands, or we may incorrectly forecast our demands, and purchase too many or too few components. In addition, our products use components that have been in the past and may in the future be subject to market shortages and substantial price fluctuations, whether due to the COVID-19 pandemic or a future pandemic or epidemic, the war between Ukraine and Russia, conflict in the Middle East, hostilities in the Red Sea, recent tensions between China and Taiwan, increased tariffs or otherwise. From time to time, we have been unable to meet customer orders because we were unable to purchase necessary components for our products. We do not have long-term supply arrangements with most of our vendors to obtain necessary components, including semiconductor chips, or technology for our products and instead purchase components on a purchase order basis. If we are unable to purchase components from these suppliers, our 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 revenue, risk losing customers and risk harm to our reputation in the marketplace, which could adversely affect our business, financial condition or results of operations.

Future operating results depend upon our ability to timely obtain components in sufficient quantities and on acceptable terms.

We and our contract manufacturers are responsible for procuring raw materials for our products. Our products incorporate some components and technologies that are only available from single or limited sources of supply. Depending on a limited number of suppliers exposes us to risks, including limited control over pricing, availability, quality and delivery schedules. Moreover, due to our limited sales, we may not be able to convince suppliers to continue to make components available to us unless there is demand for these components from their other customers. If any one or more of our suppliers cease to provide us with sufficient quantities of components in a timely manner or on terms acceptable to us, we would have to seek alternative sources of supply and we may have difficulty identifying additional or replacement suppliers for some of our components.

We outsource substantially all of our manufacturing to contract manufacturers in Asia. 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 use contract manufacturers based in Asia to manufacture substantially all of our products. Generally, we do not have guaranteed supply agreements with our contract manufacturers or suppliers. If any of these subcontractors or suppliers were to cease doing business with us, we might not be able to obtain alternative sources in a timely or cost-effective manner. Our reliance on third-party manufacturers, especially in countries outside of the U.S., 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;
- effects of terrorist attacks or geopolitical conflicts abroad;
- reliance on these manufacturers to maintain competitive manufacturing technologies;
- unexpected changes in regulatory requirements, taxes, trade laws and tariffs;
- reduced protection for intellectual property rights in some countries;
- differing labor regulations;
- disruptions to the business, financial stability or operations, including due to strikes, labor disputes or other disruptions to the workforce, of these manufacturers;
- 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;
- greater difficulty in staffing and managing foreign operations; and
- increased financial accounting and reporting burdens and complexities.

Any problems that we may encounter with the delivery, quality or cost of our products from our contract manufacturers or suppliers could cause us to lose net revenue, damage our customer relationships and harm our reputation in the marketplace, each of which could materially and adversely affect our business, financial condition or results of operations.

From time to time, we may transition the manufacturing of certain products from one contract manufacturer to another. When we do this, we may incur substantial expenses, risk material delays or encounter other unexpected issues.

The effect of a pandemic or major public health concern, such as the COVID-19 pandemic, could result in material adverse effects on our business, financial position, results of operations and cash flows.

The COVID-19 pandemic or another pandemic Pandemics or similar outbreak has outbreaks have had, and may in the future have, an adverse impact on the economy, our business and the businesses of our suppliers, and our results of operations and financial condition. For example, the COVID-19 pandemic resulted in industry events, trade shows and business travel being suspended, cancelled and/or significantly curtailed. If these activities are suspended, cancelled and/or significantly curtailed in the future, whether due to surges of COVID-19 or other a possible pandemics pandemic and similar outbreaks, outbreak, our sales may be negatively impacted in the future.

In addition, the impact of the COVID-19 pandemic or other possible pandemics subject subjects us to various risks and uncertainties that could materially adversely affect our business, results of operations and financial condition, including the following:

- significant volatility or decreases in the demand for our products or extended sales cycles;
- changes in customer behavior and preferences, as customers may experience financial difficulties and/or may delay orders or reduce their spending;
- adverse impacts on our ability to distribute or deliver our products or services, as well as temporary disruptions, restrictions or closures of the facilities of our suppliers or customers and their contract manufacturers;
- further disruptions in our contract manufacturers' ability to manufacture our products, as some contract manufacturers and suppliers of materials used in the production of our products are, or may be, located in areas more severely impacted by COVID-19 or another a possible pandemic, which has in the past limited and could further in the future limit, our ability to obtain sufficient materials to produce and manufacture our products; and
- volatility in the availability of raw materials and components that our contract manufacturers purchase and volatility in raw material and other input costs.

The duration and extent of a future pandemics or other similar outbreak's effect on our operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted at this time. The adverse impact of the COVID-19 pandemic or another a possible future pandemic or similar outbreak on our business, results of operations and financial condition have been, could continue to be, and may in the future be material.

Certain of our products are sold into mature markets, which could limit our ability to continue to generate revenue from these products. Our ability to sustain and grow our business depends on our ability to develop, market, scale, and sell new products.

Certain of our products are sold into mature markets that are characterized by a trend of declining demand. As the overall market for these products decreases due to the adoption of new technologies, our revenues from these products have declined, and we expect they will continue to decline in the future. As a result, our future prospects will depend on our ability to develop and successfully market new products that address new and growing markets. Our failure to develop new products or failure to achieve widespread customer acceptance of any new products could cause us to lose market share and cause our revenues to decline. There can be no assurance that we will not experience difficulties that could delay or prevent the successful development, introduction, marketing and sale of new products or product enhancements. Factors that could cause delays include regulatory and/or industry approvals, product design cycle and failure to identify products or features that customers demand. In addition, the introduction and sale of new products often involves a significant technical evaluation, and we often face delays because of our customers' internal procedures for evaluating, approving and deploying new technologies. For these and other reasons, the sales cycle associated with new products is typically lengthy, often lasting six to 24 months and sometimes longer. Therefore, there can be no assurance that our introduction or announcement of new product offerings will achieve any significant or sustainable degree of market acceptance or result in increased revenue in the near term.

Our software offerings are subject to risks that differ from those facing our hardware products.

We continue to dedicate significant engineering resources to our management software platform, applications, and SaaS offerings. These product and service offerings are subject to significant additional risks that are not necessarily related to our hardware products. Our ability to succeed with these offerings will depend in large part on our ability to provide customers with software products and services that offer features and functionality that address their specific needs. We may face challenges and delays in the development of this product line as the marketplace for products and services evolves to meet the needs and desires of customers. We cannot provide assurances that we will be successful in operating and growing this product line.

In light of these risks and uncertainties, we may not be able to establish or maintain market share for our software and SaaS offerings. As we develop new product lines, we must adapt to market conditions that are unfamiliar to us, such as competitors and distribution channels that are different from those we have known in the past. We have and will encounter competition from other solutions providers, many of whom may have more significant resources than us with which to compete. There can be no assurance that we will recover our investments in this segment, or that we will receive meaningful revenue from or realize a profit from this new segment.

We may experience significant fluctuation in our revenue because the timing of large orders placed by some of our customers is often project-based.

Our operating results fluctuate because we often receive large orders from customers that coincide with the timing of the customer's project. Sales of our products and services may be delayed if customers delay approval or commencement of projects due to budgetary constraints, internal acceptance review procedures, timing of budget cycles or timing of competitive evaluation processes. In addition, sometimes our customers make significant one-time hardware purchases for projects which are not repeated. We sell primarily on a purchase order basis rather than pursuant to long-term contracts, and we expect fluctuations in our revenues as a result of one-time project-based purchases to continue in the future. In addition, our sales may be subject to significant fluctuations based on the acceleration, delay or cancellation of customer projects, or our failure to complete one or a series of significant potential sales. Because a significant portion of our operating expenses are fixed, even a single order can have a disproportionate effect on our operating results. As a result of the factors discussed above, and due to the complexities of the industry in which we operate, it is difficult for us to forecast demand for our current or future products with any degree of certainty, which means it is difficult for us to forecast our sales. If our quarterly or annual operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially.

The lengthy sales cycle for our products and services, along with delays in customer completion of projects, make the timing of our revenues difficult to predict.

We have a lengthy sales cycle for many of our products that generally extends between three and 24 months and sometimes longer due to a lengthy customer evaluation and approval process. The length of this process can be affected by factors over which we have little or no control, including the customer's budgetary constraints, timing of the customer's budget cycles, and concerns by the customer about the introduction of new products by us or by our competitors. As a result, sales cycles for customer orders vary substantially among different customers. The lengthy sales cycle is one of the factors that has caused, and may continue to cause, our revenues and operating results to vary significantly from quarter to quarter. In addition, we may incur substantial expenses and devote significant management effort to develop potential relationships that do not result in agreements or revenues, which may prevent us from pursuing other opportunities. Accordingly, excessive delays in sales could be material and adversely affect our business, financial condition or results of operations.

The nature of our products, customer base and sales channels results in lack of visibility into future demand for our products, which makes it difficult for us to forecast our manufacturing and inventory requirements.

We use forecasts based on anticipated product orders to manage our manufacturing and inventory levels and other aspects of our business. However, several factors contribute to a lack of visibility with respect to future orders, including:

- the lengthy and unpredictable sales cycle for our products that can extend from six to 24 months or longer;
- the project-driven nature of many of our customers' requirements;
- we primarily sell our products indirectly through distributors;
- the uncertainty of the extent and timing of market acceptance of our new products;
- the need to obtain industry certifications or regulatory approval for our products;
- the lack of long-term contracts with our customers;
- the diversity of our product lines and geographic scope of our product distribution;
- we have some customers who make single, non-recurring purchases; and
- a large number of our customers typically purchase in small quantities.

This lack of visibility impacts our ability to forecast our inventory requirements. If we overestimate our customers' future requirements for products, we may have excess inventory, which would increase our costs and potentially require us to write-off inventory that becomes obsolete. Additionally, if we underestimate our customers' future requirements, we may have inadequate inventory, which could interrupt and delay delivery of our products to our customers, harm our reputation, and cause our revenues to decline. If any of these events occur, they could prevent us from achieving or sustaining profitability and the value of our common stock may decline.

Delays in qualifying revisions of existing products for certain of our customers could result in the delay or loss of sales to those customers, which could negatively impact our business and financial results.

Our industry is characterized by intense competition, rapidly evolving technology and continually changing customer preferences and requirements. As a result, we frequently develop and introduce new versions of our existing products, which we refer to as revisions.

Prior to purchasing our products, some of our customers require that products undergo a qualification process, which may involve testing of the products in the customer's system. A subsequent revision to a product's hardware or firmware, changes in the manufacturing process or our selection of a new supplier may require a new qualification process, which may result in delays in sales to customers, loss of sales, or us holding excess or obsolete inventory.

After products are qualified, it can take additional time before the customer commences volume production of components or devices that incorporate our products. If we are unsuccessful or delayed in qualifying any new or revised products with a customer, that failure or delay would preclude or delay sales of these products to the customer, and could negatively impact our financial results. In addition, new revisions to our products could cause our customers to alter the timing of their purchases, by either accelerating or delaying purchases, which could result in fluctuations of our net revenue from quarter to quarter.

We depend on distributors for a majority of our sales and to complete order fulfillment.

We depend on the resale of products through distributor accounts for a substantial majority of our worldwide net revenue. In addition, sales through our top five distributors accounted for approximately 29% of our net revenue in fiscal 2024. A significant reduction of effort by one or more distributors to sell our products or a material change in our relationship with one or more distributors may reduce our access to certain end customers and adversely affect our ability to sell our products. Furthermore, if a key distributor materially defaults on a contract or otherwise fails to perform, our business and financial results would suffer.

In addition, the financial health of our distributors and our continuing relationships with them are important to our success. Our business could be harmed if the financial health of these distributors impairs their performance and we are unable to secure alternate distributors.

Our ability to sustain and grow our business depends in part on the success of our distributors and resellers.

A substantial part of our revenues is generated through sales by distributors and resellers. To the extent they are unsuccessful in selling our products, or if we are unable to obtain and retain a sufficient number of high-quality distributors and resellers, our operating results could be materially and adversely affected. In addition, our distributors and resellers may devote more resources to marketing, selling and supporting products and services that are competitive with ours, than to our products. They also may have incentives to promote our competitors' products over our products, particularly for our competitors with larger volumes of orders, more diverse product offerings and a longer relationship with our distributors and resellers. In these cases, one or more of our important distributors or resellers may stop selling our products completely or may significantly decrease the volume of products they sell on our behalf. This sales structure also could subject us to lawsuits, potential liability and reputational harm if, for example, any of our distributors or resellers misrepresents the functionality of our products or services to customers or violates laws or our corporate policies. If we fail to effectively manage our existing or future distributors and resellers effectively, our business and operating results could be materially and adversely affected.

Changes to the average selling prices of our products could affect our net revenue and gross margins and adversely affect results of operations.

In the past, we have experienced reductions in the average selling prices and gross margins of our products. 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 also decline as a result of other reasons, including promotional programs introduced by us or our competitors and customers who negotiate price concessions. To the extent we are able to increase prices, we may experience a decline in sales volumes if customers decide to purchase competitive products. If any of these were to occur, our gross margins could decline and we might not be able to reduce the cost to manufacture our products enough or at all to keep up with the decline in prices.

If we are unable to sell our inventory in a timely manner, it could become obsolete, which could require us to write-down or write off obsolete inventory, which could harm our operating results.

At any time, competitive products may be introduced with more attractive features or at lower prices than ours. If this occurs, and for other reasons, we may not be able to accurately forecast demand for our products and our inventory levels may increase. There is a risk that we may be unable to sell our inventory in a timely manner to avoid it becoming obsolete. If 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 inventory reserves or write off obsolete inventory and our operating results could be substantially harmed.

Our failure to compete successfully in our highly competitive market could result in reduced prices and loss of market share.

The market in which we operate is intensely competitive, subject to rapid technological advances and highly sensitive to evolving industry standards. The market can also be affected significantly by new product and technology introductions and marketing and pricing activities of industry participants. Our products compete directly with products produced by a number of our competitors. Many of our competitors and potential competitors have greater financial and human resources for marketing and product development, more experience conducting research and development activities, greater experience obtaining regulatory approval for new products, larger distribution and customer networks, more established relationships with contract manufacturers and suppliers, and more established reputations and name recognition. For these and other reasons, we may not be able to compete successfully against our current or potential future competitors. In addition, the amount of competition we face in the marketplace may change and grow as the market for IoT and machine-to-machine networking solutions grows and new companies enter the marketplace. Present and future competitors may be able to identify new markets, adapt new technologies, develop and commercialize products more quickly and gain market acceptance of products with greater success. As a result of these competitive factors, we may fail to meet our business objectives and our business, financial condition and operating results could be materially and adversely affected.

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, OEMs and ODMs, original design manufacturers. For instance, we acquired Maestro, Intrinsyc, the Transition Networks and Net2Edge businesses of Communication Systems, Inc., and Uplogix, Inc., and Netcomm in calendar years 2019, 2020, 2021, 2022 and 2022, 2024, respectively. Our previous acquisitions have required, and any future acquisition, partnership, joint venture or investment may also require, that we pay significant cash, issue equity and/or incur substantial debt. Acquisitions, partnerships or joint ventures may also result in the loss of key personnel and the dilution of existing stockholders to the extent we are required to issue 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 not result in expected synergies, an increase in revenues or earnings or the delivery of new products, may contribute to increased fixed costs, and may expose us to unanticipated liabilities. If any of these occur, we may fail to meet our business objectives and our business, financial condition and operating results could be materially and adversely affected.

We may experience difficulties associated with utilizing third-party logistics providers.

A portion of our physical inventory management process, as well as the shipping and receiving of our inventory, is performed by a third-party logistics provider in Hong Kong. There is a possibility that third-party logistics providers will not perform as expected and we could experience delays in our ability to ship, receive, and process the related data in a timely manner. This could adversely affect our financial position, results of operations, cash flows and the market price of our common stock.

Relying on third-party logistics providers could increase the risk of the following: failing to receive accurate and timely inventory data, theft or poor physical security of our inventory, inventory damage, ineffective internal controls over inventory processes or other similar business risks out of our immediate control.

Risks Related to Technology, Cybersecurity and Intellectual Property.

Cybersecurity breaches and other disruptions could compromise our information and expose us to liability, which could cause our business and reputation to suffer.

Increased global information technology security threats and more sophisticated and targeted computer crime pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. There have been several recent, highly publicized cases in which organizations of various types and sizes have reported the unauthorized disclosure of customer or other confidential information, as well as cyberattacks involving the dissemination, theft and destruction of corporate information, intellectual property, cash or other valuable assets. There have also been several highly publicized cases in which hackers have requested “ransom” payments in exchange for not disclosing customer or other confidential information or for not disabling the target company’s computer or other systems. The secure processing, maintenance and transmission of the information that we collect and store on our systems is critical to our operations and implementing security measures designed to prevent, detect, mitigate or correct these or other cybersecurity threats involves significant costs. Although we have taken steps to protect the security of our information systems, we have, from time to time, experienced, and we expect to continue experiencing, threats to our data and systems, including malware, phishing and computer virus attacks, and it is possible that in the future our safety and security measures will not prevent the systems’ improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. In addition, due to the fast pace and unpredictability of cybersecurity threats, including from emerging technologies, such as advanced forms of machine learning, AI and quantum computing, long-term implementation plans designed to address cybersecurity risks become obsolete quickly and, in some cases, it may be difficult to anticipate or immediately detect such incidents and the damage they cause. **In addition, such threats could be introduced as a the result of our or our customers and business partners incorporating the output of an AI tool that includes a threat, such as introducing malicious code by incorporating AI generated source code.** Any unauthorized access, disclosure or other loss of information could result in legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence in our products and services, which could adversely affect our business.

If unauthorized access is obtained to the personal and/or proprietary data we collect and store, our products become subject to cybersecurity breaches, or if public perception is that they are vulnerable to cyberattacks, our reputation and business could suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our employees, on our networks and third-party cloud software providers. If there is unauthorized access to such information, we may incur significant costs or liabilities and lose customer confidence in us, which would harm our reputation and results of operations. In addition, we could be subject to liability or our reputation could be harmed if technologies integrated into our products, or our products, fail to prevent cyberattacks, or if our partners or customers fail to safeguard the systems with security policies that conform to industry best practices. In addition, any cyberattack or security breach that affects a competitor’s products could lead to the negative perception that our solutions are or could be subject to similar attacks or breaches.

Some of our software offerings may be subject to various cybersecurity risks, which are particularly acute in the cloud-based technologies operated by us and other third parties that form a part of our solutions.

In connection with certain implementations of our management software platform, application, and SaaS offerings, we expect to store, convey and process data produced by devices. This data may include confidential or proprietary information, intellectual property or personally identifiable information of our customers or other third parties with whom they do business. It is important for us to maintain solutions and related infrastructure that are perceived by our customers and other parties with whom we do business to provide a reasonable level of reliability and security. Despite available security measures and other precautions, the infrastructure and transmission methods used by our products and services may be vulnerable to interception, attack or other disruptive problems. **Additionally, some of our products include capabilities to support AI which [may] further increase our products susceptibility or perceived susceptibility of security risks.**

If a cyberattack or other security incident were to allow unauthorized access to or modification of our customers’ data or our own data, whether due to a failure with our systems or related systems operated by third parties, we could suffer damage to our brand and reputation. The costs we would incur to address and fix these incidents could significantly increase our expenses. These types of security incidents could also lead to lawsuits, regulatory investigations and increased legal liability, including in some cases contractual costs related to customer notification and fraud monitoring.

Failure to comply with data privacy laws and regulations could have a materially adverse effect on our reputation, results of operations or financial condition, or have other adverse consequences.

Certain of our products and services as well as the operations of our business may involve access or exposure to personally identifiable or otherwise confidential information and customer data and systems, the misuse or improper disclosure of which could result in legal liability. The collection, hosting, transfer, disclosure, use, storage and security of personal information is subject to federal, state and foreign data privacy laws. These laws, ("Privacy and Data Protection Requirements") which are not uniform, do one or more of the following: regulate the collection, transfer (including in some cases, the transfer outside the country of collection), processing, storage, use and disclosure of personal information, and require notice to individuals of privacy practices and in some cases consent to collection of personal information; give individuals certain access, correction and deletion rights with respect to their personal information; and prevent the use or disclosure of personal information, or require providing opt-outs for the use and disclosure of personal information, for secondary purposes such as marketing. Under certain circumstances, some of these laws require us to provide notification to affected individuals, data protection authorities and/or other regulators in the event of a data breach. In many cases, these laws apply not only to third-party transactions, but also to transfers of information among us and our subsidiaries.

Laws and regulations in this area are evolving and generally becoming more stringent. For example, the European General Data Protection Regulation (the "GDPR") requires us to meet stringent requirements regarding (i) our access, use, disclosure, transfer, protection, or otherwise processing of personal information; and (ii) the ability of data subjects to exercise their related various rights such as to access, correct or delete or limit the use of their personal data. Under the GDPR and the U.K.'s version of the GDPR, information transfers from the European Union and the U.K. to the U.S. are generally prohibited unless certain measures are followed. The 2018 California Consumer Privacy Act and California Privacy Rights Act of 2020 provide individuals similar rights with respect to the processing of their personal data. In addition to California, Colorado, Virginia, Utah, and Connecticut, previously enacted comprehensive privacy legislation, and in 2023 and 2024, Delaware, Florida, Indiana, Iowa, Kentucky, Maryland, Minnesota, Montana, Nebraska, New Jersey, New Hampshire, Oregon, Rhode Island, Tennessee and Texas enacted such laws. Privacy laws, and data privacy laws are scheduled to become effective in Tennessee, Minnesota and Maryland in 2025 and Indiana, Kentucky, and Rhode Island in 2026. There is also the possibility of federal privacy legislation and increased enforcement by the Federal Trade Commission under its power to regulate unfair and deceptive trade practices. Markets in the Asia Pacific region have also recently adopted GDPR-like legislation, including China's new Personal Information Protection Law. Failure to meet Privacy and Data Protection Law requirements could result in significant civil penalties (including fines up to 4% of annual worldwide revenue under the GDPR) as well as criminal penalties. Privacy and data protection law requirements also confer a private right of action in some countries, including under the GDPR.

As these laws continue to evolve, we may be required to make changes to our systems, services, solutions and/or products to enable us and/or our clients to meet the new legal requirements, including by taking on more onerous obligations, limiting our storage, transfer and processing of data and, in some cases, limiting our service and/or solution offerings in certain locations and our ability to market to customers. Changes in these laws, or the interpretation and application thereof, may also increase our potential exposure through significantly higher potential penalties for non-compliance. The costs of compliance with, and other burdens imposed by, such laws and regulations and client demand in this area may limit the use of, or demand for, our services, solutions and/or products, make it more difficult and costly to meet client expectations, or lead to significant fines, penalties or liabilities for noncompliance, any of which could adversely affect our business, financial condition, and results of operations.

Issues related to the responsible use of AI may result in reputational, competitive and financial harm and liability.*

We offer products that include capabilities to support AI deployment [and we expect this part of our business to grow.] As with many new emerging technologies, AI presents risks and challenges and increasing ethical concerns relating to its responsible use that could affect the adoption of AI, and thus our business. Third-party misuse of AI applications, models, or solutions, or ineffective or inadequate AI development or deployment practices by us or our customers or business partners, could cause harm to individuals, our business or impair the public's acceptance of AI. Moreover, we may be subject to competitive harm, regulatory action and legal liability as a result of new proposed legislation regulating AI, new applications of existing data protection, privacy and intellectual property and other laws. Such regulations could cause us to incur greater compliance costs and could also impact our ability to sell or the ability of our customers and users worldwide to acquire, deploy and use systems that include our AI-related products and services, which could thus require us to change our business practices and could adversely affect our business, financial condition and results of operations. If the AI-related products that we offer have unintended consequences or unintended usage or customization by our customers or are otherwise controversial due to their perceived or actual impact on human rights, privacy, employment or other social, economic or political issues the public's acceptance of AI may be impaired and may result in reputational and financial harm and liability to our business.

If software that we 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 software developed and maintained by third-party software vendors or which 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.

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

We currently offer warranties ranging from one to five years on each of our products. Our products could contain undetected software or hardware errors or defects. If there is a product failure, we might have to replace all affected products, or we might have to refund the purchase price for the units. 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 financial losses and claims against us. Significant product warranty claims against us could harm our business, reputation and financial results and cause the market price of our common stock to decline.

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 rely primarily on a combination of laws, such as patent, 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 intellectual property rights based upon prior use that negatively impacts our ability to enforce our trademarks and patents; and
- policing unauthorized use of our patented technology and trademarks is difficult, expensive and time-consuming, and we might be unable to determine the extent of this unauthorized use.

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 technology, 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.

The impact of natural disasters and other business interruptions could negatively impact our supply chain and customers resulting in an adverse impact to our revenues and profitability.

Certain of our components and other materials used in producing our products are from regions susceptible to natural disasters. A natural disaster could damage equipment and inventory at our suppliers' facilities, adversely affecting our supply chain. If we are unable to obtain these materials, we could experience a disruption to our supply chain that would hinder our ability to produce our products in a timely manner, or cause us to seek other sources of supply, which may be more costly or which we may not be able to procure on a timely basis. In addition, our customers may not follow their normal purchasing patterns or temporarily cease purchasing from us due to impacts to their businesses in the region, creating unexpected fluctuations or decreases in our revenues and profitability. Natural disasters in other parts of the world on which our operations are reliant also could have material adverse impacts on our business.

In addition, our operations and those of our suppliers are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, cybersecurity breaches, IT systems failure, terrorist attacks and other events beyond our control, including the effects of climate change. 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, whether due to a natural disaster or otherwise, our business could be materially and adversely affected.

Risks Related to Liquidity and Capital Resources

We maintain cash deposits in excess of federally insured limits. Adverse developments affecting financial institutions, including bank failures, could adversely affect our liquidity and financial performance.

We regularly maintain domestic cash deposits in the Federal Deposit Insurance Corporation (“FDIC”) insured banks, which exceed the FDIC insurance limits. Bank failures, events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, or concerns or rumors about such events, may lead to widespread demands for customer withdrawals and liquidity constraints that may result in market-wide liquidity problems. For example, in March 2023, Silicon Valley Bank (“SVB”), Signature Bank Corp. and Silvergate Capital Corp. each failed and was taken into receivership by the FDIC. At that time, we maintained deposits amounting to approximately 85% of our total cash at SVB. While we were able to regain full access to our deposits with SVB and have taken steps to diversify our banking relationships since then, our loan agreement with SVB currently requires us to hold 50% of our company-wide cash balances at SVB. Consequently, any future failure of that bank could simultaneously prevent access to both a substantial portion of our cash holdings and to our credit line for funds needed to meet our working capital requirements and other financial commitments. Our cash balances are concentrated at a small number of financial institutions. In addition, current macroeconomic conditions caused turmoil in the banking sector since the failure of SVB. A failure to timely access our cash on deposit with SVB or other banks could require the scaling back of our operations and production, negatively affect our credit, and prevent us from fulfilling contractual obligations. Moreover, there can be no assurance that our deposits in excess of the FDIC or other comparable insurance limits will be backstopped by the U.S. or any applicable foreign government in the future or that any bank or financial institution with which we do business will be able to obtain needed liquidity from other banks, government institutions or by acquisition in the event of a future failure or liquidity crisis, and such uninsured deposits may ultimately be lost. In addition, if any of the parties with whom we conduct business are unable to access funds due to the status of their financial institution, such parties’ ability to pay their obligations to us or to enter into new commercial arrangements requiring additional payments to us could be adversely affected.

We have a history of losses.

We have historically incurred net losses. There can be no assurance that we will generate net profits in future periods. Further, there can be no assurance that we will be cash flow positive in future periods. In the event that we fail to achieve profitability in future periods, the value of our common stock may decline. In addition, if we are unable to achieve or maintain positive cash flows, we would be required to seek additional funding, which may not be available on favorable terms, if at all.

We may need additional capital and it may not be available on acceptable terms, or at all.

To remain competitive, we must continue to make significant investments to operate our business and develop our products. Our future capital requirements will depend on many factors, including the timing and amount of our net revenue, research and development expenditures, expenses associated with any strategic partnerships or acquisitions and infrastructure investments, and expenses related to litigation, each of which could negatively affect our ability to generate additional cash from operations. If cash generated from operations is insufficient to satisfy our working capital requirements, we may need to raise additional capital. Looking ahead at long-term needs, we may need to raise additional funds for a number of purposes, including, but not limited to:

- to fund working capital requirements;
- to update, enhance or expand the range of products we offer;
- to refinance existing indebtedness;
- to increase our sales and marketing activities;
- to respond to competitive pressures or perceived opportunities, such as investment, acquisition and international expansion activities; or
- to acquire additional businesses

We may seek additional capital from public or private offerings of our capital stock, borrowings under our existing or future credit lines or other sources. If we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise additional funds through collaborations, licensing, joint ventures, or other similar arrangements, it may be necessary to relinquish valuable rights to our potential future products or proprietary technologies, or grant licenses on terms that are not favorable to us. There can be no assurance that we will be able to raise any needed capital on terms acceptable to us, if at all. If we are unable to secure additional financing in sufficient amounts or on favorable terms, 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.

The terms of our Senior Credit Facilities may restrict our financial and operational flexibility and, in certain cases, our ability to operate.

The terms of our existing term loan and revolving credit facility restrict, among other things, our ability to incur liens, incur indebtedness, dispose of assets, make investments, make certain restricted payments, merge or consolidate and enter into certain speculative hedging arrangements. Further, we are currently and may in the future be required to maintain specified financial ratios, including pursuant to a maximum leverage ratio, a minimum fixed charge coverage ratio or a minimum liquidity test. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and there can be no assurance that we will meet those tests. Pursuant to our amended credit agreement and the related loan and security agreement, we have pledged substantially all of our assets to our senior lender, SVB. In addition, our loan agreement with SVB currently requires us to hold 50% of our company-wide cash balances at SVB, which may limit our ability to manage our cash holdings effectively.

Risks Related to International Operations

Rising concern regarding international tariffs could materially and adversely affect our business and results of operations.

The current political landscape has introduced significant uncertainty with respect to future trade regulations and existing international trade agreements, as shown by the U.S.-initiated renegotiation of the North America Free Trade Agreement, Brexit in Europe, and the current war between Ukraine and Russia. This uncertainty includes the possibility of imposing tariffs or penalties on products manufactured outside the U.S., including the U.S. government's increased tariffs on a range of products from China and subsequent tariffs imposed by the U.S. as well as tariffs imposed by trading partners on U.S. goods, the potential for increased trade barriers between the U.K. and the European Union, and export controls or other retaliatory actions against, or restrictions on doing business with Russia, as well as any resulting disruption, instability or volatility in the global markets and industries resulting from such conflict. The institution of trade tariffs both globally and between the U.S. and China specifically, carries the risk of negatively affecting the overall economic conditions of both China and the U.S., which could have a negative impact on us.

We cannot predict whether, and to what extent, there may be changes to international trade agreements or whether quotas, duties, tariffs, exchange controls or other restrictions on our products will be changed or imposed. If we are unable to source our products from the countries where we wish to purchase them, either because of regulatory changes or for any other reason, or if the cost of doing so increases, it could have a material adverse effect on our business, financial condition and results of operations. Furthermore, imposition of tariffs may result in local sourcing initiatives, or other developments that make it more difficult to sell our products in foreign countries, which would negatively impact our business and operating results.

We face risks associated with our international operations that could impair our ability to grow our revenues abroad as well as our overall financial condition.

We believe that our future growth is dependent in part upon our ability to increase sales in international markets. These sales are subject to a variety of risks, including geopolitical events, fluctuations in currency exchange rates, tariffs, import restrictions and other trade barriers, unexpected changes in regulatory requirements, longer accounts receivable payment cycles, potentially adverse tax consequences, and export license requirements. In addition, we are subject to the risks inherent in conducting business internationally, including political and economic instability and unexpected changes in diplomatic and trade relationships. In many markets where we operate, business and cultural norms are different than those in the U.S., and practices that may violate laws and regulations applicable to us such as the Foreign Corrupt Practices Act (the "FCPA") unfortunately are more commonplace. Although we have implemented policies and procedures with the intention of ensuring compliance with these laws and regulations, our employees, contractors and agents, as well as distributors and resellers involved in our international sales, may take actions in violation of our policies. Many of our vendors and strategic business allies also have international operations and are subject to the risks described above. Even if we are able to successfully manage the risks of international operations, our business may be adversely affected if one or more of our business partners are not able to successfully manage these risks. There can be no assurance that one or more of these factors will not have a material adverse effect on our business strategy and financial condition.

Foreign currency exchange rates may adversely affect our results.

We are exposed to market risk primarily related to foreign currencies and interest rates. In particular, we are exposed to changes in the value of the U.S. dollar versus the local currency in which our products are sold and our services are purchased, including devaluation and revaluation of local currencies. Accordingly, fluctuations in foreign currency rates could adversely affect our revenues and operating results.

Risks Related to Regulatory Compliance and Legal Matters

Our inability to obtain appropriate industry certifications or approvals from governmental regulatory bodies could impede our ability to grow revenues in our wireless products.

The sale of our wireless products in some geographical markets is sometimes dependent on the ability to gain certifications and/or approvals by relevant governmental bodies. In addition, many of our products are certified as meeting various industry quality and/or compatibility standards. Failure to obtain these certifications or approvals, or delays in receiving any needed certifications or approvals, could impact our ability to compete effectively or at all in these markets and could have an adverse impact on our revenues.

Our failure to comply effectively with regulatory laws pertaining to our foreign operations could have a material adverse effect on our revenues and profitability.

We are required to comply with U.S. government export regulations in the sale of our products to foreign customers, including requirements to properly classify and screen our products against a denied parties list prior to shipment. We are also required to comply with the provisions of the FCPA and all other anti-corruption laws, such as the U.K. Anti-Bribery Act, of all other countries in which we do business, directly or indirectly, including compliance with the anti-bribery prohibitions and the accounting and recordkeeping requirements of these laws. Violations of the FCPA or other similar laws could trigger sanctions, including ineligibility for U.S. government insurance and financing, as well as large fines. Failure to comply with the aforementioned regulations could also affect our decision to sell our products in international jurisdictions, which could have a material adverse effect on our revenues and profitability.

Our failure to comply effectively with the requirements of applicable environmental legislation and regulation could have a material adverse effect on our revenues and profitability.

Certain states and countries have passed regulations relating to chemical substances in electronic products and requiring electronic products to use environmentally friendly components. For example, the European Union has the Waste Electrical and Electronic Equipment Directive, the Restrictions of Hazardous Substances Directive, and the Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals. In the future, China and other countries including the U.S. are expected to adopt further environmental compliance programs. In order to comply with these regulations, we may need to redesign our products to use different components, which may be more expensive, if they are available at all. If we fail to comply with these regulations, we may not be able to sell our products in jurisdictions where these regulations apply, which could have a material adverse effect on our revenues and profitability.

Increasing scrutiny and evolving expectations from investors, customers, lawmakers, regulators, and other stakeholders regarding environmental, social and governance practices and disclosures may adversely affect our reputation, adversely impact our ability to attract and retain employees or customers, expose us to increased scrutiny from the investment community or enforcement authorities or otherwise adversely impact our business and results of operations.

There is increasing scrutiny and evolving expectations from investors, customers, lawmakers, regulators, and other stakeholders on environmental, social and governance (“ESG”) practices and disclosures, including those related to environmental stewardship, climate change, diversity, equity and inclusion, forced labor, racial justice, and workplace conduct. Regulators have imposed, and likely will continue to impose, ESG-related rules and guidance, which may conflict with one another and impose additional costs on us or expose us to new or additional risks. Moreover, certain organizations that provide information to investors have developed ratings for evaluating companies on their approach to different ESG-related matters, and unfavorable ratings of us or our industry may lead to negative investor sentiment and the diversion of investment to other companies or industries. As a smaller company, we may not have resources to meet the evolving ESG-related expectations of an investment community.

Current or future litigation, including related to intellectual property, could adversely affect us.

We are subject to a wide range of claims and lawsuits in the course of our business. 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. Adverse outcomes may have a material adverse effect on our business, financial condition or results of operations.

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

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

- be time-consuming, costly and/or result in litigation;
- divert management's time and attention from developing our business;
- require us to pay monetary damages, including treble damages if we are held to have willfully infringed;
- require us to enter into royalty and licensing agreements that we would not normally find acceptable;
- require us to stop selling or to redesign certain of our products; or
- require us to satisfy indemnification obligations to our customers.

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

General Risk Factors

High interest rates may negatively impact our results of operations and financing costs.

Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies. In an effort to combat inflation, a number of central banks around the world, including the U.S., raised interest rates and may continue to raise them in the future. Higher interest rates may hinder the economic growth in markets where we do business, and has and may continue to have negative impacts on the global economy. Rising interest rates may lead customers to decrease or delay spending on products and projects, including on products that we sell, which may have a material adverse effect on our business, financial condition and results of operations. In addition, higher interest rates impact the amount of interest we pay for our debt obligations and leases and continue and sustained increases in interest rates could negatively impact our financing costs or cash flow.

We previously identified a material weakness in our internal control related to ineffective information technology general controls which, if not remediated appropriately or timely, could result in loss of investor confidence and adversely impact our stock price.*

Internal controls related to the operation of technology systems are critical to maintaining adequate internal control over financial reporting. As disclosed in Part II, Item 9A, during fiscal 2023, management identified a material weakness related to the design and implementation of information technology general controls related to the Company's information systems that are relevant to the preparation of consolidated financial statements. Specifically, we did not design and maintain user access controls to adequately restrict user access to the financial application and data to appropriate Company personnel. As a result, management concluded that our internal control over financial reporting was not effective as of June 30, 2023 and June 30, 2024. We have implemented remedial measures and expect to remediate the material weakness prior to the end of fiscal 2025. If we are unable to remediate the material weakness, or are otherwise unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately, and to prepare financial statements within required time periods, could be adversely affected, which could subject us to litigation or investigations requiring management resources and payment of legal and other expenses, negatively affect investor confidence in our financial statements and adversely impact our stock price.

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

Our financial performance depends substantially on the performance of our executive officers and of key engineers, marketing and sales employees. We are particularly dependent upon our technical personnel, due to the specialized technical nature of our business. If we were to lose the services of our executive officers or any of our key personnel and were not able to find replacements in a timely manner, our business could be disrupted, other key personnel might decide to leave, and we might incur increased operating expenses associated with finding and compensating replacements.

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

We have experienced, and expect to continue to experience, significant fluctuations in net revenue, 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 operating or financial performance or the future performance of the market price of our common stock. A high percentage of our operating expenses are relatively fixed and are based on our forecast of future revenue. If we were to experience an unexpected reduction in net revenue in a quarter, we would likely be unable to adjust our short-term expenditures significantly. If this were to occur, our operating results for that fiscal quarter would be harmed. In addition, if our operating results in future fiscal quarters were to fall below the expectations of equity analysts and investors, the market price of our common stock would likely fall.

The market price of our common stock may be volatile based on a number of factors, many of which are not under our control.

The market price of our common stock has been highly volatile. The market price of our common stock could be subject to wide fluctuations in response to a variety of factors, many of which are out of our control, including:

- adverse changes in domestic or global economic, market and other conditions;
- new products or services offered by our competitors;
- our completion of or failure to complete significant one-time sales of our products;
- actual or anticipated variations in quarterly operating results;
- changes in financial estimates by securities analysts;
- announcements of technological innovations;
- our announcement of significant mergers, acquisitions, strategic partnerships, joint ventures or capital commitments;
- conditions or trends in the industry;
- additions or departures of key personnel;
- increased competition from industry consolidation; and
- sales of common stock by our stockholders or us or repurchases of common stock by us.

In addition, the Nasdaq Capital Market often experiences price and volume fluctuations. These fluctuations often have been unrelated or disproportionate to the operating performance of companies listed on the Nasdaq Capital Market.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Insider Trading Arrangements

During the quarter ended September 30, 2024 December 31, 2024, no director or officer of the Company adopted or terminated or modified a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

Exhibit Number	Description	Provided Herewith	Incorporated by Reference			Description	Provided Herewith	Incorporated by Reference		
			Form	Exhibit	Filing Date			Form	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Lantronix, Inc., as amended		10-K	3.1	08/29/2013	Amended and Restated Certificate of Incorporation of Lantronix, Inc., as amended		10-K	3.1	08/29/2013
3.2	Amended and Restated Bylaws of Lantronix, Inc.		8-K	3.2	11/15/2012	Amended and Restated Bylaws of Lantronix, Inc.		8-K	3.2	11/15/2012
10.1	Fourth Amendment to Third Amended and Restated Loan and Security Agreement dated September 3, 2024 among Lantronix, Inc., Lantronix Holding Company, Lantronix Canada, ULC and Lantronix Technologies Canada (Taiwan) Ltd., Transition Networks, Inc., Uplogix, Inc. and Silicon Valley Bank		10-K	10.42	09/09/2024	Lantronix, Inc. 2020 Performance Incentive Plan, as amended and restated		8-K	10.1	11/06/2024
10.2	Letter Agreement dated September 14, 2024 between Lantronix, Inc. and Brent Stringham		8-K	10.1	09/16/2024	Amendment to Letter Agreement, dated as of January 6, 2025, between Brent Stringham and Lantronix, Inc.		8-K	10.1	1/10/2025
10.3	Lantronix, Inc. 2020 Performance Incentive Plan, as amended and restated		8-K	10.1	11/06/2024					
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			

32.1+	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X	Inline XBRL Taxonomy Extension Schema Document	X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X	Inline XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X	Inline XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X

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Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

Cover Page
Interactive Data
File (formatted
as inline XBRL
and contained
in Exhibit 101)

* Indicates management contract or compensatory plan, contract or arrangement.
+ Furnished, not filed.

SIGNATURES

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

LANTRONIX, INC.

Date: November 8, 2024 February 7, 2025

By: /s/ SALEEL AWSARE
Saleel Awsare
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ BRENT STRINGHAM
Brent Stringham
Chief Accounting Officer and Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

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Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Saleel Awsare, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lantronix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended, Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Securities Exchange Act of 1934, as amended, Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2024 February 7, 2025

/s/ Saleel Awsare

Saleel Awsare
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brent Stringham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lantronix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended, Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Securities Exchange Act of 1934, as amended, Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2024 February 7, 2025

/s/ Brent Stringham
Brent Stringham
Chief Accounting Officer and Interim Chief
Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION OF 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

The following certifications are being furnished solely to accompany the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2024 December 31, 2024 (the "Report") pursuant to U.S.C. Section 1350, and pursuant to SEC Release No. 33-8238 are being "furnished" to the Securities and Exchange Commission rather than "filed" either as part of the Report or as a separate disclosure statement, and are not to be incorporated by reference into the Report or any other filing of Lantronix, Inc. (the "Company"), whether made before or after the date hereof, regardless of any general incorporation language in such filing. The following certifications shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section.

Certification of the Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of the Company hereby certifies, to such officer's knowledge, that:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in such Report.

Date: November 8, 2024 February 7, 2025

/s/ Saleel Awsare

Saleel Awsare
President and Chief Executive Officer
(Principal Executive Officer)

Certification of the Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of the Company hereby certifies, to such officer's knowledge, that:

(i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in such Report.

Date: November 8, 2024 February 7, 2025

/s/ Brent Stringham
Brent Stringham
Chief Accounting Officer and Interim Chief
Financial Officer
(Principal Financial and Accounting Officer)

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