

UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

[REDACTED], Individually and on  
Behalf of All Others Similarly Situated,

Plaintiff,

v.

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

Defendants.

Case No.

CLASS ACTION

COMPLAINT FOR VIOLATIONS  
OF THE FEDERAL SECURITIES  
LAWS

DEMAND FOR JURY TRIAL

Plaintiff [REDACTED] individually and on behalf of all others similarly situated, by Plaintiff's undersigned attorneys, for Plaintiff's complaint against Defendants, alleges the following based upon personal knowledge as to Plaintiff and Plaintiff's own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through Plaintiff's attorneys, which included, among other things, a review of the Defendants' public documents, conference calls and announcements made by Defendants, United

States (“U.S.”) Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding Lantronix, Inc. (“Lantronix” or the “Company”), analysts’ reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial, additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

### **NATURE OF THE ACTION**

1. This is a federal securities class action on behalf of a class consisting of all persons and entities other than Defendants that purchased or otherwise acquired Lantronix securities between May 11, 2023 and February 8, 2024, both dates inclusive (the “Class Period”), seeking to recover damages caused by Defendants’ violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder, against the Company and certain of its top officials.

2. Lantronix is a global industrial and enterprise internet of things (“IoT”)<sup>1</sup> provider of solutions that purportedly target high growth applications in specific verticals such as smart grids, intelligent transportation, smart cities, and

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<sup>1</sup> “IoT” generally refers to network-enabled devices, excluding traditional computers like laptops and servers.

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

3. In May 2023, Lantronix forecasted that it would achieve revenue in a range of \$175 million to \$185 million, as well as non-GAAP<sup>2</sup> earnings-per-share (“EPS”) in a range of \$0.50 to \$0.60 per share, for its fiscal year 2024 results.<sup>3</sup> Defendants repeatedly assured investors and analysts throughout the Class Period that this guidance for fiscal year 2024 remained unchanged, despite knowing that Lantronix’s customers were experiencing elevated levels of inventory for IoT products, and that embedded IOT revenues expected from a customer design win were pushed out to the next fiscal year.

4. Throughout the Class Period, Defendants made materially false and misleading statements regarding the Company’s business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) Lantronix overstated demand and/or its visibility into

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<sup>2</sup> “GAAP” refers to generally accepted accounting principles, which are a set of accounting rules, standards, and procedures that U.S. public companies must follow when their accountants compile their financial statements.

<sup>3</sup> Lantronix’s fiscal year ends on June 30, 2023.

demand for its IoT products; (ii) Lantronix's customers were reducing elevated levels of inventory of IoT products, thereby causing a general slowdown in the Company's business; (iii) certain of Lantronix's embedded IOT revenues expected from a customer design win were delayed to the next fiscal year; (iv) as a result of all the foregoing, Lantronix anticipated lower sales for its embedded IOT solutions for fiscal year 2024; (v) accordingly, Lantronix was unlikely to meet its own previously issued guidance for fiscal year 2024; and (vi) as a result, the Company's public statements were materially false and/or misleading at all relevant times.

5. On February 8, 2024, Lantronix issued a press release announcing its financial results for the second quarter of its fiscal year 2024. Therein, the Company negatively revised its fiscal year 2024 guidance, advising that “[f]or fiscal year 2024, the company [now] expects revenue in a range of \$155 million to \$165 million”—versus the previously provided range of \$175 million to \$185 million—“and non-GAAP EPS in a range of \$0.35 to \$0.45 per share”—versus the previously provided range of \$0.50 to \$0.60 per share. On a call with investors and analysts to discuss these results, Company management revealed that “[t]he change in our annual guidance is primarily due to lower expected sales for our embedded IOT solutions as a result of two factors”, namely, “[a] general slowdown in our broad-based channel business as customers work through their inventories, and 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.”

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

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

### **JURISDICTION AND VENUE**

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

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

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

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

## PARTIES

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

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

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

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

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

17. The Individual Defendants possessed the power and authority to control the contents of Lantronix's SEC filings, press releases, and other market communications. The Individual Defendants were provided with copies of Lantronix's SEC filings and press releases alleged herein to be misleading prior to

or shortly after their issuance and had the ability and opportunity to prevent their issuance or to cause them to be corrected. Because of their positions with Lantronix, and their access to material information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public, and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements and omissions pleaded herein.

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

## **SUBSTANTIVE ALLEGATIONS**

### **Background**

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

## Materially False and Misleading Statements Issued During the Class Period

20. The Class Period begins on May 11, 2023. On May 10, 2023, during post-market hours, Lantronix issued a press release announcing its results for the third quarter of its fiscal year 2023. That press release stated, in relevant part, that “[f]or fiscal year 2024, the company expects revenue in a range of \$175 to \$185 million and non-GAAP EPS in a range of \$0.50 to \$0.60 per share.”

21. Also on May 10, 2023, during post-market hours, Lantronix held a conference call with investors and analysts to discuss its results for the third quarter of its fiscal year 2023. On that call, in discussing the Company’s fiscal year 2024 guidance, Defendant Pickle stated, in relevant part:

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

Looking at our top prospects, Lantronix is pursuing more than 40 opportunities that total over \$150 million in peak annual revenue in applications such as smart cities, smart grid, EV [electric vehicle] and automotive, as well as security and surveillance and telematics. This is an incredible departure from the business we inherited four years ago, 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.*

(Emphases added.)

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

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

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

- the lengthy and unpredictable sales cycle for our products that can extend from six to 24 months or longer;
- the project-driven nature of many of our customers' requirements;
- we primarily sell our products indirectly through distributors;
- the uncertainty of the extent and timing of market acceptance of our new products;
- the need to obtain industry certifications or regulatory approval for our products;
- the lack of long-term contracts with our customers;
- the diversity of our product lines and geographic scope of our product distribution;

- we have some customers who make single, non-recurring purchases; and
- a large number of our customers typically purchase in small quantities.

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

(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],

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

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

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

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

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

\* \* \*

Now I’d like to provide the specifics for our fiscal 2024 guidance. With the backdrop of a record backlog, a cautious *but relatively steady 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*

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

(Emphases added.)

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

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

(Emphasis added.)

27. The 2023 10-K also 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 products, while failing to address Defendants' actual known risks regarding lack of demand for the Company'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.

28. Appended as exhibits to the 2023 10-K were substantively the same SOX certifications as referenced in ¶ 23, *supra*, signed by Defendant Whitaker as both Interim CEO and full-time CFO.

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

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

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

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

As expected, we experienced a sequential decline in embedded systems 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

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

(Emphases added.)

31. On the same call, in discussing Lantronix's fiscal year 2024 guidance,

Defendant Whitaker stated, in relevant part:

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

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

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

(Emphases added.)

32. Also on November 8, 2023, Lantronix filed a quarterly report on Form 10-Q with the SEC, reporting the Company's financial and operational results for its fiscal first quarter ended September 20, 2023 (the "1Q24 10-Q"). That filing 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

products, while failing to address 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.

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

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

## The Truth Emerges

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

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

For fiscal 2024, we are updating our annual guidance to revenue in a range of \$155 million to \$165 million, and non-GAAP EPS in a range of \$0.35 to \$0.45 per share. ***The change in our annual guidance is primarily due to lower expected sales for our embedded IoT solutions as a result of two factors. A general slowdown in our broad-based channel business as customers work through their inventories, and 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.***

(Emphasis added.)

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

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

[Analyst]

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

\* \* \*

[Defendant] Whitaker

Yes, so starting with channel inventories and what we're hearing back from our sales team as it relates to end customers, a lot of that business is going to a broad-based, customer-base, *a lot of it in industrial IoT connectivity and embedded solutions* in that area and what we heard back from our sales team is that *there are customers that are working down inventories*, and that was -- and also a general slowdown in the 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.*

(Emphases in bold and italics added.)

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

39. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

## **SCIENTER ALLEGATIONS**

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

## **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

41. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired Lantronix securities during the Class Period (the "Class"); and were damaged upon the revelation of the alleged corrective disclosures. Excluded from the Class are Defendants herein, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

42. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Lantronix securities were actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery,

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

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

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

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

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

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

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

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

- Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- the omissions and misrepresentations were material;
- Lantronix securities are traded in an efficient market;
- the Company's shares were liquid and traded with moderate to heavy volume during the Class Period;
- 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.

52. During the Class Period, Defendants engaged in a plan, scheme, conspiracy and course of conduct, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices and courses of business which operated as a fraud and deceit upon Plaintiff and the other members of the Class; made various untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and employed devices, schemes and artifices to defraud in connection with the purchase and sale of securities. Such scheme was intended to, and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of Lantronix securities; and (iii) cause Plaintiff and other members of the Class to purchase or otherwise acquire Lantronix securities and options at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

53. Pursuant to the above plan, scheme, conspiracy and course of conduct, each of the Defendants participated directly or indirectly in the preparation and/or issuance of the quarterly and annual reports, SEC filings, press releases and other statements and documents described above, including statements made to securities analysts and the media that were designed to influence the market for Lantronix securities. Such reports, filings, releases and statements were materially false and

misleading in that they failed to disclose material adverse information and misrepresented the truth about Lantronix's finances and business prospects.

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

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

56. The Individual Defendants are liable both directly and indirectly for the wrongs complained of herein. Because of their positions of control and authority, the Individual Defendants were able to and did, directly or indirectly, control the content of the statements of Lantronix. As officers and/or directors of a publicly-held company, the Individual Defendants had a duty to disseminate timely,

accurate, and truthful information with respect to Lantronix's businesses, operations, future financial condition and future prospects. As a result of the dissemination of the aforementioned false and misleading reports, releases and public statements, the market price of Lantronix securities was artificially inflated throughout the Class Period. In ignorance of the adverse facts concerning Lantronix's business and financial condition which were concealed by Defendants, Plaintiff and the other members of the Class purchased or otherwise acquired Lantronix securities at artificially inflated prices and relied upon the price of the securities, the integrity of the market for the securities and/or upon statements disseminated by Defendants, and were damaged thereby.

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

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

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

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

## **COUNT II**

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

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

61. During the Class Period, the Individual Defendants participated in the operation and management of Lantronix, and conducted and participated, directly and indirectly, in the conduct of Lantronix's business affairs. Because of their senior positions, they knew the adverse non-public information about Lantronix's misstatement of income and expenses and false financial statements.

62. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to Lantronix's financial condition and results of operations, and to correct promptly any public statements issued by Lantronix which had become materially false or misleading.

63. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings which Lantronix disseminated in the marketplace during the Class Period concerning Lantronix's results of operations. Throughout the Class Period, the Individual Defendants exercised their power and authority to cause Lantronix to engage in the wrongful acts complained of herein. The Individual Defendants, therefore, were "controlling persons" of Lantronix within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of Lantronix securities.

64. Each of the Individual Defendants, therefore, acted as a controlling person of Lantronix. By reason of their senior management positions and/or being directors of Lantronix, each of the Individual Defendants had the power to direct the actions of, and exercised the same to cause, Lantronix to engage in the unlawful acts and conduct complained of herein. Each of the Individual Defendants exercised control over the general operations of Lantronix and possessed the power

to control the specific activities which comprise the primary violations about which Plaintiff and the other members of the Class complain.

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

**PRAYER FOR RELIEF**

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

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

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

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

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

**DEMAND FOR TRIAL BY JURY**

Plaintiff hereby demands a trial by jury.