

LANTRONIX INC
Form DEF 14A
October 11, 2006

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the registrant x
Filed by a party other than the registrant o
Check the appropriate box:

- o Preliminary proxy statement
- x Definitive proxy statement

o Confidential, For Use of the
Commission Only (as permitted by
14a-6(e)(2))

- o Definitive additional materials
- o Soliciting material pursuant to
Rule 14a-11(c) or Rule 14a-12

LANTRONIX, INC.

(Name of Registrant as Specified in Its Charter)

Payment of filing fee (Check the appropriate box):

x No fee required

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

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration

Edgar Filing: LANTRONIX INC - Form DEF 14A

statement number, or the form or schedule and the date of its filing.

- (1) Amount previously paid:
 - (2) Form, schedule or registration statement no.:
 - (3) Filing party:
 - (4) Date filed:
-

LANTRONIX, INC.

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON NOVEMBER 28, 2006
9:00 A.M. LOCAL TIME**

Dear Stockholder:

We will hold our 2006 Annual Meeting of Stockholders at our headquarters at 15353 Barranca Parkway, Irvine, California 92618, on **Tuesday, November 28, 2006**, at 9:00 a.m. local time for the following purposes:

1. To elect four directors to serve until the 2007 Annual Meeting of Stockholders and until their successors are duly elected and qualified;
2. To ratify the appointment of McGladrey & Pullen, LLP as our independent registered public accountants for the fiscal year ending June 30, 2007; and
3. To transact such other business as may properly come before the Annual Meeting.

Any action on the items described above may be considered at the Annual Meeting at the time and on the date specified above or at any time and date to which the Annual Meeting may be properly adjourned or postponed.

The foregoing business items are more fully described in the following pages, which are made part of this Notice. Stockholders of record at the close of business on Thursday, September 28, 2006, may attend and vote at the Annual Meeting. Whether or not you plan to attend the meeting, you are urged to vote your shares by completing, signing, dating and returning the accompanying proxy card or voting instruction card in the pre-addressed return envelope provided. Please see the accompanying instructions for more details on voting. Returning your proxy card or voting instruction card promptly will assist us in reducing the expenses of additional proxy solicitation. Submitting your proxy card or voting instruction card does not affect your right to vote in person should you decide to attend the Annual Meeting (and, if you are not a stockholder of record, you have obtained a legal proxy from the broker, trustee or other nominee that holds your shares giving you the right to vote the shares in person at the Annual Meeting).

H.K. Desai
Chairman
Board of Directors

Irvine, California
October 6, 2006

IMPORTANT: Whether or not you plan to attend the Annual Meeting, you are requested to promptly complete, sign, date and return the enclosed Proxy Card in the envelope provided.

LANTRONIX, INC.
Corporate Headquarters
15353 Barranca Parkway
Irvine, California 92618
(949) 453-3990
www.lantronix.com

PROXY STATEMENT FOR 2006 ANNUAL MEETING OF STOCKHOLDERS

Our Board of Directors solicits your Proxy Card (the "Proxy") on behalf of Lantronix, Inc. for use at our 2006 Annual Meeting of Stockholders (the "Annual Meeting") to be held on Tuesday, November 28, 2006, at 9:00 a.m. local time, and at any adjournment(s) thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at our corporate offices located at 15353 Barranca Parkway, Irvine, California 92618.

These "proxy materials," which include the Proxy Statement, Proxy, letter to stockholders and Form 10-K, were first mailed on or about October 13, 2006, to all stockholders entitled to vote at the Annual Meeting.

INFORMATION CONCERNING SOLICITATION AND VOTING

Record Date

Stockholders of record at the close of business on September 28, 2006 (the "Record Date") are entitled to notice of the Annual Meeting and to vote at the Annual Meeting. Presence in person or by proxy of a majority of the shares of common stock outstanding on the Record Date is required for a quorum. As of the close of business on the Record Date, 59,380,560 shares of our common stock were outstanding and were the only class of voting securities outstanding. Each share is entitled to one vote on any matter that may be presented for consideration and action by the stockholders at the Annual Meeting.

Street Name Holdings

Most stockholders hold their shares through a broker, trustee or other nominee rather than directly in their own name. If you do hold shares directly in your name with our transfer agent, Mellon Investor Services LLC, you are considered the stockholder of record with respect to those shares and we are sending these proxy materials directly to you. As a stockholder of record, you have the right to grant your voting proxy directly to the named proxy holder or to vote in person at the Annual Meeting. We have enclosed a Proxy for you to use. If your shares are held in a brokerage account or by a trustee or other nominee, you are considered the beneficial owner of these shares held in "street name," and these proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote and are also entitled to attend the Annual Meeting; however, you may not vote these shares in person at the Annual Meeting unless you obtain a "legal proxy" from the broker, trustee or nominee that holds your shares giving you the right to vote the shares in person at the Annual Meeting.

Revocability of Proxies

Any stockholder has the power to revoke his or her Proxy or voting instructions at any time before the Annual Meeting. If you are a stockholder of record, you may revoke your Proxy by submitting a written notice of revocation

to our Secretary at our corporate offices, by submitting a duly executed written Proxy bearing a later date to change your vote, or by providing new voting instructions to your broker, trustee or nominee. A Proxy will not be voted if the stockholder of record who executed it is present at the Annual Meeting and votes the shares represented by the Proxy in person at the Annual Meeting. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker, trustee or nominee giving you the right to vote your shares, by attending the Annual Meeting and voting in person.

Our Voting Recommendations

The Board of Directors recommends that you vote:

- “FOR” the nominees named herein to serve as directors until the 2007 Annual Meeting of Stockholders; and
- “FOR” the ratification of the appointment of McGladrey & Pullen, LLP as our independent registered public accountants for the fiscal year ending June 30, 2007.

Voting and Solicitation

Each share of common stock outstanding on the Record Date will be entitled to one vote on all matters presented at the Annual Meeting. Stockholders do not have the right to cumulate their votes in the election of directors.

By signing and returning the Proxy or voting instruction card according to the enclosed instructions, you are enabling Marc Nussbaum, our Chief Executive Officer, and James Kerrigan, our Chief Financial Officer and Secretary, who are named on the Proxy as “proxy holders,” to vote your shares at the meeting in the manner you indicate. We encourage you to sign and return the Proxy even if you plan to attend the meeting. In this way, your shares will be voted even if you are unable to attend the meeting.

Each valid Proxy will be voted: (i) “FOR” the election of each of the nominees for director named herein; and (ii) “FOR” the ratification of the appointment of McGladrey & Pullen, LLP as our independent registered public accountants for the fiscal year ending June 30, 2007, except that if a stockholder has submitted a Proxy or voting instruction card with different voting instructions, the shares will be voted according to the stockholder’s direction. No business other than that set forth in the accompanying Notice of Annual Meeting of Stockholders is expected to come before the Annual Meeting. Should any other matter requiring a vote of stockholders properly arise, the persons named on the Proxy will have discretionary authority to vote all proxies received with respect to such matters in accordance with their judgment.

We will pay the costs of soliciting proxies from stockholders, including the preparation, assembly, printing and mailing of proxy solicitation materials. We will provide copies of solicitation materials to banks, brokerage houses, fiduciaries and custodians holding in their names shares of common stock beneficially owned by others with instructions to forward these materials to the beneficial owners of common stock. We may reimburse brokerage firms and other such persons representing beneficial owners of common stock for their expenses in forwarding solicitation materials to such beneficial owners. Proxies may be solicited by certain of our directors, officers and employees, without additional compensation, personally or by telephone, telegram, letter or facsimile.

Householding

In an effort to reduce printing costs and postage fees, we have adopted a practice approved by the Securities and Exchange Commission (“SEC”) called “householding.” Under this practice, stockholders who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of these proxy materials unless one or more of these stockholders notifies us that they wish to continue receiving individual copies. Stockholders who participate in householding will continue to receive separate proxy cards.

If you share an address with another stockholder and received only one set of proxy materials and would like to request a separate copy of these materials and/or future proxy materials, please send your request to: Lantronix, Inc., 15353 Barranca Parkway, Irvine, California 92618, Attention: Investor Relations, or visit our website at

www.lantronix.com. You may also contact us if you received multiple copies of the proxy materials and would prefer to receive a single copy in the future.

Quorum; Abstentions; Broker Non-Votes

The holders of a majority of the shares of common stock outstanding on the record date and entitled to vote at the Annual Meeting, present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting and any adjournments or postponements thereof. If you submit a properly executed Proxy or voting instruction card, even if you abstain from voting, your shares will be counted for purposes of determining the presence or absence of a quorum. If a broker, trustee or other nominee indicates on a proxy that it lacks discretionary authority to vote your shares on a particular matter, commonly referred to as “broker non-votes,” those shares will still be counted for purposes of determining the presence of a quorum at the Annual Meeting.

For purposes of Proposal 1, the four (4) nominees receiving the greatest number of valid votes will be elected. Because directors are elected by plurality, abstentions and broker non-votes will be entirely excluded from the vote and will have no effect on the election of directors. Proposal 2 requires the affirmative approval of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting. For these purposes, abstentions are treated as shares present or represented and entitled to vote at the Annual Meeting, so abstaining has the same effect as a negative vote.

Under the rules that govern brokers who have record ownership of shares that are held in “street name” for their clients, who are the beneficial owners of the shares, brokers have discretion to vote these shares on routine matters but not on non-routine matters. Thus, if you do not otherwise instruct your broker, the broker may turn in a Proxy voting your shares “FOR” routine matters but expressly instructing that the broker is NOT voting on non-routine matters. All of the proposals discussed in these proxy solicitation materials are considered routine matters. A “broker non-vote” occurs when a broker expressly instructs on a Proxy that it is not voting on a matter, whether routine or non-routine.

Nomination of Director Candidates

The Corporate Governance and Nominating Committee considers candidates for board membership that our Board of Directors, management or stockholders suggest. The Corporate Governance and Nominating Committee has adopted a Director Nomination Policy to consider recommendations for candidates to our Board of Directors from stockholders. The Corporate Governance and Nominating Committee will consider persons recommended by our stockholders in the same manner as nominees recommended by our Board of Directors, individual board members or management. The Corporate Governance and Nominating Committee assesses the appropriate skills and characteristics of a nominee based on the composition of the board as a whole and in such other areas as a nominee’s qualification as independence, diversity, skills, age and experience in such areas as operations, finance, marketing and sales.

Any stockholder holding shares of our common stock continuously for at least 12 months prior to the date of the submission of the recommendation may recommend a candidate for election to the Board of Directors by directing the recommendation in writing by letter to Lantronix, Inc., 15353 Barranca Parkway, Irvine, California 92618, Attention: Corporate Secretary. The recommendation must include the candidate’s name, home and business contact information, detailed biographical data, relevant qualifications, a signed letter from the candidate confirming willingness to serve, information regarding any relationships between the candidate and Lantronix and evidence of the recommending stockholder’s ownership of our common stock. Such recommendations must also include a statement from the recommending stockholder in support of the candidate, particularly within the context of the criteria for Board membership, including issues of character, integrity, judgment, diversity of experience, independence, area of expertise, corporate experience, length of service, potential conflicts of interest, other commitments and personal references.

In addition, a stockholder may nominate a person directly for election to our Board of Directors at an annual meeting of our stockholders, provided the person meets the requirements set forth in our bylaws and the rules and regulations of the SEC related to stockholder proposals. The process for properly submitting a stockholder proposal, including a

proposal to nominate a person for election to our Board of Directors at an annual meeting, is described below in the section entitled "Other Matters - Stockholder Proposals for 2007."

Stockholder Communications with Our Board Directors

The Board of Directors has adopted a Shareholder Communication Policy, by which you may communicate with any director, the entire Board of Directors, or any committee of the Board by sending a letter to the director, the Board or the committee, addressed to our Corporate Secretary at Lantronix, Inc., 15353 Barranca Parkway, Irvine, California 92618. Unless the letter is marked “confidential,” our Secretary will review the letter, categorize it, and forward it to the appropriate person. Any stockholder communication marked “confidential” will be logged as “received” and forwarded to the appropriate person without review.

Where You Can Find More Information

We have from time-to-time received calls from stockholders inquiring about the available means of communication with us. We thought that it would be helpful to describe these arrangements which are available for your use.

If you would like to receive information about us, you may use one of these convenient methods:

1. For information such as our latest Annual Report on Form 10-K or Quarterly Report on Form 10-Q, please call our Investor Relations Department at (949) 453-3990.

2. Our main Internet address is www.lantronix.com. There you will find product, marketing and financial data, and an on-line version of this Proxy Statement, our Annual Report on Form 10-K, and other filings with the SEC.

If you would like to write to us, please send your correspondence to the following address:

Lantronix, Inc..
Attention: Investor Relations
15353 Barranca Parkway
Irvine, CA 92618

If you would like to inquire about stock transfer requirements, lost certificates and change of stockholder address, please call our transfer agent, Mellon Investor Services LLC at (800) 522-6645. You may also visit their web site at www.melloninvestor.com for step-by-step transfer instructions.

PROPOSAL ONE
ELECTION OF DIRECTORS

Nominees

Our Board of Directors is currently composed of four members. As a result of a change in our Certificate of Incorporation approved by our stockholders in 2004, the terms of all four directors will expire at the 2006 Annual Meeting of Stockholders. The four incumbent directors, H. K. Desai, Thomas W. Burton, Kathryn Braun Lewis and Howard T. Slayen, are nominated for reelection. There are no family relationships among any directors or executive officers, including the nominees.

If elected at the Annual Meeting, each nominee will serve until the 2007 Annual Meeting of Stockholders and until his or her successor is elected and has qualified, or until his or her earlier death, resignation or removal. A director elected to fill a vacancy (including a vacancy created by an increase in the size of the Board of Directors) will serve until the next annual meeting of stockholders and until his or her successor is elected and qualified.

Unless otherwise instructed, the holders of proxies solicited by this Proxy Statement will vote the proxies received by them for the nominees. Directors are elected by a plurality (excess of votes cast over opposing nominees) of the votes present in person or represented by proxy and entitled to vote at the meeting. Shares represented by signed proxies will be voted, if authority to do so is not withheld, for the election of the nominees named below. In the event that any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the Proxy holders will vote for a nominee designated by the present Board of Directors to fill the vacancy. We are not aware of any reason that the nominees will be unable or will decline to serve as directors. The Board of Directors recommends a vote "FOR" the election of the nominees.

The names of the members of our Board of Directors, their ages as of September 28, 2006, and certain other information about them are set forth below.

Name	Age	Position
H. K. Desai	60	Chairman of the Board of Directors
Thomas W. Burton	60	Director
Kathryn Braun Lewis	55	Director
Howard T. Slayen	59	Director

H. K. Desai was elected Chairman of the Board of Directors on May 29, 2002. He has served as a member of our Board of Directors since October 2000. Mr. Desai is currently the Chief Executive Officer of QLogic Corporation, a company that provides end-to-end connectivity for storage area networks. From 1995 to 1996, Mr. Desai was the President and Chief Technical Officer of QLogic. From 2000 to 2003, Mr. Desai served on the board of Microsemi Corporation, a supplier of analog integrated circuits and power and signal discrete semiconductors.

Thomas W. Burton has been a member of our Board of Directors since our inception in 1989. Mr. Burton is an attorney and has operated his own law office, Thomas W. Burton, PLC since June 1999. From January 1994 to June 1999, Mr. Burton served with the law firm of Cummins & White, LLP.

Kathryn Braun Lewis was elected to the Board of Directors in October 2002. She currently serves on the Board of Directors of Share Our Selves and THINK Together, both Orange County charities. Ms. Lewis retired from Western Digital Corporation, a computer storage devices company, in 1998. During her 18 year tenure at Western Digital, she was promoted from various management and executive positions to President and Chief Operating Officer of the Personal Storage Division (PSD) and was responsible for the worldwide operations including research and development, manufacturing, and marketing of the world's second largest supplier of hard drives for personal computers.

Howard T. Slayen was elected to the Board of Directors in August 2000. From June 2001 to present, Mr. Slayen has been providing independent financial consulting services to various organizations and clients. From September 1999 to May 2001, Mr. Slayen was Executive Vice President and Chief Financial Officer of Quartz Inc., a web-hosted communications business. From 1971 to September 1999, Mr. Slayen held various positions with PricewaterhouseCoopers/Coopers & Lybrand, including his last position as a Corporate Finance Partner. Mr. Slayen currently serves on the boards of directors of Netopia, Inc., Xanboo, Inc., Zircon Corporation and Child Advocates of Silicon Valley, a not-for-profit organization.

Board Meetings and Committees

Our Board of Directors consists of four directors, all of whom the Board has determined are independent under the requirements of The NASDAQ Stock Market listing standards. The Board of Directors held a total of ten meetings during the 2006 fiscal year, and it met without the presence of management for a portion of each meeting. During the year certain matters were approved by the Board of Directors, or a Committee of the Board of Directors, by unanimous written consent. The Board of Directors has three standing committees, the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee, and, as all of the directors are independent under the requirements of The NASDAQ Stock Market listing standards, each member of each committee also meets such requirements. Each Committee has a written charter approved by the Board of Directors.

Name of Committee and Members	Functions of the Committee	Number of Meetings in the Fiscal Year Ending June 30, 2006
AUDIT COMMITTEE Howard Slayen, Chairperson Thomas Burton Kathryn Braun Lewis	<ul style="list-style-type: none"> · selects independent registered public accountants · reviews scope and results of year-end audit and quarterly reviews with management and independent registered public accountants · reviews our accounting principals and system of internal accounting controls · determines investment policy and oversees its implementation 	5
COMPENSATION COMMITTEE Thomas Burton, Chairperson H.K. Desai Kathryn Braun Lewis Howard Slayen	<ul style="list-style-type: none"> · reviews and approves salaries, bonuses, and other benefits payable to our executive officers · oversees our equity incentive plans · reviews and recommends general policies relating to compensation and benefits 	5

Name of Committee and Members	Functions of the Committee	Number of Meetings in the Fiscal Year Ending June 30, 2006
CORPORATE GOVERNANCE AND NOMINATING COMMITTEE Kathryn Braun Lewis, Chairperson Thomas Burton H.K. Desai Howard Slayen	<ul style="list-style-type: none"> · oversees Chief Executive Officer and senior management · ensures directors take a proactive, focused approach to their positions · sets the highest standards of responsibility and ethics · recommends nomination of board members · assists with succession planning for executive management positions · oversees and evaluates board evaluation process · evaluates composition, organization and governance of board and its committees 	4

Each director attended 75% or more of the total number of meetings of the Board of Directors and the meetings of the committees of the Board on which he or she served during the 2006 fiscal year.

Primary Functions of the Board of Directors

The Board of Directors oversees the conduct of our business by management and reviews our financial objectives, major corporate plans, strategies, actions and major capital expenditures. Our directors are expected to promote the best interests of our stockholders in terms of corporate governance, fiduciary responsibilities, compliance with laws and regulations, and maintenance of accounting and financial controls. Our directors participate in the selection, evaluation and, where appropriate, replacement of our chief executive officer. Directors also provide input to our chief executive officer for the evaluation and recruitment of our principal senior executives. We strongly encourage all of our directors to attend each annual meeting of stockholders. All of our directors attended the 2005 Annual Meeting of Stockholders.

Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its responsibilities for general oversight of the integrity of our financial statements, its compliance with legal and regulatory requirements, the qualifications and independence of the independent registered public accounting firm, the performance of the independent registered public accounting firm, risk assessment and risk management, and finance and investment functions. Among other things, the Audit Committee prepares the Audit Committee report for inclusion in the annual proxy statement; annually reviews its charter and performance; appoints, evaluates and determines the compensation of the independent registered public accounting firm; reviews and approves the audit fee and the financial statements; reviews our disclosure controls and procedures, internal controls, information security policies and corporate policies with respect to financial information and earnings guidance; oversees investigations into complaints concerning financial matters; and reviews other risks that may have a significant impact on our financial statements. The Audit Committee has the

authority to obtain advice and assistance from, and receive appropriate funding for, outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties. Each member of the Audit Committee meets the NASDAQ and SEC requirements as to independence and financial knowledge. The Board has determined that Mr. Howard Slayen, Chairman of the Audit Committee, is an “audit committee financial expert” as defined by rules of the SEC. The report of the Audit Committee is included herein on page 19. The Audit Committee’s charter is available on our website at www.lantronix.com.

7

Compensation Committee

The Compensation Committee reviews and determines salaries, performance-based incentives and other matters relating to executive compensation and administers our stock option plans, including reviewing and granting stock options to our executive officers. The Compensation Committee also reviews and determines various other compensation policies and matters. The report of the Compensation Committee is included herein on page 17. The Compensation Committee's Charter is available on our website at www.lantronix.com.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee identifies individuals qualified to become Board members, consistent with criteria approved by the Board; oversees the organization of the Board to discharge the Board's duties and responsibilities properly and efficiently; administers the Board's self-evaluation and identifies best practices and recommends corporate governance principles, including giving proper attention and making effective responses to stockholder concerns regarding corporate governance. The Chair of the Corporate Governance and Nominating Committee also receives communications directed to non-management directors. The Corporate Governance and Nominating Committee's Charter is available on our website at www.lantronix.com.

Code of Ethics and Complaint Procedures

We have adopted a Code of Conduct and Business Ethics Policy (the "Code of Ethics") that applies to all of our directors, officers, and employees. The Code of Ethics operates as a tool to help our directors, officers, and employees understand and adhere to the high ethical standards we expect. The Code of Ethics is available on our website at www.lantronix.com. Stockholders may also obtain copies at no cost by writing to our Secretary at our Corporate Headquarters.

Concerns relating to accounting, internal controls or auditing matters are brought to the attention of a member of our senior management or the Audit Committee, as appropriate, and handled in accordance with procedures established by the Audit Committee with respect to such matters.

Director Compensation

Each director receives \$24,000 cash compensation annually for his or her services as a director. The Chairman of the Board rec