LANTRONIX INC
Form 10-Q
May 14, 2009

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from _________ to ___________.

Commission file number: 1-16027

LANTRONIX, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	33-0362767 (I.R.S. Employer Identification No.)

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

92618
(Zip Code)

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

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

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

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

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

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

As of May 8, 2009, 60,510,526, shares of the Registrant's common stock were outstanding.

LANTRONIX, INC.

FORM 10-Q
FOR THE FISCAL QUARTER ENDED
March 31, 2009

INDEX

		Page
PART I.	FINANCIAL INFORMATION	1
Item 1.	Financial Statements	1
	Unaudited Condensed Consolidated Balance Sheets at March 31, 2009 and June 30, 2008	1
	Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2009 and 2008	2
	Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2009 and 2008	3
	Notes to Unaudited Condensed Consolidated Financial Statements.	4
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	9
Item 4.	Controls and Procedures.	19
PART II.	OTHER INFORMATION	20
Item 1.	Legal Proceedings	20
Item 1A.	Risk Factors	20
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3.	Defaults Upon Senior Securities	28
Item 4.	Submission of Matters to a Vote of Security Holders	28

Item 5.	Other Information	28
Item 6.	Exhibits	29

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2009	June 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 9,156	$ 7,434
Accounts receivable, net	1,348	4,166
Inventories, net	7,960	8,038
Contract manufacturers' receivable	517	676
Prepaid expenses and other current assets	813	566
Total current assets	19,794	20,880
Property and equipment, net	2,238	2,271
Goodwill	9,488	9,488
Purchased intangible assets, net	295	382
Other assets	132	144
Total assets	$ 31,947	$ 33,165
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,008	$ 7,684
Accrued payroll and related expenses	1,275	2,203
Warranty reserve	224	342
Restructuring reserve	6	744
Short-term debt	667	-
Other current liabilities	3,992	4,221
Total current liabilities	12,172	15,194
Non-current liabilities:		
Long- term liabilities	147	210
Long-term capital lease obligations	368	515
Long-term debt	944	-
Total non-current liabilities	1,459	725
Total liabilities	13,631	15,919
Commitments and contingencies		
Stockholders' equity:		
Common stock	6	6
Additional paid-in capital	189,073	187,626
Accumulated deficit	(171,134)	(170,907)
Accumulated other comprehensive income	371	521
Total stockholders' equity	18,316	17,246
Total liabilities and stockholders' equity	$ 31,947	$ 33,165

See accompanying notes.

2

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Net revenue (1)	$ 10,655	$ 14,541	$ 37,752	$ 42,872
Cost of revenue	5,086	7,207	17,716	21,234
Gross profit	5,569	7,334	20,036	21,638
Operating expenses:				
Selling, general and administrative	4,446	5,982	14,969	17,592
Research and development	1,367	1,707	4,419	5,233
Restructuring (recovery) charge	(23)	-	698	-
Amortization of purchased intangible assets	18	18	54	54
Total operating expenses	5,808	7,707	20,140	22,879
Loss from operations	(239)	(373)	(104)	(1,241)
Interest expense, net	(51)	(39)	(134)	(119)
Other income (expense), net	37	(16)	43	115
Loss before income taxes	(253)	(428)	(195)	(1,245)
Provision (benefit) for income taxes	10	36	32	(111)
Net loss	$ (263)	$ (464)	$ (227)	$ (1,134)
Net loss per share (basic and diluted)	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.02)
Weighted-average shares (basic and diluted)	60,524	60,192	60,467	60,074
(1) Includes net revenue from related party	$ 244	$ 196	$ 804	$ 698

See accompanying notes.

3

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

	Nine Months Ended March 31, 2009	Nine Months Ended March 31, 2008
Operating activities		
Net loss	$ (227)	$ (1,134)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Share-based compensation	1,359	928
Restructuring charge	698	-
Depreciation	568	406
Provision for inventories	9	362
Amortization of purchased intangible assets	87	76
Gain on sale of investment	-	(104)
Provision for officer loan	-	35
Provision (recovery) of doubtful accounts	54	(16)
Changes in operating assets and liabilities:		
Accounts receivable	2,764	594
Inventories	69	2,540
Contract manufacturers' receivable	159	(51)
Prepaid expenses and other current assets	(350)	(139)
Other assets	10	11
Accounts payable	(1,671)	(3,543)
Accrued payroll and related expenses	(880)	(104)
Warranty reserve	(118)	(104)
Restructuring reserve	(1,388)	-
Other liabilities	(129)	(141)
Net cash provided by (used in) operating activities	1,014	(384)
Investing activities		
Purchases of property and equipment, net	(495)	(383)
Proceeds from the sale of investments	-	104
Net cash used in investing activities	(495)	(279)
Financing activities		
Proceeds from term loan	2,000	-
Payment of term loan	(389)	-
Net proceeds from issuances of common stock	88	326
Payment of capital lease obligations	(252)	(148)
Net cash provided by financing activities	1,447	178
Effect of foreign exchange rate changes on cash	(244)	200
Increase (decrease) in cash and cash equivalents	1,722	(285)
Cash and cash equivalents at beginning of period	7,434	7,582
Cash and cash equivalents at end of period	$ 9,156	$ 7,297

See accompanying notes.

LANTRONIX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Lantronix, Inc. (the “Company” or “Lantronix”) have been prepared by the Company in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2008, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on September 19, 2008. They contain all normal recurring accruals and adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at March 31, 2009, and the consolidated results of its operations and cash flows for the three and nine months ended March 31, 2009 and 2008. All intercompany accounts and transactions have been eliminated. It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three and nine months ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

2. 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 year.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
	(In thousands, except per share data)			
Numerator:				
Net loss	$ (263)	$ (464)	$ (227)	$ (1,134)
Denominator:				
Weighted-average shares outstanding	63,481	60,292	63,424	60,174
Less: Unvested common shares outstanding	(2,957)	(100)	(2,957)	(100)
Weighted-average shares (basic and diluted)	60,524	60,192	60,467	60,074
Net loss per shares (basic and diluted)	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.02)

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

	Three Months Ended March 31,	Nine Months Ended March 31,

	2009	2008	2009	2008
Common stock equivalents	7,683,962	4,598,715	8,272,282	3,861,280

3. Inventories

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

	March 31, 2009	June 30, 2008
	(In thousands)	
Finished goods	$ 5,511	$ 5,707
Raw materials	1,347	1,836
Inventory at distributors	1,539	2,008
Large scale integration chips *	1,373	809
Inventories, gross	9,770	10,360
Reserve for excess and obsolete inventory	(1,810)	(2,322)
Inventories, net	$ 7,960	$ 8,038

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

4. Warranty

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

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

	Nine Months Ended March 31, 2009	Year Ended June 30, 2008
	(In thousands)	
Beginning balance	$ 342	$ 446
Charged to cost of revenues	74	219
Usage	(192)	(323)
Ending balance	$ 224	$ 342

5. Restructuring Reserve

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

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

	Facilities Termination Costs	Severance Related Costs (In thousands)	Total Restructuring Costs
Restructuring reserve at June 30, 2008	$ -	$ 744	$ 744
Restructuring charge	46	652	698
Cash payments	(46)	(1,390)	(1,436)
Restructuring reserve at March 31, 2009	$ -	$ 6	$ 6

6. Bank Line of Credit and Debt

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

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

7. Stockholders' Equity

Share-Based Compensation

The Company has one active share-based plan under which non-qualified and incentive stock options have been granted to employees, non-employees and its board of directors. In addition, the Company has granted restricted stock awards to employees and its board of directors under this share-based plan. The board of directors determines eligibility, vesting schedules and exercise prices for options and restricted stock awards granted under the plans. The Company issues new shares to satisfy stock option exercises, restricted stock grants, and stock purchases under its share-based plans.

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

	Number of Shares
Balance of options outstanding at June 30, 2008	8,516,552
Options granted	1,303,730
Options forfeited	(879,186)
Options expired	(1,367,395)
Options exercised	(12,650)
Balance of options outstanding at March 31, 2009	7,561,051

The following table presents stock option grant date information:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Weighted-average grant date fair value	$ 0.39	$ 0.57	$ 0.37	$ 0.58
Weighted-average grant date exercise price	$ 0.56	$ 0.82	$ 0.55	$ 0.84

The following table presents a summary of restricted stock activity:

Nonvested Shares	Number of Shares	Weighted-Average Grant-Date Fair Value
Balance of restricted shares at June 30, 2008	100,000	$ 0.83
Granted	3,054,032	0.51
Forfeited	(167,010)	0.50
Vested	(30,000)	0.83
Balance of restricted shares at March 31, 2009	2,957,022	$ 0.52

During September 2008, the Company granted 2,221,089 restricted shares to certain employees as part of the Company's Long Term Incentive Plan ("LTIP"). During November 2008, the Compensation Committee of the Board of Directors, granted restricted stock under the Company's LTIP plan to Jerry D. Chase, President and Chief Executive Officer and Reagan Y. Sakai, Chief Financial Officer and Secretary. Mr. Chase and Mr. Sakai will receive 432,000 and 250,000 shares of restricted stock, respectively. Each grant cliff vests on a pro rata basis over 4 years beginning September 1, 2009, subject to continued employment. The fair value of the restricted shares was based upon the closing trading price of the Company's shares on the grant date.

On November 19, 2008, the Board of Directors approved a grant to the non-management directors of 150,943 and 981,130, restricted shares and stock options, respectively. The grants cliff vest on November 19, 2009, subject to continued service. The fair value of the restricted shares was based upon the closing trading price of the Company's shares on the grant date.

During September 2008 and November 2008, the board of directors approved Performance Plans for the fiscal year ended June 30, 2009, which will be paid in vested common shares if minimum revenue, non-GAAP income and management objectives are met. As of March 31, 2009, the Company estimated it was at approximately 30% attainment per the Performance Plan which would result in an expense to share-based compensation of approximately $104,000 during the fourth fiscal quarter of 2009. During the nine months ended March 31, 2009, the Company recorded $213,000 to share-based compensation in connection with this Performance Plan.

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

Vesting Condition	Remaining Unrecognized Compensation Cost (In thousands)	Remaining Years To Vest
Stock Option Awards:		
Service based	$ 1,214	
Market and service based	848	
Stock option awards	$ 2,062	2.5
Restricted Stock Awards:		
Service based	1,261	
Market and service based	55	
Restricted stock awards	$ 1,316	3.2
Performance Plan Awards:		
Performance and service based	$ 104	0.3

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Nine Months Ended March 31, 2009	Nine Months Ended March 31, 2008
	(In thousands)			
Cost of revenues	$ 2	$ 27	$ 49	$ 80
Selling, general and administrative	242	186	956	588
Research and development	51	74	354	260
Total share-basd compensation	$ 295	$ 287	$ 1,359	$ 928

Warrants to Purchase Common Stock

During March 2008, the Company distributed warrants to purchase 1,079,615 shares of Lantronix common stock as consideration for settlement of a shareholder lawsuit. The warrants have a contractual life of four years and a strike price of $4.68.

8. Income Taxes

At July 1, 2008, the Company's fiscal 2001 through fiscal 2008 tax years remain open to examination by the Federal and state taxing authorities. The Company has net operating losses ("NOLs") beginning in fiscal 2001 which cause the statute of limitations to remain open for the year in which the NOL was incurred.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Effective tax rate	4%	8%	16%	(9%)

The federal statutory rate was 34% for all periods. The difference between the Company's effective tax rate and the federal statutory rate resulted primarily from the effect of its domestic losses recorded with a fully reserved tax benefit, as well as the effect of foreign earnings taxed at rates differing from the federal statutory rate.

9. Comprehensive Income (Loss)

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
	(In thousands)			
Net loss	$ (263)	$ (464)	$ (227)	$ (1,134)
Other comprehensive income (loss):				
Change in net unrealized gain on investment, net of taxes of $0	-	-	-	7
Reclassification adjustment for net realized gain on sale of investment	-	-	-	(97)
Change in translation adjustments, net of taxes of $0	(56)	87	(150)	187
Total comprehensive loss	$ (319)	$ (377)	$ (377)	$ (1,037)

10. Litigation

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

During 2006, the Company concluded multiple securities lawsuits and litigation with a former executive officer. The Company may have an obligation to continue to indemnify the former executive officer and defend him in the litigation regarding the securities violation with which he has been charged. As of March 31, 2009, the Company had $52,000 of reimbursable legal expenses recorded as a liability on its consolidated balance sheet. A receivable for the insurance reimbursement has been recorded for the same amount.

9

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

Cautionary Statement

You should read the following discussion and analysis in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained elsewhere in this Quarterly Report on Form 10-Q. The information contained in this Report is not a complete description of our business. We urge you to carefully review and consider the various disclosures made by us in this Report and in our other reports filed with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the fiscal year ended June 30, 2008 and subsequent reports on our Current Reports on Form 8-K.

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

Overview

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

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

The following describes our M2M device networking product lines:

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

- Device Management (SecureLinx and ManageLinx) – We offer off-the-shelf appliances such as console servers, digital remote keyboard, video, mouse extenders, and power control products that enable IT professionals to remotely connect, monitor and control network infrastructure equipment, distributed branch office equipment and large groups of servers using highly secure out-of-band management technology. In addition, our ManageLinx solution provides secure remote Internet access to virtually any piece of IP-enabled equipment, including our DeviceLinx products – even behind remote firewalls or virtual private networks.

The following describes our non-core product line:

- Non-core – Over the years, we have innovated or acquired various product lines that are no longer part of our primary, core markets described above. In general, these non-core businesses represent decreasing markets and we minimize research and development in these product lines. Included in this category are terminal servers, visualization solutions, legacy print servers, software and other miscellaneous products. We have announced the end-of-life for almost all of our non-core products and expect a steep decline in non-core revenues in fiscal 2009 while we complete the exit of this product category.

Financial Highlights and Other Information for the Fiscal Quarter Ended March 31, 2009

The following is a summary of the key factors and significant events that impacted our financial performance during the fiscal quarter ended March 31, 2009:

- Net revenue was $10.7 million for the fiscal quarter ended March 31, 2009, a decrease of $3.9 million or 26.7%, compared to $14.5 million for the fiscal quarter ended March 31, 2008. The decrease was primarily the result of a $3.3 million, or 24.2%, decrease in our device networking product lines and a $579,000, or 65.2%, decrease in our non-core product lines.

- Gross profit margin was 52.3% for the fiscal quarter ended March 31, 2009 compared to 50.4% for the fiscal quarter ended March 31, 2008. The increase in gross profit margin percent was primarily attributable to product mix during the quarter and lower inventory reserve costs.

- Loss from operations was $239,000 for the fiscal quarter ended March 31, 2009 compared to a loss from operations of $373,000 for the fiscal quarter ended March 31, 2008.

- Net loss was $263,000, or $0.00 per basic and diluted share, for the fiscal quarter ended March 31, 2009 compared to a net loss of $464,000, or $0.01 per basic and diluted share, for the fiscal quarter ended March 31, 2008.

- Cash and cash equivalents were $9.2 million as of March 31, 2009, an increase of $1.7 million, compared to $7.4 million as of June 30, 2008.

- Net accounts receivable were $1.3 million as of March 31, 2009, a decrease of $2.8 million, compared to $4.2 million as of June 30, 2008. Annualized days sales outstanding ("DSO") in receivables were 23 days for the fiscal quarter ended March 31, 2009 compared to 24 days for the fiscal quarter ended June 30, 2008. Our accounts receivable and DSO are primarily affected by the timing of shipments within a quarter, our collections performance and the fact that a significant portion of our revenues are recognized on a sell-through basis (upon shipment from distributor inventories rather than as goods are shipped to distributors).

- Net inventories were $8.0 million as of March 31, 2009 compared to $8.0 million as of June 30, 2008. Annualized inventory turns were 2.5 turns for the fiscal quarter ended March 31, 2009 compared to 3.0 turns for the fiscal quarter ended June 30, 2008.

Critical Accounting Policies and Estimates

The accounting policies that have the greatest impact on our financial condition and results of operations and that require the most judgment are those relating to revenue recognition, warranty reserves, allowance for doubtful accounts, inventory valuation, valuation of deferred income taxes, goodwill and purchased intangible assets and restructuring reserves. These policies are described in further detail in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008. There have been no significant changes in our critical accounting policies and estimates during the fiscal quarter ended March 31, 2009 as compared to what was previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008.

Recent Accounting Pronouncements

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

Consolidated Results of Operations

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	47.7%	49.6%	46.9%	49.5%
Gross profit	52.3%	50.4%	53.1%	50.5%
Operating expenses:				
Selling, general and administrative	41.7%	41.1%	39.7%	41.0%
Research and development	12.8%	11.7%	11.7%	12.2%
Restructuring (recovery) charge	(0.2%)	0.0%	1.8%	0.0%
Amortization of purchased intangible assets	0.2%	0.1%	0.1%	0.1%
Total operating expenses	54.5%	53.0%	53.3%	53.4%
Loss from operations	(2.2%)	(2.6%)	(0.3%)	(2.9%)
Interest expense, net	(0.5%)	(0.3%)	(0.4%)	(0.3%)
Other income (expense), net	0.3%	(0.1%)	0.1%	0.3%
Loss before income taxes	(2.4%)	(2.9%)	(0.5%)	(2.9%)
Provision (benefit) for income taxes	0.1%	0.2%	0.1%	(0.3%)
Net loss	(2.5%)	(3.2%)	(0.6%)	(2.6%)

Comparison of the Fiscal Quarters Ended March 31, 2009 and 2008

Net Revenue by Product Line

The following table presents fiscal quarter net revenue by product line:

	Three Months Ended March 31,			
	% of Net		% of Net	Change
2009				