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8 UNITED STATES DISTRICT COURT
9 CENTRAL DISTRICT OF CALIFORNIA

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11 Individually and on
12 Behalf of All Others Similarly Situated,

13 Plaintiff,

14 v.

15 LANTRONIX, INC., PAUL PICKLE,
16 and JEREMY WHITAKER,

17 Defendants.
18

Case No.

CLASS ACTION

COMPLAINT FOR VIOLATIONS
OF THE FEDERAL SECURITIES
LAWS

DEMAND FOR JURY TRIAL

19
20 Plaintiff (“Plaintiff”), individually and on behalf of all others
21 similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint
22 against Defendants, alleges the following based upon personal knowledge as to
23 Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters,
24 based upon, *inter alia*, the investigation conducted by and through Plaintiff’s
25 attorneys, which included, among other things, a review of the Defendants’ public
26 documents, conference calls and announcements made by Defendants, United
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1 States (“U.S.”) Securities and Exchange Commission (“SEC”) filings, wire and
2 press releases published by and regarding Lantronix, Inc. (“Lantronix” or the
3 “Company”), analysts’ reports and advisories about the Company, and information
4 readily obtainable on the Internet. Plaintiff believes that substantial, additional
5 evidentiary support will exist for the allegations set forth herein after a reasonable
6 opportunity for discovery.
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9 **NATURE OF THE ACTION**

10 1. This is a federal securities class action on behalf of a class consisting
11 of all persons and entities other than Defendants that purchased or otherwise
12 acquired Lantronix securities between May 11, 2023 and February 8, 2024, both
13 dates inclusive (the “Class Period”), seeking to recover damages caused by
14 Defendants’ violations of the federal securities laws and to pursue remedies under
15 Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange
16 Act”) and Rule 10b-5 promulgated thereunder, against the Company and certain of
17 its top officials.
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21 2. Lantronix is a global industrial and enterprise internet of things
22 (“IoT”)¹ provider of solutions that purportedly target high growth applications in
23 specific verticals such as smart grids, intelligent transportation, smart cities, and
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27 ¹ “IoT” generally refers to network-enabled devices, excluding traditional
28 computers like laptops and servers.

1 artificial intelligence (“AI”) data centers. The Company organizes its products and
2 solutions into three product lines: (i) Embedded IoT Solutions, (ii) IoT System
3 Solutions, and (iii) Software & Services. The Company’s sales channels are
4 comprised of distributors, resellers, and direct sales to larger original equipment
5 manufacturers (“OEMs”) and end users, as well as through its ecommerce site.
6

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8 3. In May 2023, Lantronix forecasted that it would achieve revenue in a
9 range of \$175 million to \$185 million, as well as non-GAAP² earnings-per-share
10 (“EPS”) in a range of \$0.50 to \$0.60 per share, for its fiscal year 2024 results.³
11

12 Defendants repeatedly assured investors and analysts throughout the Class Period
13 that this guidance for fiscal year 2024 remained unchanged, despite knowing that
14 Lantronix’s customers were experiencing elevated levels of inventory for IoT
15 products, and that embedded IOT revenues expected from a customer design win
16 were pushed out to the next fiscal year.
17

18 4. Throughout the Class Period, Defendants made materially false and
19 misleading statements regarding the Company’s business, operations, and
20 prospects. Specifically, Defendants made false and/or misleading statements and/or
21 failed to disclose that: (i) Lantronix overstated demand and/or its visibility into
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26 ² “GAAP” refers to generally accepted accounting principles, which are a set of
27 accounting rules, standards, and procedures that U.S. public companies must follow
28 when their accountants compile their financial statements.

³ Lantronix’s fiscal year ends on June 30, 2023.

1 demand for its IoT products; (ii) Lantronix’s customers were reducing elevated
2 levels of inventory of IoT products, thereby causing a general slowdown in the
3 Company’s business; (iii) certain of Lantronix’s embedded IOT revenues expected
4 from a customer design win were delayed to the next fiscal year; (iv) as a result of
5 all the foregoing, Lantronix anticipated lower sales for its embedded IOT solutions
6 for fiscal year 2024; (v) accordingly, Lantronix was unlikely to meet its own
7 previously issued guidance for fiscal year 2024; and (vi) as a result, the Company’s
8 public statements were materially false and/or misleading at all relevant times.
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12 5. On February 8, 2024, Lantronix issued a press release announcing its
13 financial results for the second quarter of its fiscal year 2024. Therein, the Company
14 negatively revised its fiscal year 2024 guidance, advising that “[f]or fiscal year
15 2024, the company [now] expects revenue in a range of \$155 million to \$165
16 million”—versus the previously provided range of \$175 million to \$185 million—
17 “and non-GAAP EPS in a range of \$0.35 to \$0.45 per share”—versus the previously
18 provided range of \$0.50 to \$0.60 per share. On a call with investors and analysts to
19 discuss these results, Company management revealed that “[t]he change in our
20 annual guidance is primarily due to lower expected sales for our embedded IOT
21 solutions as a result of two factors”, namely, “[a] general slowdown in our broad-
22 based channel business as customers work through their inventories, and an
23 embedded compute design win in video applications that was slated for revenue in
24 the second half of fiscal 2024 that pushed into fiscal 2025.”
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1 6. Following these disclosures, Lantronix’s stock price fell \$1.89 per
2 share, or 32.53%, to close at \$3.92 per share on February 9, 2024.

3
4 7. As a result of Defendants’ wrongful acts and omissions, and the
5 precipitous decline in the market value of the Company’s securities, Plaintiff and
6 other Class members have suffered significant losses and damages.

7
8 **JURISDICTION AND VENUE**

9 8. The claims asserted herein arise under and pursuant to Sections 10(b)
10 and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5
11 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

12
13 9. This Court has jurisdiction over the subject matter of this action
14 pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act.

15
16 10. Venue is proper in this Judicial District pursuant to Section 27 of the
17 Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1391(b). Lantronix is
18 headquartered in this Judicial District, Defendants conduct business in this Judicial
19 District, and a significant portion of Defendants’ activities took place within this
20 Judicial District.

21
22 11. In connection with the acts alleged in this complaint, Defendants,
23 directly or indirectly, used the means and instrumentalities of interstate commerce,
24 including, but not limited to, the mails, interstate telephone communications, and
25 the facilities of the national securities markets.
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1 **PARTIES**

2 12. Plaintiff, as set forth in the attached Certification, acquired Lantronix
3 securities at artificially inflated prices during the Class Period and was damaged
4 upon the revelation of the alleged corrective disclosures.
5

6 13. Defendant Lantronix is a Delaware corporation with principal
7 executive offices located at 48 Discovery, Suite 250, Irvine, California 92618. The
8 Company's common stock trades in an efficient market on the Nasdaq Stock Market
9 ("NASDAQ") under the ticker symbol "LTRX".
10

11 14. Defendant Paul Pickle ("Pickle") served as Lantronix's President and
12 Chief Executive Officer ("CEO") from before the start of the Class Period to June
13 29, 2023.
14

15 15. Defendant Jeremy Whitaker ("Whitaker") has served as Lantronix's
16 Chief Financial Officer ("CFO") at all relevant times. In addition to serving as
17 CFO, Defendant Whitaker also served as the Company's Interim CEO from June
18 30, 2023 to November 20, 2023.
19

20 16. Defendants Pickle and Whitaker are collectively referred to herein as
21 the "Individual Defendants".
22

23 17. The Individual Defendants possessed the power and authority to
24 control the contents of Lantronix's SEC filings, press releases, and other market
25 communications. The Individual Defendants were provided with copies of
26 Lantronix's SEC filings and press releases alleged herein to be misleading prior to
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1 or shortly after their issuance and had the ability and opportunity to prevent their
2 issuance or to cause them to be corrected. Because of their positions with Lantronix,
3 and their access to material information available to them but not to the public, the
4 Individual Defendants knew that the adverse facts specified herein had not been
5 disclosed to and were being concealed from the public, and that the positive
6 representations being made were then materially false and misleading. The
7 Individual Defendants are liable for the false statements and omissions pleaded
8 herein.

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12 18. Lantronix and the Individual Defendants are collectively referred to
13 herein as “Defendants”.

14 **SUBSTANTIVE ALLEGATIONS**

15 **Background**

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17 19. Lantronix is a global industrial and enterprise IoT provider of solutions
18 that purportedly target high growth applications in specific verticals such as smart
19 grids, intelligent transportation, smart cities, and AI data centers. The Company
20 organizes its products and solutions into three product lines: (i) Embedded IoT
21 Solutions, (ii) IoT System Solutions, and (iii) Software & Services. The Company’s
22 sales channels are comprised of distributors, resellers, and direct sales to larger
23 OEMs and end users, as well as through its ecommerce site.
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1 **Materially False and Misleading Statements Issued During the Class Period**

2 20. The Class Period begins on May 11, 2023. On May 10, 2023, during
3 post-market hours, Lantronix issued a press release announcing its results for the
4 third quarter of its fiscal year 2023. That press release stated, in relevant part, that
5 “[f]or fiscal year 2024, the company expects revenue in a range of \$175 to \$185
6 million and non-GAAP EPS in a range of \$0.50 to \$0.60 per share.”
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9 21. Also on May 10, 2023, during post-market hours, Lantronix held a
10 conference call with investors and analysts to discuss its results for the third quarter
11 of its fiscal year 2023. On that call, in discussing the Company’s fiscal year 2024
12 guidance, Defendant Pickle stated, in relevant part:
13

14 Turning to fiscal year 2024, *we have a strong outlook and our visibility*
15 *into demand has never been better.* We anticipate delivering over 30%
16 growth during the next fiscal year. We are poised to begin shipping our
17 Quantum Edge device while we pursue a pipeline of opportunities that
18 could drive double digit growth at Lantronix over the next several
19 years. *Today’s customer engagement continues to improve, bringing*
quality, high value opportunities into the pipeline.

20 Looking at our top prospects, Lantronix is pursuing more than 40
21 opportunities that total over \$150 million in peak annual revenue in
22 applications such as smart cities, smart grid, EV [electric vehicle] and
23 automotive, as well as security and surveillance and telematics. This is
24 an incredible departure from the business we inherited four years ago,
25 and *we are just about to hit our stride. We need only modest*
performance from our classic products to meet our growth target due
to market share gains and new customer revenue despite a softening
macroeconomic environment.

26 (Emphases added.)
27
28

1 22. Also on May 10, 2023, during post-market hours, Lantronix filed a
2 quarterly report on Form 10-Q with the SEC, reporting the Company’s financial
3 and operational results for its fiscal third quarter ended March 31, 2023 (the “3Q23
4 10-Q”). That filing purported to warn of risks related to demand and inventory for
5 Lantronix’s products, stating, in relevant part:
6

7
8 ***The nature of our products, customer base and sales channels causes***
9 ***us to lack visibility into future demand for our products, which makes***
10 ***it difficult for us to forecast our manufacturing and inventory***
11 ***requirements.***

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

- 16 • the lengthy and unpredictable sales cycle for our products that
17 can extend from six to 24 months or longer;
- 18 • the project-driven nature of many of our customers’
19 requirements;
- 20 • we primarily sell our products indirectly through distributors;
- 21 • the uncertainty of the extent and timing of market acceptance of
22 our new products;
- 23 • the need to obtain industry certifications or regulatory approval
24 for our products;
- 25 • the lack of long-term contracts with our customers;
- 26 • the diversity of our product lines and geographic scope of our
27 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.

(Emphasis in original.) Plainly, the foregoing risk warning was a generic, catch-all provision that was not tailored to Defendants' actual known risks regarding lack of demand for Lantronix's IoT products, the oversupply of IoT products among customers in the Company's sales channels, and the risk that all the foregoing posed to the achievability of the Company's fiscal year 2024 guidance.

23. Appended as exhibits to the 3Q23 10-Q were signed certifications pursuant to the Sarbanes-Oxley Act of 2002 ("SOX"), wherein the Individual Defendants certified that the 3Q23 10-Q "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" the 3Q23 10-Q, and that "the financial statements, and other financial information included in th[e 3Q23 10-Q],

1 fairly present in all material respects the financial condition, results of operations
2 and cash flows of the [Company] as of, and for, the periods presented in” the 3Q23
3 10-Q.
4

5 24. On September 7, 2023, Lantronix issued a press release announcing its
6 results for the fourth quarter of its fiscal year 2023. That press release stated, in
7 relevant part, that “[f]or fiscal year 2024, the company continues to expect revenue
8 in a range of \$175 million to \$185 million and non-GAAP EPS in a range of \$0.50
9 to \$0.60 per share.”
10

11 25. That same day, Lantronix hosted a conference call with investors and
12 analysts to discuss its results for the fourth quarter of its fiscal year 2023. On that
13 call, in discussing the Company’s fiscal year 2024 guidance, Defendant Whitaker
14 stated, in relevant part:
15
16

17 [W]e remain confident about the fiscal year ahead of us, *and expect to*
18 *deliver upon the fiscal 2024 guidance that we provided during our*
19 *previous earnings call.*

20 We entered fiscal 2024 with record backlog, a cautious *but relatively*
21 *steady demand environment* and new compute designs moving into
22 production. Compute solutions, both embedded and at the system level,
23 are expected to drive much of the growth in fiscal 2024 and beyond, led
24 by smart grid deployments, intelligent vehicles and enterprise video.

25 * * *

26 Now I’d like to provide the specifics for our fiscal 2024 guidance. With
27 the backdrop of a record backlog, a cautious *but relatively steady*
28 *demand environment* for our system solutions and new compute
designs going into production, we anticipate delivering over 30%
growth during fiscal 2024 *and are reiterating our annual target of*

1 **revenue in a range of \$175 million to \$185 million and non-GAAP**
2 **EPS in the range of \$0.50 to \$0.60 per share.**

3 (Emphases added.)

4 26. On September 12, 2023, Lantronix filed an annual report on Form 10-
5 K with the SEC, reporting the Company's financial and operational results for its
6 fiscal fourth quarter and year ended June 30, 2023 (the "2023 10-K"). That filing
7 stated, in relevant part:
8

9
10 We are executing on a growth strategy that includes continuous
11 innovation supplemented by strategic acquisitions with the intent of
12 increasing our scale and broadening our scope so that we can increase
13 our value proposition to customers. We believe this strategy will allow
14 us to address a larger portion of our customers' operational needs and
15 engage with them as a strategic partner. ***This strategy is starting to bear
16 fruits as we continue to strengthen our position in the market and
17 more customers come to us for a wider variety of applications.***

18 (Emphasis added.)

19 27. The 2023 10-K also contained the same generic, catch-all risk warning
20 as referenced in ¶ 22, *supra*, purporting to warn of risks related to demand and
21 inventory for Lantronix's products, while failing to address Defendants' actual
22 known risks regarding lack of demand for the Company's IoT products, the
23 oversupply of IoT products among customers in the Company's sales channels, and
24 the risk that all the foregoing posed to the achievability of the Company's fiscal
25 year 2024 guidance.
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1 28. Appended as exhibits to the 2023 10-K were substantively the same
2 SOX certifications as referenced in ¶ 23, *supra*, signed by Defendant Whitaker as
3 both Interim CEO and full-time CFO.
4

5 29. On November 8, 2023, Lantronix issued a press release announcing its
6 results for the first quarter of its fiscal year 2024. That press release stated, in
7 relevant part, that “[f]or fiscal year 2024, the company continues to expect revenue
8 in a range of \$175 million to \$185 million and non-GAAP EPS in a range of \$0.50
9 to \$0.60 per share.”
10

11 30. That same day, Lantronix hosted a conference call with investors and
12 analysts to discuss its results for the first quarter of its fiscal year 2024. On that
13 call, in discussing the trends that Defendants had observed regarding demand for
14 Lantronix’s IoT products and services, Defendant Whitaker stated, in relevant part:
15
16

17 For FQ1 2024, we reported revenue of \$33 million, which was higher
18 than our initial expectations for the quarter. Sequentially, revenue was
19 down 5% and up 4% from the year ago period.

20 System Solutions increased significantly, driven by record revenues
21 from our out-of-band deployments, strong sales to federal customers
22 and revenue recognition for the remaining QED pilot production units
23 for Gridspertise. ***We see continuing strength from our IoT System
24 Solutions***, driven by contributions from out-of-band, the coming
25 production ramp of the QED and initial shipments of telematics asset
26 tracking solutions to a Tier 1 telecom carrier.

27 As expected, we experienced a sequential decline in embedded systems
28 as a result of a couple of large shipments in the prior quarter that did
not repeat this quarter. ***Looking forward, we see improving results
from this product group driven by our EV customers across multiple
geographies for both hardware and design services.*** We also expect to

1 begin ramping production of an AI-powered video conferencing
2 product for a large enterprise customer that should contribute
3 meaningfully throughout the remainder of fiscal 2024.

4 (Emphases added.)

5 31. On the same call, in discussing Lantronix’s fiscal year 2024 guidance,
6 Defendant Whitaker stated, in relevant part:

7
8 [T]urning to the upcoming second quarter and fiscal year 2024. We
9 expect that revenue in the second quarter will be up sequentially as the
10 QED ramps into volume production. We have commissioned the
11 production lines and the customer has approved the firmware to begin
12 manufacturing.

13 Based upon these factors, we expect to begin volume shipments in the
14 next several weeks. As such, we maintain our prior guidance for the
15 QED revenue ramp, expecting approximately \$5 million in December
16 2023, double that in our March 2024 quarter with the remainder of the
17 shipments falling in our fourth quarter ending June 2024.

18 In a cautious *but relatively stable demand environment*, we remain
19 optimistic about the fiscal year ahead of us *and expect to deliver the*
20 *fiscal 2024 guidance that we provided during our previous earnings*
21 *call. We’re, therefore, reiterating our guidance with revenue in a*
22 *range of \$175 million to \$185 million and non-GAAP EPS in the*
23 *range of \$0.50 to \$0.60 per share.*

24 (Emphases added.)

25 32. Also on November 8, 2023, Lantronix filed a quarterly report on Form
26 10-Q with the SEC, reporting the Company’s financial and operational results for
27 its fiscal first quarter ended September 20, 2023 (the “1Q24 10-Q”). That filing
28 contained the same generic, catch-all risk warning as referenced in ¶ 22, *supra*,
purporting to warn of risks related to demand and inventory for Lantronix’s

1 products, while failing to address Defendants' actual known risks regarding lack of
2 demand for Lantronix's IoT products, the oversupply of IoT products among
3 customers in the Company's sales channels, and the risk that all the foregoing posed
4 to the achievability of the Company's fiscal year 2024 guidance.
5

6 33. Appended as exhibits to the 1Q24 10-Q were substantively the same
7 SOX certifications as referenced in ¶ 23, *supra*, signed by Defendant Whitaker as
8 both Interim CEO and full-time CFO.
9

10 34. The statements referenced in ¶¶ 20-33 were materially false and
11 misleading because Defendants made false and/or misleading statements, as well as
12 failed to disclose material adverse facts about the Company's business, operations,
13 and prospects. Specifically, Defendants made false and/or misleading statements
14 and/or failed to disclose that: (i) Lantronix overstated demand and/or its visibility
15 into demand for its IoT products; (ii) Lantronix's customers were reducing elevated
16 levels of inventory of IoT products, thereby causing a general slowdown in the
17 Company's business; (iii) certain of Lantronix's embedded IOT revenues expected
18 from a customer design win were delayed to the next fiscal year; (iv) as a result of
19 all the foregoing, Lantronix anticipated lower sales for its embedded IOT solutions
20 for fiscal year 2024; (v) accordingly, Lantronix was unlikely to meet its own
21 previously issued guidance for fiscal year 2024; and (vi) as a result, the Company's
22 public statements were materially false and/or misleading at all relevant times.
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The Truth Emerges

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2 35. On February 8, 2024, during post-market hours, Lantronix issued a
3
4 press release announcing its financial results for the second quarter of its fiscal year
5 2024. Therein, the Company negatively revised its fiscal year 2024 guidance,
6 advising that “[f]or fiscal year 2024, the company [now] expects revenue in a range
7
8 of \$155 million to \$165 million”—versus the previously provided range of \$175 to
9 \$185 million—“and non-GAAP EPS in a range of \$0.35 to \$0.45 per share”—
10 versus the previously provided range of \$0.50 to \$0.60 per share.

11
12 36. That same day, also during post-market hours, Lantronix hosted a
13 conference call with investors and analysts to discuss the Company’s results for the
14 second quarter of its fiscal year 2024. On that call, in his prepared remarks,
15 Defendant Whitaker revealed what had caused Lantronix’s negatively revised
16 guidance for fiscal year 2024, stating, in relevant part:

17
18 For fiscal 2024, we are updating our annual guidance to revenue in a
19 range of \$155 million to \$165 million, and non-GAAP EPS in a range
20 of \$0.35 to \$0.45 per share. ***The change in our annual guidance is***
21 ***primarily due to lower expected sales for our embedded IoT solutions***
22 ***as a result of two factors. A general slowdown in our broad-based***
23 ***channel business as customers work through their inventories, and***
24 ***an embedded compute design win in video applications that was slated***
for revenue in the second half of fiscal 2024 that pushed into fiscal
2025.

25 (Emphasis added.)

26 37. During the question-and-answer phase of the same call, in response to
27
28 an analyst inquiry for more information on the factors that had negatively impacted

1 Lantronix’s fiscal year 2024 guidance, Defendant Whitaker confirmed that the
2 Company’s customers were reducing elevated inventory levels of their IoT
3 products. That exchange read, in relevant part:
4

5 [Analyst]

6 *[J]ust on the embedded front, it sounds like you’re working down*
7 *some elevated inventory levels.* I’m wondering if you could give us an
8 idea about channel inventory weeks or otherwise to kind of help us
9 calibrate.

10 * * *

11 [Defendant] Whitaker

12 Yes, so starting with channel inventories and what we’re hearing back
13 from our sales team as it relates to end customers, a lot of that business
14 is going to a broad-based, customer-base, *a lot of it in industrial IoT*
15 *connectivity and embedded solutions* in that area and what we heard
16 back from our sales team is that *there are customers that are working*
17 *down inventories*, and that was -- and also a general slowdown in the
18 macro that is impacting customers. *And for that reason, we brought*
down our forecast for our embedded solutions for the second half of
the fiscal year.

19 (Emphases in bold and italics added.)

20 38. Following these disclosures, Lantronix’s stock price fell \$1.89 per
21 share, or 32.53%, to close at \$3.92 per share on February 9, 2024.

22 39. As a result of Defendants’ wrongful acts and omissions, and the
23 precipitous decline in the market value of the Company’s securities, Plaintiff and
24 other Class members have suffered significant losses and damages.
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1 **SCIENTER ALLEGATIONS**

2 40. During the Class Period, Defendants had both the motive and
3 opportunity to commit fraud. They also had actual knowledge of the misleading
4 nature of the statements they made, or acted in reckless disregard of the true
5 information known to them at the time. In so doing, Defendants participated in a
6 scheme to defraud and committed acts, practices, and participated in a course of
7 business that operated as a fraud or deceit on purchasers of the Company’s securities
8 during the Class Period.
9
10

11 **PLAINTIFF’S CLASS ACTION ALLEGATIONS**

12 41. Plaintiff brings this action as a class action pursuant to Federal Rule of
13 Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who
14 purchased or otherwise acquired Lantronix securities during the Class Period (the
15 “Class”); and were damaged upon the revelation of the alleged corrective
16 disclosures. Excluded from the Class are Defendants herein, the officers and
17 directors of the Company, at all relevant times, members of their immediate families
18 and their legal representatives, heirs, successors or assigns and any entity in which
19 Defendants have or had a controlling interest.
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24 42. The members of the Class are so numerous that joinder of all members
25 is impracticable. Throughout the Class Period, Lantronix securities were actively
26 traded on the NASDAQ. While the exact number of Class members is unknown to
27 Plaintiff at this time and can be ascertained only through appropriate discovery,
28

1 Plaintiff believes that there are hundreds or thousands of members in the proposed
2 Class. Record owners and other members of the Class may be identified from
3 records maintained by Lantronix or its transfer agent and may be notified of the
4 pendency of this action by mail, using the form of notice similar to that customarily
5 used in securities class actions.
6

7
8 43. Plaintiff's claims are typical of the claims of the members of the Class
9 as all members of the Class are similarly affected by Defendants' wrongful conduct
10 in violation of federal law that is complained of herein.
11

12 44. Plaintiff will fairly and adequately protect the interests of the members
13 of the Class and has retained counsel competent and experienced in class and
14 securities litigation. Plaintiff has no interests antagonistic to or in conflict with
15 those of the Class.
16

17 45. Common questions of law and fact exist as to all members of the Class
18 and predominate over any questions solely affecting individual members of the
19 Class. Among the questions of law and fact common to the Class are:
20

- 21 • whether the federal securities laws were violated by Defendants' acts
22 as alleged herein;
- 23 • whether statements made by Defendants to the investing public
24 during the Class Period misrepresented material facts about the
25 business, operations and management of Lantronix;
- 26 • whether the Individual Defendants caused Lantronix to issue false
27 and misleading financial statements during the Class Period;

- 1 • whether Defendants acted knowingly or recklessly in issuing false
2 and misleading financial statements;
- 3 • whether the prices of Lantronix securities during the Class Period
4 were artificially inflated because of the Defendants' conduct
5 complained of herein; and
- 6 • whether the members of the Class have sustained damages and, if so,
7 what is the proper measure of damages.

8 46. A class action is superior to all other available methods for the fair and
9 efficient adjudication of this controversy since joinder of all members is
10 impracticable. Furthermore, as the damages suffered by individual Class members
11 may be relatively small, the expense and burden of individual litigation make it
12 impossible for members of the Class to individually redress the wrongs done to
13 them. There will be no difficulty in the management of this action as a class action.

14 47. Plaintiff will rely, in part, upon the presumption of reliance established
15 by the fraud-on-the-market doctrine in that:

- 16 • Defendants made public misrepresentations or failed to disclose
17 material facts during the Class Period;
- 18 • the omissions and misrepresentations were material;
- 19 • Lantronix securities are traded in an efficient market;
- 20 • the Company's shares were liquid and traded with moderate to heavy
21 volume during the Class Period;
- 22 • the Company traded on the NASDAQ and was covered by multiple
23 analysts;
- 24 • the Company traded on the NASDAQ and was covered by multiple
25 analysts;
- 26 • the Company traded on the NASDAQ and was covered by multiple
27 analysts;
- 28 • the Company traded on the NASDAQ and was covered by multiple
 analysts;

- the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and
- Plaintiff and members of the Class purchased, acquired and/or sold Lantronix securities between the time the Defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

48. Based upon the foregoing, Plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

49. Alternatively, Plaintiff and the members of the Class are entitled to the presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

COUNT I

(Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants)

50. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

51. This Count is asserted against Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

1 52. During the Class Period, Defendants engaged in a plan, scheme,
2 conspiracy and course of conduct, pursuant to which they knowingly or recklessly
3 engaged in acts, transactions, practices and courses of business which operated as a
4 fraud and deceit upon Plaintiff and the other members of the Class; made various
5 untrue statements of material facts and omitted to state material facts necessary in
6 order to make the statements made, in light of the circumstances under which they
7 were made, not misleading; and employed devices, schemes and artifices to defraud
8 in connection with the purchase and sale of securities. Such scheme was intended
9 to, and, throughout the Class Period, did: (i) deceive the investing public, including
10 Plaintiff and other Class members, as alleged herein; (ii) artificially inflate and
11 maintain the market price of Lantronix securities; and (iii) cause Plaintiff and other
12 members of the Class to purchase or otherwise acquire Lantronix securities and
13 options at artificially inflated prices. In furtherance of this unlawful scheme, plan
14 and course of conduct, Defendants, and each of them, took the actions set forth
15 herein.
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21 53. Pursuant to the above plan, scheme, conspiracy and course of conduct,
22 each of the Defendants participated directly or indirectly in the preparation and/or
23 issuance of the quarterly and annual reports, SEC filings, press releases and other
24 statements and documents described above, including statements made to securities
25 analysts and the media that were designed to influence the market for Lantronix
26 securities. Such reports, filings, releases and statements were materially false and
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1 misleading in that they failed to disclose material adverse information and
2 misrepresented the truth about Lantronix's finances and business prospects.

3
4 54. By virtue of their positions at Lantronix, Defendants had actual
5 knowledge of the materially false and misleading statements and material omissions
6 alleged herein and intended thereby to deceive Plaintiff and the other members of
7 the Class, or, in the alternative, Defendants acted with reckless disregard for the
8 truth in that they failed or refused to ascertain and disclose such facts as would
9 reveal the materially false and misleading nature of the statements made, although
10 such facts were readily available to Defendants. Said acts and omissions of
11 Defendants were committed willfully or with reckless disregard for the truth. In
12 addition, each Defendant knew or recklessly disregarded that material facts were
13 being misrepresented or omitted as described above.

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17 55. Information showing that Defendants acted knowingly or with reckless
18 disregard for the truth is peculiarly within Defendants' knowledge and control. As
19 the senior managers and/or directors of Lantronix, the Individual Defendants had
20 knowledge of the details of Lantronix's internal affairs.

21
22 56. The Individual Defendants are liable both directly and indirectly for
23 the wrongs complained of herein. Because of their positions of control and
24 authority, the Individual Defendants were able to and did, directly or indirectly,
25 control the content of the statements of Lantronix. As officers and/or directors of a
26 publicly-held company, the Individual Defendants had a duty to disseminate timely,
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1 accurate, and truthful information with respect to Lantronix's businesses,
2 operations, future financial condition and future prospects. As a result of the
3 dissemination of the aforementioned false and misleading reports, releases and
4 public statements, the market price of Lantronix securities was artificially inflated
5 throughout the Class Period. In ignorance of the adverse facts concerning
6 Lantronix's business and financial condition which were concealed by Defendants,
7 Plaintiff and the other members of the Class purchased or otherwise acquired
8 Lantronix securities at artificially inflated prices and relied upon the price of the
9 securities, the integrity of the market for the securities and/or upon statements
10 disseminated by Defendants, and were damaged thereby.

14 57. During the Class Period, Lantronix securities were traded on an active
15 and efficient market. Plaintiff and the other members of the Class, relying on the
16 materially false and misleading statements described herein, which the Defendants
17 made, issued or caused to be disseminated, or relying upon the integrity of the
18 market, purchased or otherwise acquired shares of Lantronix securities at prices
19 artificially inflated by Defendants' wrongful conduct. Had Plaintiff and the other
20 members of the Class known the truth, they would not have purchased or otherwise
21 acquired said securities, or would not have purchased or otherwise acquired them
22 at the inflated prices that were paid. At the time of the purchases and/or acquisitions
23 by Plaintiff and the Class, the true value of Lantronix securities was substantially
24 lower than the prices paid by Plaintiff and the other members of the Class. The

1 market price of Lantronix securities declined sharply upon public disclosure of the
2 facts alleged herein to the injury of Plaintiff and Class members.

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4 58. By reason of the conduct alleged herein, Defendants knowingly or
5 recklessly, directly or indirectly, have violated Section 10(b) of the Exchange Act
6 and Rule 10b-5 promulgated thereunder.

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8 59. As a direct and proximate result of Defendants' wrongful conduct,
9 Plaintiff and the other members of the Class suffered damages in connection with
10 their respective purchases, acquisitions and sales of the Company's securities
11 during the Class Period, upon the disclosure that the Company had been
12 disseminating misrepresented financial statements to the investing public.
13

14 **COUNT II**

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16 **(Violations of Section 20(a) of the Exchange Act Against the Individual
17 Defendants)**

18 60. Plaintiff repeats and re-alleges each and every allegation contained in
19 the foregoing paragraphs as if fully set forth herein.

20 61. During the Class Period, the Individual Defendants participated in the
21 operation and management of Lantronix, and conducted and participated, directly
22 and indirectly, in the conduct of Lantronix's business affairs. Because of their
23 senior positions, they knew the adverse non-public information about Lantronix's
24 misstatement of income and expenses and false financial statements.
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1 62. As officers and/or directors of a publicly owned company, the
2 Individual Defendants had a duty to disseminate accurate and truthful information
3 with respect to Lantronix’s financial condition and results of operations, and to
4 correct promptly any public statements issued by Lantronix which had become
5 materially false or misleading.
6

7
8 63. Because of their positions of control and authority as senior officers,
9 the Individual Defendants were able to, and did, control the contents of the various
10 reports, press releases and public filings which Lantronix disseminated in the
11 marketplace during the Class Period concerning Lantronix’s results of operations.
12 Throughout the Class Period, the Individual Defendants exercised their power and
13 authority to cause Lantronix to engage in the wrongful acts complained of herein.
14 The Individual Defendants, therefore, were “controlling persons” of Lantronix
15 within the meaning of Section 20(a) of the Exchange Act. In this capacity, they
16 participated in the unlawful conduct alleged which artificially inflated the market
17 price of Lantronix securities.
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21 64. Each of the Individual Defendants, therefore, acted as a controlling
22 person of Lantronix. By reason of their senior management positions and/or being
23 directors of Lantronix, each of the Individual Defendants had the power to direct
24 the actions of, and exercised the same to cause, Lantronix to engage in the unlawful
25 acts and conduct complained of herein. Each of the Individual Defendants
26 exercised control over the general operations of Lantronix and possessed the power
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1 to control the specific activities which comprise the primary violations about which
2 Plaintiff and the other members of the Class complain.

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4 65. By reason of the above conduct, the Individual Defendants are liable
5 pursuant to Section 20(a) of the Exchange Act for the violations committed by
6 Lantronix.

7
8 **PRAYER FOR RELIEF**

9 **WHEREFORE**, Plaintiff demands judgment against Defendants as follows:

10 A. Determining that the instant action may be maintained as a class action
11 under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as
12 the Class representative;

13
14 B. Requiring Defendants to pay damages sustained by Plaintiff and the
15 Class by reason of the acts and transactions alleged herein;

16
17 C. Awarding Plaintiff and the other members of the Class prejudgment
18 and post-judgment interest, as well as their reasonable attorneys' fees, expert fees
19 and other costs; and

20
21 D. Awarding such other and further relief as this Court may deem just and
22 proper.

23
24 **DEMAND FOR TRIAL BY JURY**

25 Plaintiff hereby demands a trial by jury.