

GIGA TRONICS INC  
Form 10-K/A  
June 20, 2011

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

FORM 10-K /A  
(Amendment No. 1)

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

For the fiscal year ended March 26, 2011 ,

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 0-12719

GIGA-TRONICS INCORPORATED  
(Exact name of registrant as specified in its charter)

California  
(State or other jurisdiction of incorporation or  
organization)

94-2656341  
(I.R.S. Employer Identification No.)

4650 Norris Canyon Road, San Ramon, CA  
(Address of principal executive offices)

94583  
(Zip Code)

Registrant's telephone number, including area code: (925) 328-4650

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

Title of each class  
Common Stock, No par value

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

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

[ X ]

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

|                         |                          |                           |                                     |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

(Do not check if a smaller reporting company)

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the price at which the common equity was sold or the average bid and asked prices as of September 25, 2010 was \$10,462,554.

There were a total of 4,994,157 shares of the Registrant's Common Stock outstanding as of May 18, 2011.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated by reference into the parts indicated:

| PART OF FORM 10-K | DOCUMENT   |
|-------------------|--|
| PART III          | Registrant's PROXY STATEMENT for its 2011 Annual Meeting of Shareholders to be filed no later than 120 days after the close of the fiscal year ended March 26, 2011. |

#### EXPLANATORY NOTE

This Amendment No. 1 is being filed solely to include a signed copy of the Report of the independent registered public accounting firm on our financial statements filed as Item 8 for Form 10-K, and to include a signed copy of the Consent of the independent registered public accounting firm as Exhibit 23.1. The original 10-K inadvertently included an unsigned copy of both items. In accordance with the Commission's instructions, the complete Item 8, Financial Statements and Supplementary Data, and Exhibit 23.1 are included in this filing, but the contents are unchanged from our original filing except to include the signature of the independent registered public accounting firm on its Report and its Consent.

This Form 10-K/A is limited in scope to the foregoing, and should be read in conjunction with the original Form 10-K and our other filings with the SEC. Except as described above, we have not modified or updated other disclosures or information presented in the original Form 10-K.



ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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## CONSOLIDATED BALANCE SHEETS

| (In thousands except share data)   | March 26,<br>2011 | March 27,<br>2010 |
|--|-------------------|-------------------|
| Assets   |                   |                   |
| Current assets   |                   |                   |
| Cash and cash equivalents  | \$1,408           | \$3,074           |
| Trade accounts receivable, net of allowance<br>of \$248 and \$95, respectively   | 5,632             | 4,332             |
| Inventories, net   | 5,386             | 5,803             |
| Prepaid expenses and other current assets  | 420               | 383               |
| Deferred income tax  | 2,320             | -                 |
| Total current assets   | 15,166            | 13,592            |
| Property and equipment   |                   |                   |
| Leasehold improvements   | 490               | 315               |
| Machinery and equipment  | 15,565            | 15,590            |
| Office furniture and fixtures  | 786               | 786               |
| Total property and equipment   | 16,841            | 16,691            |
| Less accumulated depreciation and amortization   | (16,311 )         | (16,380 )         |
| Property and equipment, net  | 530               | 311               |
| Deferred income tax - long term  | 10,936            | -                 |
| Other assets   | 16                | 16                |
| Total assets   | \$26,648          | \$13,919          |
| Liabilities and shareholders' equity   |                   |                   |
| Current liabilities  |                   |                   |
| Accounts payable   | \$972             | \$881             |
| Accrued commission   | 139               | 227               |
| Accrued payroll and benefits   | 455               | 698               |
| Accrued warranty   | 200               | 139               |
| Income taxes payable   | 30                | -                 |
| Deferred revenue   | 586               | 2,682             |
| Deferred rent  | 36                | -                 |
| Capital lease obligations  | 93                | 57                |
| Other current liabilities  | 193               | 225               |
| Total current liabilities  | 2,704             | 4,909             |
| Long term obligation - deferred rent   | 413               | 31                |
| Long term obligation - capital lease   | 10                | 36                |
| Total liabilities  | 3,127             | 4,976             |
| Commitments and contingencies  | -                 | -                 |
| Shareholders' equity   |                   |                   |
| Preferred stock of no par value;<br>Authorized 1,000,000 shares; no shares outstanding<br>at March 26, 2011 and March 27, 2010 | -                 | -                 |
| Common stock of no par value;  |                   |                   |

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Authorized 40,000,000 shares; 4,994,157 shares at March 26, 2011

and 4,891,394 at March 27, 2010 issued and outstanding

|  |          |          |
|--|----------|----------|
|  | 14,485   | 13,979   |
| Retained earnings (accumulated deficit)    | 9,036    | (5,036 ) |
| Total shareholders' equity                 | 23,521   | 8,943    |
| Total liabilities and shareholders' equity | \$26,648 | \$13,919 |

See Accompanying Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF INCOME

| (In thousands except per-share data)                   | Years Ended       |                   |
|--|-------------------|-------------------|
|  | March 26,<br>2011 | March 27,<br>2010 |
| Net sales  | \$21,029          | \$19,057          |
| Cost of sales  | 12,100            | 10,622            |
| Gross margin   | 8,929             | 8,435             |
| Engineering  | 2,159             | 1,522             |
| Sales  | 3,184             | 3,115             |
| Administration   | 2,743             | 2,480             |
| Total operating expenses                               | 8,086             | 7,117             |
| Operating income                                       | 843               | 1,318             |
| Interest income (expense), net                         | 4                 | (16 )             |
| Income before income taxes                             | 847               | 1,302             |
| (Benefit) provision for income taxes                   | (13,225 )         | 2                 |
| Net income   | \$14,072          | \$1,300           |
| Earnings per share - basic                             | \$2.85            | \$0.27            |
| Earnings per share - diluted                           | \$2.79            | \$0.26            |
| Weighted average shares used in per share calculation: |                   |                   |
| Basic  | 4,935             | 4,846             |
| Diluted  | 5,040             | 4,907             |

See Accompanying Notes to Consolidated Financial Statements



CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (In thousands except share data)      | Shares    | Amount    | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Total     |
|---------------------------------------|-----------|-----------|--|-----------|
| Balance at March 28, 2009             | 4,824,021 | \$ 13,668 | \$ (6,336 )                                      | \$ 7,332  |
| Net income                            |           |           | 1,300  | 1,300     |
| Share-based compensation              | -         | 187       | -  | 187       |
| Stock issued under stock options plan | 67,373    | 124       | -  | 124       |
| Balance at March 27, 2010             | 4,891,394 | 13,979    | (5,036 )   | 8,943     |
| Net income                            |           |           | 14,072   | 14,072    |
| Share-based compensation              | -         | 311       | -  | 311       |
| Stock issued under stock options plan | 102,763   | 195       | -  | 195       |
| Balance at March 26, 2011             | 4,994,157 | \$ 14,485 | \$ 9,036   | \$ 23,521 |

See Accompanying Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands except share data)   | Years Ended       |                   |
|--|-------------------|-------------------|
|  | March 26,<br>2011 | March 27,<br>2010 |
| Cash flows from operating activities:  |                   |                   |
| Net income   | \$14,072          | \$1,300           |
| Adjustments to reconcile net income to net cash<br>(used in) provided by operating activities: |                   |                   |
| Provision for doubtful accounts  | 154               | 7                 |
| Depreciation and amortization  | 149               | 146               |
| Loss on sale of fixed asset  | -                 | 1                 |
| Deferred income taxes  | (13,256)          | -                 |
| Share based compensation   | 311               | 187               |
| Deferred rent  | 418               | (183)             |
| Changes in operating assets and liabilities:   |                   |                   |
| Trade accounts receivable  | (1,454)           | (1,229)           |
| Inventories  | 417               | (394)             |
| Prepaid expenses and other assets  | (37)              | 47                |
| Accounts payable   | 91                | (338)             |
| Accrued commissions  | (88)              | 83                |
| Accrued payroll and benefits   | (243)             | 301               |
| Accrued warranty   | 61                | (38)              |
| Income taxes payable   | 30                | -                 |
| Deferred revenue   | (2,096)           | 1,723             |
| Other current liabilities  | (32)              | (81)              |
| Net cash (used in) provided by operating activities  | (1,503)           | 1,532             |
| Cash flows from investing activities:  |                   |                   |
| Proceeds from sales of equipment   | -                 | -                 |
| Purchases of property and equipment  | (368)             | (152)             |
| Net cash used in investing activities  | (368)             | (152)             |
| Cash flows from financing activities:  |                   |                   |
| Proceeds from capital lease  | 10                | 52                |
| Issuance of common stock   | 195               | 124               |
| Net cash provided by financing activities  | 205               | 176               |
| Decrease (increase) in cash and cash equivalents   | (1,666)           | 1,556             |
| Beginning cash and cash equivalents  | 3,074             | 1,518             |
| Ending cash and cash equivalents   | \$1,408           | \$3,074           |
| Supplementary disclosure of cash flow information:   |                   |                   |
| Cash paid for income taxes   | \$2               | \$4               |
| Cash paid for interest   | \$4               | \$21              |

See Accompanying Notes to Consolidated Financial Statements



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1 Summary of Significant Accounting Policies

**The Company** The accompanying consolidated financial statements include the accounts of Giga-tronics Incorporated (“Giga-tronics”) and its wholly-owned subsidiary, Microsource Incorporated (“Microsource”), collectively the “Company”. The Company’s corporate office and manufacturing facilities are located in Northern California. Giga-tronics and its subsidiary company design, manufacture and market a broad line of test and measurement equipment used in the development, test, and maintenance of wireless communications products and systems, flight navigational equipment, electronic defense systems, and automatic testing systems. The Company also manufactures and markets a line of test, measurement, and handling equipment used in the manufacturing of semiconductor devices. The Company’s products are sold worldwide to customers in the test and measurement and semiconductor industries. The Company currently has no foreign-based operations or material amounts of identifiable assets in foreign countries. Its gross margins on foreign and domestic sales are similar, and all non-U.S. sales are made in U.S. dollars.

**Principles of Consolidation** The consolidated financial statements include the accounts of Giga-tronics and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fiscal Year** The Company’s financial reporting year consists of either a 52 week or 53 week period ending on the last Saturday of the month of March. Both fiscal year 2011 and 2010 contained 52 weeks. All references to years in the consolidated financial statements relate to fiscal years rather than calendar years.

**Reclassifications** Certain reclassifications, none of which affected net income, have been made to prior year balances in order to conform to the current year presentation.

**Revenue Recognition** The Company records revenue when there is persuasive evidence of an arrangement, delivery has occurred, the price is fixed and determinable, and collectability is reasonably assured. This occurs when products are shipped or the customer accepts title transfer. If the arrangement involves acceptance terms, the Company defers revenue until product acceptance is received. On certain large development contracts, revenue is recognized upon achievement of substantive milestones. Determining whether a milestone is substantive is a matter of judgment and that assessment is performed only at the inception of the arrangement. The consideration earned from the achievement of a milestone must meet all of the following for the milestone to be considered substantive:

- a. It is commensurate with either of the following:
  1. The Company’s performance to achieve the milestone
  2. The enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the Company’s performance to achieve the milestone.
- b. It relates solely to past performance.
- c. It is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

Milestones for revenue recognition are agreed upon with the customer prior to the start of the contract and some milestones will be tied to product shipping while others will be tied to design review.

The Company has estimated an allowance for uncollectable accounts based on analysis of specifically identified accounts, outstanding receivables, consideration of the age of those receivables and the Company's historical collection experience. The activity in the reserve account is as follows:

| Allowance For Uncollectable Accounts | March 26,<br>2011 | March 27,<br>2010 |
|--------------------------------------|-------------------|-------------------|
| (Dollars in thousands)               |                   |                   |
| Beginning balance                    | \$95              | \$102             |
| Provision for doubtful accounts      | 154               | 7                 |
| Write-off of doubtful accounts       | (1 )              | (14 )             |
| Ending balance                       | \$248             | \$95              |

**Accrued Warranty** The Company's warranty policy generally provides one to three years of coverage depending on the product. The Company records a liability for estimated warranty obligations at the date products are sold. The estimated cost of warranty coverage is based on the Company's actual historical experience with its current products or similar products. For new products, the required reserve is based on historical experience of similar products until such time as sufficient historical data has been collected on the new product. Adjustments are made as new information becomes available.

**Inventories** Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

**Property and Equipment** Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets, which range from three to ten years for machinery and equipment and office fixtures. Leasehold improvements and assets acquired under capital leases are amortized using the straight-line method over the shorter of the estimated useful lives of the respective assets or the lease term.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates that the carrying amount of an asset exceeds the sum of its expected future cash flows on an undiscounted basis, the asset's carrying amount would be written down to fair value. Additionally, the Company reports long-lived assets to be disposed of at the lower of carrying amount or fair value less cost to sell. As of March 26, 2011 and March 27, 2010, management believes there has been no impairment of the Company's long-lived assets.

**Deferred Rent** Rent expense is recognized in an amount equal to the minimum guaranteed base rent plus future rental increases amortized on the straight-line basis over the terms of the leases, including free rent periods.

**Income Taxes** Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future tax benefits are subject to a valuation allowance when management is unable to conclude that its deferred tax assets will more likely than not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. Management considers both positive and negative evidence and tax planning strategies in making this assessment.

The Company considers all tax positions recognized in its financial statements for the likelihood of realization. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the positions taken or the amounts of the positions that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above, if any, would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of the provision for income taxes in the consolidated statements of income.

**Product Development Costs** The Company incurs pre-production costs on certain long-term supply arrangements. The costs, which represent non-recurring engineering and tooling costs, are capitalized as other assets and amortized over their useful life when reimbursable by the customer. All other product development costs are charged to operations as incurred. There were no capitalized pre-production costs included in other assets as of March 26, 2011 and March 27, 2010.

**Software Development Costs** Development costs included in the research and development of new products and enhancements to existing products are expensed as incurred, until technological feasibility in the form of a working model has been established. To date, completion of software development has been concurrent with the establishment of technological feasibility, and accordingly, no costs have been capitalized.

**Share-based Compensation** The Company has established the 2000 Stock Option Plan and the 2005 Equity Incentive Plan, which provide for the granting of options for up to 1,400,000 shares of Common Stock. The Company records share-based compensation expense for the fair value of all stock options and restricted stock that are ultimately expected to vest as the requisite service is rendered.

The cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as a cash flows from financing in the statements of cash flows. These excess tax benefits were not significant for the Company for the fiscal year ended March 26, 2011. There were no excess tax benefits for the fiscal year ended March 27, 2010.

In calculating compensation related to stock option grants, the fair value of each stock option is estimated on the date of grant using the Black-Scholes-Merton option-pricing model and the following weighted-average assumptions:

| Years Ended             | March 26,<br>2011 | March 27,<br>2010 |
|-------------------------|-------------------|-------------------|
| Dividend yield          | Zero              | Zero              |
| Expected volatility     | 101               | % 96              |
| Risk-free interest rate | 1.13              | % 1.49            |
| Expected term (years)   | 3.17              | 3.75              |

The computation of expected volatility used in the Black-Scholes-Merton option-pricing model is based on the historical volatility of Giga-tronics' share price. The expected term is estimated based on a review of historical employee exercise behavior with respect to option grants.

The fair value of restricted stock awards is based on the fair value of the underlying shares at the date of the grant. Management makes estimates regarding pre-vesting forfeitures that will impact timing of compensation expense recognized for stock option and restricted stock awards.

**Earnings Per Share** Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share incorporate the incremental shares issuable upon the assumed exercise of stock options using the treasury stock method. Antidilutive options are not included in the computation of diluted earnings per share.

**Comprehensive Income (Loss)** There are no items of comprehensive income other than net income.

**Financial Instruments and Concentration of Credit Risk** Financial instruments that potentially subject the Company to credit risk consist of cash, cash equivalents and trade accounts receivable. The Company's cash equivalents consist of overnight deposits with federally insured financial institutions. Under Section 343 of the Dodd-Frank Wall Street



Reform and Consumer Protection Act, those funds on deposit are covered by unlimited deposit insurance until December 31, 2012. Concentration of credit risk in trade accounts receivable results primarily from sales to major customers. The Company individually evaluates the creditworthiness of its customers and generally does not require collateral or other security. At March 26, 2011, one customer comprised 64% of consolidated gross accounts receivable primarily due to the timing of the receivable. At March 27, 2010, two customers comprised 14% and 27%, respectively, of consolidated gross accounts receivable.

**Fair Value of Financial Instruments** The carrying amount for the Company's cash-equivalents, trade accounts receivable and accounts payable approximates fair market value because of the short maturity of these financial instruments.

**Recently Issued Financial Accounting Standards** In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2009-13, Multiple-Deliverable Revenue Arrangements. The objective of this Update is to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Vendors often provide multiple products or services to their customers. Those deliverables often are provided at different points in time or over different time periods. Subtopic 605-25, Revenue Recognition—Multiple-Element Arrangements, establishes the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating activities. Specifically, this Subtopic addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The amendments in this Update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted this standard on March 27, 2011 and management does not expect adoption will have a significant impact on the Company's financial condition, operations or cash flows.

In April 2010, the FASB issued Accounting Standards Update No. 2010-17, Revenue Recognition-Milestone Method. The objective of this Update is to provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events such as successful completion of phases or achieving a specific result from the research or development efforts. An entity often recognizes these milestone payments as revenue in their entirety upon achieving the related milestone, commonly referred to as the milestone method. The amendments in this Update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted this standard on March 27, 2011 and management does not expect adoption will have a significant impact on the Company's financial condition, operations or cash flows.

## 2 Cash and Cash-Equivalents

Cash and cash-equivalents of \$1,408,000 and \$3,074,000 at March 26, 2011 and March 27, 2010, respectively, consist of overnight deposits.

## 3 Inventories

Inventories, net of reserves, consist of the following:

| (Dollars in thousands)  | March 26,<br>2011 | March 27,<br>2010 |
|-------------------------|-------------------|-------------------|
| Raw materials           | \$3,518           | \$3,337           |
| Work-in-progress        | 1,349             | 1,930             |
| Finished goods          | 134               | 128               |
| Demonstration inventory | 385               | 408               |
| <b>Total</b>            | <b>\$5,386</b>    | <b>\$5,803</b>    |

## 4 Selling Expenses

Selling expenses consist primarily of commissions paid to various marketing agencies. Commission expense totaled \$565,000 and \$735,000 for fiscal 2011 and 2010, respectively. Advertising costs, which are expensed as incurred, totaled \$98,000 and \$95,000 for fiscal 2011 and 2010, respectively.

## 5 Significant Customers and Industry Segment Information

The Company has two reportable segments: Giga-tronics Division and Microsource. Giga-tronics Division produces a broad line of test and measurement equipment used in the development, test and maintenance of wireless communications products and systems, flight navigational equipment, electronic defense systems and automatic testing systems and designs, manufactures, and markets a line of switching devices that link together many specific purpose instruments that comprise automatic test systems. Microsource develops and manufactures a broad line of Yttrium, Iron and Garnet (YIG) tuned oscillators, filters and microwave synthesizers, which are used in a wide variety of microwave instruments or devices.

The accounting policies for the segments are the same as those described in the "Summary of Significant Accounting Policies". The Company evaluates the performance of its segments and allocates resources to them based on earnings before income taxes. Segment net sales include sales to external customers. Inter-segment activities are eliminated in consolidation. Assets include accounts receivable, inventories, equipment, cash, deferred income taxes, prepaid expenses and other long-term assets. The Company accounts for inter-segment sales and transfers at terms that allow a reasonable profit to the seller. During the periods reported there were no significant inter-segment sales or transfers.

The Company's reportable operating segments are strategic business units that offer different products and services. They are managed separately because each business utilizes different technology and requires different accounting systems. The Company's chief operating decision maker is considered to be the Company's Chief Executive Officer ("CEO"). The CEO reviews financial information presented on a consolidated basis accompanied by disaggregated information about revenues and pre-tax income by operating segment. The tables below present information for the fiscal years ended in 2011 and 2010.

| March 26, 2011 (Dollars in thousands) | Giga-tronics |             | Total    |
|---------------------------------------|--------------|-------------|----------|
|                                       | Division     | Microsource |          |
| Revenue                               | \$13,946     | \$7,083     | \$21,029 |
| Interest income, net                  | --           | 4           | 4        |
| Depreciation and amortization         | 127          | 22          | 149      |
| Income (loss) before income taxes     | 980          | (133 )      | 847      |
| Assets                                | 23,228       | 3,420       | 26,648   |

| March 27, 2010 (Dollars in thousands) | Giga-tronics |             | Total    |
|---------------------------------------|--------------|-------------|----------|
|                                       | Division     | Microsource |          |
| Revenue                               | \$12,001     | \$7,056     | \$19,057 |
| Interest (expense) income, net        | (18 )        | 2           | (16 )    |
| Depreciation and amortization         | 117          | 29          | 146      |
| (Loss) income before income taxes     | (30 )        | 1,332       | 1,302    |
| Assets                                | 7,083        | 6,836       | 13,919   |

The Company's Giga-tronics Division and Microsource segments sell to agencies of the U.S. government and U.S. defense-related customers. In fiscal 2011 and 2010, U.S. government and U.S. defense-related customers accounted for 44% and 62% of sales, respectively. During fiscal 2011, one customer other than U.S. government agencies and their defense contractors accounted for 10% or more of the Company's consolidated revenues at March 26, 2011. During fiscal 2010, no customer other than U.S. government agencies and their defense contractors accounted for 10% of the Company's consolidated revenues at March 27, 2010.

Export sales accounted for 40% and 21% of the Company's sales in fiscal 2011 and 2010, respectively. Export sales by geographical area are shown below:

| (Dollars in thousands) | March 26,<br>2011 | March 27,<br>2010 |
|------------------------|-------------------|-------------------|
| Americas               | \$1,603           | \$23              |
| Europe                 | 1,148             | 2,251             |
| Asia                   | 5,477             | 989               |
| Rest of world          | 254               | 702               |
| Total                  | \$8,482           | \$3,965           |

## 6 Earnings per Share

Net income and shares used in per share computations for the years ended March 26, 2011 and March 27, 2010 are as follows:

| (In thousands except per-share data)  | March 26,<br>2011 | March 27,<br>2010 |
|---|-------------------|-------------------|
| Net income  | \$ 14,072         | \$ 1,300          |
| <b>Weighted average:</b>  |                   |                   |
| Common shares outstanding   | 4,935             | 4,846             |
| Potential common shares   | 105               | 61                |
| Common shares assuming dilution   | 5,040             | 4,907             |
| Net earnings per share of common stock  | \$2.85            | \$0.27            |
| Net earnings per share of common stock assuming dilution  | \$2.79            | \$0.26            |
| Stock options not included in computation that could potentially dilute basic EPS in the future           | 636               | 568               |
| Restricted stock awards not included in computation that could potentially dilute basic EPS in the future | 90                | -                 |

The number of stock options not included in the computation of diluted earnings per share (EPS) for the periods ended March 26, 2011 and March 27, 2010 reflect stock options where the exercise prices were greater than the average market price of the common shares and are, therefore, antidilutive.

## 7 Income Taxes

Following are the components of the provision for income taxes:

| Years Ended (In thousands)                      | March 26,<br>2011 | March 27,<br>2010 |
|---|-------------------|-------------------|
| <b>Current</b>                                  |                   |                   |
| Federal   | \$29              | \$---             |
| State   | 2                 | 2                 |
| Total current                                   | 31                | 2                 |
| <b>Deferred</b>                                 |                   |                   |
| Federal   | 2,283             | 442               |
| State   | 41                | 72                |
| Total deferred                                  | 2,324             | 514               |
| Change in liability for uncertain tax positions | 714               | (70 )             |
| Change in valuation allowance                   | (16,294 )         | (444 )            |
| Provision for income taxes                      | \$(13,225 )       | \$2 )             |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

| Year Ended (In thousands)                           | March 26,<br>2011 | March 27,<br>2010 |
|---|-------------------|-------------------|
| Net operating loss carryforwards                    | \$9,410           | \$12,059          |
| Income tax credits                                  | 1,426             | 2,202             |
| Inventory reserves and additional capitalized costs | 1,785             | 1,688             |
| Fixed asset depreciation                            | 100               | 122               |
| Accrued vacation                                    | 117               | 114               |
| Accrued warranty                                    | 79                | 55                |
| Deferred rent                                       | 179               | ---               |
| Other accrued liabilities                           | ---               | ---               |
| Allowance for doubtful accounts                     | 100               | 38                |
| Non-qualified stock options                         | 60                | 14                |
| State taxes benefit                                 | ---               | 2                 |
| Total deferred tax assets                           | 13,256            | 16,294            |
| Valuation allowance                                 | ---               | (16,294 )         |
| Net deferred tax assets                             | \$13,256          | ---               |

| Years Ended (In thousands except percentages) | March 26, 2011 |             |  | March 27, 2010 |         |  |
|---|----------------|-------------|--|----------------|---------|--|
| Statutory federal income tax (benefit)        | \$288          | 34.0 %      |  | \$443          | 34.0 %  |  |
| Valuation allowance                           | (16,294 )      | (1,923.7 )  |  | (444 )         | (30.2 ) |  |
| State income tax, net of federal benefit      | 49             | 5.8         |  | 76             | 5.8     |  |
| Net operating loss expiration                 | 2,023          | 238.8       |  | -              | -       |  |
| Non tax-deductible expenses                   | 72             | 8.5         |  | 52             | 4.0     |  |
| Tax credits                                   | (85 )          | (10.0 )     |  | (54 )          | (4.1 )  |  |
| Liability for uncertain tax positions         | 714            | 84.3        |  | (70 )          | (9.2 )  |  |
| Other   | 8              | 0.9         |  | (1 )           | 1.5     |  |
| Effective income tax                          | \$(13,225 )    | (1,561.4 )% |  | \$2            | 0.7 %   |  |

The decrease in valuation allowance from March 27, 2010 to March 26, 2011 was \$16,294,000.

As of March 26, 2011, the Company had pre-tax federal net operating loss carryforwards of \$24,204,000 and state net operating loss carryforwards of \$20,239,000 available to reduce future taxable income. The federal and state net operating loss carryforwards begin to expire from fiscal 2016 through 2029 and from 2014 through 2020, respectively. \$1,275,000 of federal net operating loss carryforwards are subject to an annual IRC § 382 limitation of approximately \$100,000. At March 26, 2011, the accumulated IRC § 382 losses available for use are approximately \$1,098,000. Utilization of net operating loss carryforwards may be subject to annual limitations due to certain ownership change limitations as required by Internal Revenue Code Section 382. The federal income tax credits begin to expire from 2020 through 2029 and state income tax credit carryforwards are carried forward indefinitely.

The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets, which may not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. Management considers both positive and

negative evidence and tax planning strategies in making this assessment.

The Company has demonstrated consistent pre-tax book income and does not have cumulative losses over the past three years. The Company's FY 2011 Budget and Strategic Plans for FY 2012 and FY 2013 are all forecasted to be profitable. The Company continues to maintain a two year backlog of orders for its YIG (Yttrium, Iron, Garnet) filters and projects continued orders. Its legacy Model 8003 precision scalar analyzer continues to receive orders from the U.S. Navy one of which was booked for \$1.1 million in the first quarter. The Company is now serving a new market in the consumer wireless handheld telecommunication market with its high volume production automation switch for which it received several small orders in the first quarter which is expected to lead to much larger orders in the future. The Company has entered the semiconductor market with its new integrated switch product for testing thin-film memory storage components.

The Test and Measurement market is forecasted to grow at the rate of 4% per year, per industry forecasting experts. The Company has no known contingencies or unsettled circumstances. Based on historical income and projections for future taxable income over the periods in which the deferred tax assets become deductible, management believes the Company is more likely than not to realize benefits of these deductible differences. Management has, therefore, reversed the valuation allowance against its deferred tax assets, resulting in an income tax benefit of \$13,569,000 for the three month period ended June 26, 2010. At year end, the deferred tax asset balance was \$13,256,000.

As of March 26, 2011, the Company recorded unrecognized tax benefits of \$834,000 related to uncertain tax positions. The unrecognized tax benefit is netted against the non-current deferred tax asset on the Consolidated Balance Sheet. The Company has not recorded a liability for any penalties or interest related to the unrecognized tax benefits.

The Company files U.S federal and California state tax returns. The Company is generally no longer subject to tax examinations for years prior to the fiscal year 2008 for federal purposes and fiscal year 2007 for California purposes, except in certain limited circumstances. The Company does not have any tax audits pending.

A reconciliation of the beginning and ending amount of the liability for uncertain tax positions, excluding potential interest and penalties, is as follows:

|  | Fiscal Year<br>2011 | Fiscal Year<br>2010 |
|--|---------------------|---------------------|
| Balance as of beginning of year  | 120,000             | \$ 190,000          |
| Additions based on current year tax positions                            | 34,000              | 100,000             |
| Reductions for prior year tax positions and lapses of applicable statute | (72,000 )           | (170,000 )          |
| Additions based on prior year tax positions                              | 752,000             | ---                 |
| Balance as of end of year  | \$ 834,000          | \$ 120,000          |

The total amount of interest and penalties related to unrecognized tax benefits at March 26, 2011 and March 27, 2010 is not material. The amount of tax benefits that would impact the effective rate, if recognized, is not expected to be material. The Company does not anticipate any significant changes with respect to unrecognized tax benefits within next twelve months.

## 8 Share-based Compensation and Employee Benefit Plans

**Share-based Compensation** The Company established the 2000 Stock Option Plan and the 2005 Equity Incentive Plan, each of which provide for the granting of options and restricted stock for up to 1,400,000 shares of common stock at 100% of fair market value at the date of grant, with each grant requiring approval by the Board of Directors of the Company. Options granted vest in one or more installments through 2014 and must be exercised while the grantee is employed by the Company or within a certain period after termination of employment. Options granted to employees shall not have terms in excess of 10 years from the grant date. Holders of options may be granted stock appreciation rights (SAR), which entitle them to surrender outstanding options for a cash distribution under certain changes in ownership of the Company, as defined in the stock option plan. As of March 26, 2011, no SAR's have been granted under the option plan. As of March 26, 2011, the total number of shares of common stock available for issuance is 155,725 under the 2000 and 2005 stock option plans. All outstanding options have a term of five years.





A summary of the changes in stock options outstanding for the years ended March 26, 2011 and March 27, 2010 is presented below:

|                                       | Shares  | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Terms<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|---------------------------------------|---------|--|---|---------------------------------|
| Outstanding at March 28, 2009         | 747,900 | \$ 1.91                                  | 2.7   | \$ 2,795                        |
| Granted                               | 320,500 | 2.07                                     |   |                                 |
| Exercised                             | 67,373  | 1.85                                     |   |                                 |
| Forfeited / Expired                   | 133,000 | 2.46                                     |   |                                 |
| Outstanding at March 27, 2010         | 868,027 | \$ 1.89                                  | 3.0   | \$ 332,127                      |
| Granted                               | 140,000 | 2.41                                     |   |                                 |
| Exercised                             | 102,763 | 1.90                                     |   |                                 |
| Forfeited / Expired                   | 20,250  | 2.18                                     |   |                                 |
| Outstanding at March 26, 2011         | 885,014 | \$ 1.96                                  | 2.5   | \$ 459,708                      |
| Exercisable at March 26, 2011         | 468,514 | \$ 1.90                                  | 1.5   | \$ 276,708                      |
| Expected to vest at March 26,<br>2011 | 324,068 | \$ 2.03                                  | 3.5   | \$ 142,388                      |

As of March 26, 2011, there was \$345,934 of total unrecognized compensation cost related to nonvested options granted under the plans. That cost is expected to be recognized over a weighted average period of 1.12 years. There were 252,224 and 147,349 options vested during the years ended March 26, 2011 and March 27, 2010 respectively. The total fair value of options vested during the years ended March 26, 2011 and March 27, 2010 was \$314,017 and \$167,954, respectively. Cash received from stock option exercises for the years ended March 26, 2011 and March 27, 2010 was \$195,000 and \$124,000, respectively.

There were 90,000 restricted stock awards granted during the year ended March 26, 2011 and no restricted stock awards granted during the year ended March 27, 2010. The restricted stock awards are considered fixed awards as the number of shares and fair value are known at the grant date and the fair value at the grant date is amortized over the requisite service period net of estimated forfeitures. The restricted stock awards are performance-based and one-third will vest annually each year through 2013 only if certain sales and profit goals are achieved by the Company. The weighted average grant date fair value of awards granted during the year ended March 26, 2011 was \$2.34. No compensation cost was recognized for restricted stock awards because management believes it is not more likely than not that the performance criteria will be met.

**Employee Stock Purchase Plan** This plan expired in September 2006 and is no longer available.

**401(k) Plans** The Company has established 401(k) plans which cover substantially all employees. Participants may make voluntary contributions to the plans for up to 100% of their defined compensation. The Company matches a percentage of the participant's contributions in accordance with the plan. Participants vest ratably in Company contributions over a four-year period. Company contributions to the plans for fiscal 2011 and 2010 were approximately \$24,000 and \$15,000, respectively.

The Company leases a 47,300 square foot facility located in San Ramon, California, under a twelve-year lease that commenced in April 1994, which was amended on April 1, 2010 and now expires December 31, 2016. The amendment resulted in a reduction of monthly lease costs. The Company leases a 33,400 square foot facility located in Santa Rosa, California, under a twenty-year lease that commenced in July 1993 and was amended in April 2003, to now expire May 31, 2013.

These facilities accommodate all of the Company's present operations. The Company also leases other equipment under operating leases.

Total future minimum lease payments under these leases amount to approximately \$4,528,000.

| Fiscal year (Dollars in thousands) |                |
|------------------------------------|----------------|
| 2012                               | \$978          |
| 2013                               | 1,000          |
| 2014                               | 696            |
| 2015                               | 654            |
| 2016                               | 677            |
| Thereafter                         | 523            |
| <b>Total</b>                       | <b>\$4,528</b> |

The aggregate rental expense was \$1,025,000 and \$968,000 in fiscal 2011 and 2010, respectively.

The Company leases equipment under capital leases that expire through October 2011. The future minimum lease payments under these leases amount to approximately \$108,000.

The Company is committed to purchase certain inventory under non-cancelable purchase orders. As of March 26, 2011, total non-cancelable purchase orders were approximately \$1,248,000 through fiscal 2012 and \$90,000 beyond fiscal 2012 and were scheduled to be delivered to the Company at various dates through December 2012.

#### 10 Warranty Obligations

The Company records a liability in cost of sales for estimated warranty obligations at the date products are sold. Adjustments are made as new information becomes available. The following provides a reconciliation of changes in the Company's warranty reserve. The Company provides no other guarantees.

| (Dollars in thousands)         | March 26,<br>2011 | March 27,<br>2010 |
|--------------------------------|-------------------|-------------------|
| Balance at beginning of period | \$ 139            | \$ 177            |
| Provision, net                 | 237               | 84                |
| Warranty costs incurred        | (176 )            | (122 )            |
| Balance at end of period       | \$200             | \$ 139            |

#### 11 Line of Credit

The Company has a secured revolving line of credit with a financial institution for a total borrowing capacity of \$1,500,000. The maximum amount that can be borrowed is limited to 80% of trade receivables. Interest is payable at prime plus 1%. The Company is required to comply with certain financial covenants under the arrangement. The Company has re-negotiated a new line of credit effective June 15, 2010, which expires on June 15, 2011. At March 26, 2011, the Company is in compliance with the covenants relating to the line of credit. At March 26, 2011 and March 27, 2010, there was no balance outstanding on the line of credit.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Giga-tronics Incorporated

We have audited the accompanying consolidated balance sheets of Giga-tronics Incorporated (the “Company”) as of March 26, 2011 and March 27, 2010 and the related consolidated statements of income, shareholders’ equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Giga-tronics Incorporated as of March 26, 2011 and March 27, 2010, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Perry-Smith LLP

San Francisco, California  
May 19, 2011

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Securities Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GIGA-TRONICS INCORPORATED

Dated: 6/20/2011

/s/ JOHN R. REGAZZI  
Chief Executive Officer

Dated: 6/20/2011

/s/ PATRICK J. LAWLOR  
VP Finance/Chief Financial Officer & Secretary

The following exhibits are filed by reference or herewith as a part of this report:

Index To Exhibits

- 3.1 Articles of Incorporation of the Registrant, as amended, previously filed as Exhibit 3.1 to Form 10-KSB for the fiscal year ended March 27, 1999 and incorporated herein by reference.
- 3.2 Amended and Restated Bylaws of Giga-tronics Incorporated, as amended on March 7, 2008, previously filed as Exhibit 3.2 to Form 10-K for the fiscal year ended March 29, 2008, and incorporated herein by reference.
- 10.1 Standard form Indemnification Agreement for Directors and Officers, previously filed as Exhibit 10.1 to Form 10-K for the fiscal year ended March 27, 2010, and incorporated herein by reference.
- 10.2 First Amendment to Office Lease Agreement between Giga-tronics Incorporated and VIF/ZKS Norris Tech Center, LLC, for 4650 Norris Canyon Road, San Ramon, CA, dated March 29, 2010, previously filed as Exhibit 10.2 to Form 10-K for the fiscal year ended March 27, 2010, and incorporated herein by reference.
- 10.3 2000 Stock Option Plan and form of Incentive Stock Option Agreement, previously filed on September 8, 2000 as Exhibit 99.1 to Form S-8 (33-45476) and incorporated herein by reference. \*
- 10.4 2005 Equity Incentive Plan incorporated herein by reference to Attachment A of the Registrant's Proxy Statement filed July 21, 2005. \*
- 21 Significant Subsidiaries, previously filed on May 19, 2011 and incorporated herein by reference.
- 23.1 Consent of Independent Registered Public Accounting Firm, Perry-Smith LLP.
- 31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002, amended June 20, 2011.
- 31.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002, amended June 20, 2011.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, amended June 20, 2011.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the

Sarbanes-Oxley Act of 2002, amended June 20, 2011.

\* Management contract or compensatory plan or arrangement.