

GIGA TRONICS INC  
Form 10-Q/A  
June 19, 2012

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

FORM 10-Q/A

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

For the quarterly period ended December 31, 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

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

Yes  No

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):

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Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(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

There were a total of 5,023,782 shares of the Registrant's Common Stock outstanding as of February 10, 2012.

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EXPLANATORY NOTE

This Amendment No. 1 to the quarterly report of Giga-tronics Incorporated (“the Company”) on Form 10-Q/A (“Form 10-Q/A” or “Amended Filing”) amends our quarterly report on Form 10-Q for the three and nine months ended December 31, 2011 and December 25, 2010, which was originally filed on February 10, 2012 (“Original Filing”). This amendment is being filed for the purpose of restating certain amounts in the Financial Statements in Part I, Item 1, Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2, Controls and Procedures in Part I, Item 4T and Exhibits in Part II, Item 6.

Subsequent to filing the Company’s annual report on Form 10-K, for the year ended March 26, 2011 and quarterly reports on Form 10-Q for the quarters ended June 25, 2011, September 24, 2011 and December 31, 2011, the Company determined that a full valuation allowance on its deferred tax asset should have been maintained as of June 26, 2010 and as of all subsequent quarters through December 31, 2011. Management determined that it was necessary to maintain the valuation allowance against its deferred tax assets after considering information that should have been used to measure the positive and negative evidence regarding the ultimate realization of the net deferred tax assets in the original assessment.

Realization of the net deferred tax asset is dependent upon the Company’s ability to generate future taxable income. In its reassessment, Management concluded that objective and verifiable negative evidence represented by historic losses outweighed more subjective positive evidence of anticipated future income. As a result, the Company determined it necessary to maintain a full valuation allowance against its net deferred tax asset; restated its financial statements and filed an amended Form 10-K for the year ended March 26, 2011 on June 19, 2012. The Company has also filed amended quarterly reports for the quarters ended June 25, 2011, September 24, 2011 and this Amended Filing as of December 31, 2011.

The results of this change on the Consolidated Balance Sheet as of March 26, 2011, Consolidated Statements of Operations for the three months and nine months ended December 31, 2011 and December 25, 2010, and Consolidated Statements of Cash Flows for the nine months ended December 31, 2011 and December 25, 2010, are discussed under Note 2 to the Condensed Consolidated Financial Statements. The restatement reflects non-cash adjustments and has no effect on previously reported operating income results.

Pursuant to the rules of the SEC, Part II, Item 6 has also been amended to contain the currently dated certifications from the company’s principal executive officer and principal financial officer as required by Section 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company’s principal executive officer and principal financial officer are attached to this Amended Filing as Exhibits 31.1, 31.2, 32.1 and 32.2.

All information in our Quarterly Report on Form 10-Q/A for the three months and nine months ended December 31, 2011 and December 25, 2010, as amended by this Amendment No. 1, speaks as of the date of the original filing of our Form 10-Q for such periods and does not reflect any subsequent information or events, except as expressly noted in this Amendment No. 1 and except for Exhibits 31.1, 31.2, 32.1 and 32.2. All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in our reports, as amended, filed with the Securities and Exchange Commission subsequent to the date of the initial filing of our Quarterly Report on Form 10-Q for the three and nine months ended December 31, 2011 and December 25, 2010.

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## Part I - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands except share data)	December 31, 2011	March 26, 2011 (as restated, see Note 2)
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash-equivalents	\$3,476	\$1,408
Trade accounts receivable, net of allowance of \$124 and \$248, respectively	1,485	5,632
Inventories, net	4,789	5,386
Prepaid expenses and other current assets	219	420
<b>Total current assets</b>	<b>9,969</b>	<b>12,846</b>
Property and equipment, net	628	530
Other assets	16	16
<b>Total assets</b>	<b>\$10,613</b>	<b>\$13,392</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$530	\$972
Accrued commission	79	139
Accrued payroll and benefits	382	455
Accrued warranty	167	200
Income taxes payable	-	30
Deferred revenue	8	586
Deferred rent	53	36
Capital lease obligations	35	93
Other current liabilities	324	193
<b>Total current liabilities</b>	<b>1,578</b>	<b>2,704</b>
Long term obligations - deferred rent	451	413
Long term obligations - capital lease	18	10
<b>Total liabilities</b>	<b>2,047</b>	<b>3,127</b>
<b>Commitments</b>		
<b>Shareholders' equity:</b>		
<b>Convertible Preferred stock of no par value;</b>		
<b>Authorized - 1,000,000 shares</b>		
Series A - designated 250,000 shares; 0 shares at December 31, 2011 and March 26, 2011 issued and outstanding	-	-
Series B - designated 10,000 shares; 9,997 shares at December 31, 2011 and 0 shares at March 26, 2011 issued and outstanding	1,997	-
<b>Common stock of no par value;</b>		
<b>Authorized - 40,000,000 shares; 5,023,782 shares at December 31, 2011 and 4,994,157 shares at March 26, 2011 issued and outstanding</b>		
	<b>14,741</b>	<b>14,485</b>

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Accumulated (deficit) earnings	(8,172	)	(4,220	)
Total shareholders' equity	8,566		10,265	
Total liabilities and shareholders' equity	\$10,613		\$13,392	

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	December 31, 2011 (as restated, see Note 2)	December 25, 2010 (as restated, see Note 2)	December 31, 2011 (as restated, see Note 2)	December 25, 2010 (as restated, See Note 2)
(In thousands except per share data)				
Net sales	\$2,799	\$4,640	\$10,382	\$14,090
Cost of sales	3,269	2,574	7,877	8,181
Gross margin	(470 )	2,066	2,505	5,909
Engineering	745	559	2,060	1,608
Selling, general and administrative	1,397	1,493	4,393	4,406
Total operating expenses	2,142	2,052	6,453	6,014
Operating (loss) income	(2,612 )	14	(3,948 )	(105 )
Interest (expense) income, net	(1 )	4	(2 )	4
(Loss) income before income taxes	(2,613 )	18	(3,950 )	(101 )
Provision for income taxes	-	-	2	-
Net (loss) income	\$(2,613 )	\$18	\$(3,952 )	\$(101 )
(Loss) earnings per share – basic	\$(0.52 )	\$0.00	\$(0.79 )	\$(0.02 )
(Loss) earnings per share – diluted	\$(0.52 )	\$0.00	\$(0.79 )	\$(0.02 )
Weighted average shares used in per share calculation:				
Basic	5,024	4,946	5,008	4,920
Diluted	5,024	5,062	5,008	4,920

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Nine Months Ended	
	December 31, 2011 (as restated, See Note 2)	December 25, 2010 (as restated, See Note 2)
Cash flows from operating activities:		
Net loss	\$(3,952 )	\$(101 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	94	107
Share based compensation	215	227
Change in deferred rent	55	283
Changes in operating assets and liabilities	3,860	(627 )
Net cash provided by (used in) operating activities	272	(111 )
Cash flows from investing activities:		
Purchases of property and equipment	(192 )	(362 )
Net cash used in investing activities	(192 )	(362 )
Cash flows from financing activities:		
Proceeds from exercise of stock options	41	147
Proceeds from issuance of preferred stock	1,997	-
(Payments) proceeds on capital leases	(50 )	38
Net cash provided by financing activities	1,988	185
Increase (decrease) in cash and cash-equivalents	2,068	(288 )
Beginning cash and cash-equivalents	1,408	3,074
Ending cash and cash-equivalents	\$3,476	\$2,786
Supplementary disclosure of cash flow information:		
Cash paid for income taxes	\$2	\$2
Cash paid for interest	\$2	3

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements



## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## (1) Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Giga-tronics Incorporated (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. The consolidated results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments (consisting of only normal recurring accruals) necessary to make the consolidated results of operations for the interim periods a fair statement of such operations. For further information, refer to the consolidated financial statements and footnotes thereto, included in the Annual Report on Form 10-K, filed with the Securities and Exchange Commission for the year ended March 26, 2011.

Certain prior period amounts have been reclassified to conform with the current period's presentation.

## (2) Restatement

This filing amends and restates our previously reported financial statements for the three and nine months ended December 31, 2011 and December 25, 2010 to reflect a full valuation allowance against its deferred tax assets. Subsequent to filing the Company's annual report on Form 10-K, for the year ended March 26, 2011 and quarterly reports on Form 10-Q for the quarters ended June 25, 2011, September 24, 2011 and December 31, 2011, the Company determined that a full valuation allowance on its deferred tax asset should have been maintained as of June 26, 2010 and as of all subsequent quarters through December 31, 2011. Management determined that it was necessary to maintain the valuation allowance against its deferred tax assets after considering information that should have been used to measure the positive and negative evidence regarding the ultimate realization of the net deferred tax assets in the original assessment.

Realization of the net deferred tax asset is dependent upon the Company's ability to generate future taxable income. In its reassessment, Management concluded that objective and verifiable negative evidence represented by historic losses outweighed more subjective positive evidence of anticipated future income. As a result, the Company determined it necessary to maintain a full valuation allowance against its net deferred tax asset; restated its financial statements and filed an amended Form 10-K for the year ended March 26, 2011 on June 19, 2012. The Company has also filed amended quarterly reports for the quarters ended June 25, 2011, September 24, 2011 and this Amended Filing as of December 31, 2011.

The following tables disclose the impact of the changes on the Consolidated Balance Sheets as of March 26, 2011, Consolidated Statements of Operations for the three months and nine months ended December 31, 2011 and December 25, 2010, and on the Consolidated Statements of Cash Flows for the nine months ended December 31, 2011 and December 25, 2010:

## Consolidated Balance Sheet

(In thousands)

	As of March 26, 2011		
	As Reported	Adjustments	As Restated
Current deferred income tax	\$2,320	\$(2,320)	\$-
Deferred income tax - long term	\$10,936	\$(10,936)	\$-
Total assets	\$26,648	\$(13,256)	\$13,392
Retained earnings (accumulated deficit)	\$9,036	\$(13,256)	\$(4,220)

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Total shareholders' equity	\$23,521	\$(13,256	)	\$10,265
Total liabilities and shareholder's equity	\$26,648	\$(13,256	)	\$13,392

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Consolidated Statement of Operations  
(In thousands)

	Three Months Ended December 31, 2011			Three Months Ended December 25, 2010		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
	Provision for income taxes	\$13,841	\$ (13,841 )	\$-	\$29	\$ (29 )
Net (loss) income	\$(16,454 )	\$ 13,841	\$(2,613 )	\$(11 )	\$ 29	\$18

	Nine Months Ended December 31, 2011			Nine Months Ended December 25, 2010		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
	Provision for income taxes	\$13,258	\$ (13,256 )	\$2	\$(13,637 )	\$ 13,637
Net (loss) income	\$(17,208 )	\$ 13,256	\$(3,952 )	\$13,536	\$ (13,637 )	\$(101 )

Consolidated Statement of Cash Flows  
(In thousands)

	Nine Months Ended December 31, 2011			Nine Months Ended December 25, 2010		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
	Net (loss) income	\$(17,208 )	\$ 13,256	\$(3,952 )	\$13,536	\$ (13,637 )
Deferred income taxes	\$13,256	\$ (13,256 )	\$-	\$(13,637 )	\$ 13,637	\$-
Net cash provided by (used in) operating activities	\$272	\$ -	\$272	\$(111 )	\$ -	\$(111 )

(3) 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 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 provides for estimated costs that may be incurred for product warranties at the time of shipment. The Company's warranty policy generally provides one to three years depending on the product. 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.

## (4) Inventories

Inventory is comprised of the following at December 31, 2011 and March 26, 2011.

(In thousands)	December 31, 2011	March 26, 2011
Raw materials	\$2,533	\$3,518
Work-in-progress	1,476	1,349
Finished goods	251	134
Demonstration inventory	529	385
Total	\$4,789	\$5,386

## (5) Earnings (Loss) Per Share

Basic earnings (loss) per share (basic EPS) is calculated by dividing net income or loss by the weighted average common shares outstanding during the period. Diluted earnings (loss) per share (diluted EPS) reflects the net incremental shares that would be issued if dilutive contracts to issue common stock were exercised or converted into common stock, using the treasury stock method. In the case of a net loss, it is assumed that no incremental shares would be issued because they would be anti-dilutive. In addition, certain options are considered anti-dilutive because assumed proceeds from exercise price, related tax benefits and average future compensation was greater than the weighted average number of options outstanding multiplied by the average market price during the period. The shares used in per share computations are as follows:

(In thousands except per share data)	Three Months Ended		Nine Months Ended	
	December 31, 2011 (as restated)	December 25, 2010 (as restated)	December 31, 2011 (as restated)	December 25, 2010 (as restated)
Net (loss) income	\$(2,613 )	\$18	\$(3,952 )	\$(101 )
<b>Weighted average:</b>				
Common shares outstanding	5,024	4,946	5,008	4,920
Potential common shares	-	116	-	-
Common shares assuming dilution	5,024	5,062	5,008	4,920
Net (loss) earnings per share - basic	\$(0.52 )	\$0.00	\$(0.79 )	\$(0.02 )
Net (loss) earnings per share - diluted	\$(0.52 )	\$0.00	\$(0.79 )	\$(0.02 )
Stock options not included in computation that could potentially dilute EPS in the future	1,172	487	1,172	927
Restricted stock awards not included in computation that could potentially dilute EPS in the future	90	90	90	90

Convertible preferred stock not included in computation that could potentially dilute EPS in the future	997	-	997	-
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The number of stock options not included in the computation of diluted EPS for the three month period ended December 31, 2011 and for the nine month periods ended December 31, 2011 and December 25, 2010 are a result of the Company's net loss and, therefore, the options are anti-dilutive. The number of stock options not included in the computation of diluted EPS for the three month period ended December 25, 2010 reflects stock options where the assumed proceeds were greater than the average market price of the common shares and are, therefore, antidilutive. The number of restricted stock awards not included in the computation of diluted EPS for the three and nine month periods ended December 31, 2011 and December 25, 2010 reflect contingently issuable shares for which the performance conditions necessary for the awards to vest had not been met as of December 31, 2011 and December 25, 2010. The number of convertible preferred shares not included in the computation of diluted EPS for the three and nine month periods ended December 31, 2011 reflects convertible preferred stock where the assumed proceeds from conversion were greater than the average market price of the common shares and are, therefore, anti-dilutive. The weighted average exercise price of excluded options for the three and nine month periods ended December 31, 2011 was \$1.80. The weighted average exercise price of excluded options for the three and nine month periods ended December 25, 2010 was \$1.96 and \$2.23, respectively.

#### (6) Share Based Compensation

The Company has established the 2005 Equity Incentive Plan, which provides for the granting of options for up to 1,400,000 shares of Common Stock. The Company records compensation cost associated with share-based compensation equivalent to the estimated fair value of the awards over the requisite service period. There were 590,000 options granted in the first nine months of fiscal 2012 and 140,000 options granted in the first nine months of fiscal 2011. The weighted average grant date fair value was \$1.35 and \$1.60, respectively. There were no restricted stock awards granted in the first nine months of fiscal 2012 and 90,000 restricted stock awards granted in the first nine months of fiscal 2011. The weighted average grant date fair value was \$2.34. 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 through 2013 only if certain sales and profit goals are achieved by the Company. No compensation cost was recognized for restricted stock awards during the three and nine months ended December 31, 2011 and December 25, 2010 because management believes it is more likely than not that the performance criteria will not be met.

Cash flows resulting from the tax benefits derived from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as cash flows from financing activities in the statement of cash flows. These excess tax benefits were not significant for the Company for each of the three and nine months ended December 31, 2011 and December 25, 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:

	Three Months Ended		Nine Months Ended	
	December 31, 2011	December 25, 2010	December 31, 2011	December 25, 2010
Dividend yield	None	None	None	None
Expected volatility	91.84 %	94.79 %	91.95 %	101.15 %
Risk-free interest rate	0.91 %	0.74 %	0.98 %	1.13 %
Expected term (years)	8.36	4.00	8.30	4.00

The computation of expected volatility used in the Black-Scholes-Merton option-pricing model is based on the historical volatility of the Company's share price. The expected term is estimated based on a review of historical

employee exercise behavior with respect to option grants. The risk-free interest rate is based on the U.S. Treasury rates with terms based on the expected term of the option on the date of grant.



A summary of the changes in stock options outstanding for the nine month period ended December 31, 2011 and the year ended March 26, 2011 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value
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
Granted	590,000	1.65		
Exercised	29,625	1.42		
Forfeited / Expired	273,745	2.05		
Outstanding at December 31, 2011	1,171,644	\$ 1.80	6.1	\$22,437
Exercisable at December 31, 2011	337,644	\$ 1.84	2.0	\$16,632
Expected to vest at December 31, 2011	701,246	\$ 1.78	7.8	\$4,881

As of December 31, 2011, there was \$812,000 of total unrecognized compensation cost related to non-vested options granted under the plan. That cost is expected to be recognized over a weighted average period of 2.13 years. There were 22,000 options that vested during the quarter ended December 31, 2011. There were 48,625 options that vested during the quarter ended December 25, 2010. The total fair value of options vested during each of the quarters ended December 31, 2011 and December 25, 2010 was \$31,000 and \$71,000, respectively. Cash received from the exercise of stock options for the nine month period ended December 31, 2011 and December 25, 2010 were \$41,000 and \$147,000, respectively, and related excess tax benefits or deficiencies were not significant. Share based compensation cost recognized in operating results for the three months ended December 31, 2011 and December 25, 2010 totaled \$98,000 and \$91,000, respectively. Share based compensation cost recognized in operating results for the nine months ended December 31, 2011 and December 25, 2010 totaled \$215,000 and \$227,000, respectively.

#### (7) 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 YIG (Yttrium, Iron, Garnet) tuned oscillators, filters and microwave synthesizers, which are used in a wide variety of microwave instruments and devices.

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The tables below present information for the three and nine month periods ended December 31, 2011 and December 25, 2010.

(In thousands)	At and For The Three Months Ended December 31, 2011			At and For The Three Months Ended December 25, 2010			Net Income (Loss) (as restated)
	Assets	Net Sales	Net Loss (as restated)	Assets (as restated)	Net Sales	Net Loss (as restated)	
Giga-tronics Division	\$8,622	\$2,207	\$(1,733 )	\$7,567	\$2,988	\$(92 )	
Microsource	1,991	592	(880 )	5,000	1,652	110	
<b>Total</b>	<b>\$10,613</b>	<b>\$2,799</b>	<b>\$(2,613 )</b>	<b>\$12,567</b>	<b>\$4,640</b>	<b>\$18</b>	

(In thousands)	Nine Months Ended December 31, 2011			Nine Months Ended December 25, 2010			Net Income (Loss) (as restated)
	Assets	Net Sales	Net Loss (as restated)	Assets (as restated)	Net Sales	Net Loss (as restated)	
Giga-tronics Division	\$8,622	\$8,218	\$(1,994 )	\$7,567	\$8,036	\$(683 )	
Microsource	1,991	2,164	(1,958 )	5,000	6,054	582	
<b>Total</b>	<b>\$10,613</b>	<b>\$10,382</b>	<b>\$(3,952 )</b>	<b>\$12,567</b>	<b>\$14,090</b>	<b>\$(101 )</b>	

(8) Warranty Obligations

The following provides a reconciliation of changes in the Company's warranty reserve. The Company provides no other guarantees.

(In thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2011	December 25, 2010	December 31, 2011	December 25, 2010
Balance at beginning of period	\$191	\$126	\$200	\$139
Provision, net	47	83	155	140
Warranty costs incurred	(71 )	(55 )	(188 )	(125 )
Balance at end of period	\$167	\$154	\$167	\$154

(9) Income Taxes

The Company accounts for income taxes using the asset and liability method as codified in Topic 740. Under this 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.

The Company's effective tax rate for the three and nine months ending December 31, 2011 and December 25, 2010 was 0% (as restated) due to a valuation allowance recorded against the net deferred tax asset balance.

(10) Line of Credit

Effective September 15, 2011, the Company secured its revolving line of credit for \$2,500,000, with interest payable at prime rate plus 1.5%. The line of credit expires on September 15, 2012. The borrowing capacity under this line of credit is based on the Company's accounts receivable and is secured by all of the assets of the Company. Because of the full valuation allowance against its net deferred tax assets, the Company defaulted on its tangible net worth Covenant at December 31, 2011. Silicon Valley Bank has subsequently issued a waiver to the default and has amended the Covenants. At December 31, 2011 and December 25, 2010 there was no balance on the line of credit.

(11) Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment. The objective of this Update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Previous guidance under Topic 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and early adoption is permitted. Management does not believe this Update will have a significant impact on the Company's consolidated financial condition, results of operations or cash flows.

(12) Series B Convertible Voting Perpetual Preferred Stock and Warrants

On November 10, 2011, the Company received approximately \$2.2 million in new capital from Alara Capital AVI II, LLC, a Delaware limited liability company (the "Investor") under the Securities Purchase Agreement entered into on October 31, 2011. Under the terms of the Securities Purchase Agreement, the Company issued 9,997 shares of its new Series B Convertible Voting Perpetual Preferred Stock to the Investor for aggregate consideration of \$2,199,340, at a price of \$220 per share of Series B Preferred Stock. Alara Capital Partners, LLC, a technology investment firm, is the sponsor of the Investor.

Each share of Series B Preferred Stock initially is convertible at the option of the holder into 100 shares of the Company's common stock. The conversion ratio is subject to customary adjustments for stock splits, stock dividends, recapitalizations and similar transactions. If all shares of Series B Preferred Stock were converted as of December 31, 2011, holders of such shares would acquire 999,700 shares of common stock of the Company, or 16.6% of the pro forma number of shares of common stock that would have been outstanding as of that date. Each share of Series B Preferred Stock has a liquidation preference of \$231, equal to 105% of the purchase price. If the Company pays a dividend on its common stock, it is required to pay a dividend on the Series B Preferred Stock until December 31, 2013, equal to 110% and thereafter equal to 100% of the cash dividend that would be payable on the number of shares of common stock into which each share of Series B Preferred Stock is then convertible. The Series B Preferred Stock generally votes together with the common stock, on an as-converted basis, on each matter submitted to the vote or approval of the holders of common stock, and votes as a separate class with respect to certain actions that adversely affect the rights of the Series B Preferred Stock and on other matters as required by law.

The Company also issued to the Investor a Warrant to purchase up to 848,684 additional shares of common stock of the Company. The exercise price of the Warrant is \$3.30 per share, subject to anti-dilution adjustments for stock splits, stock dividends, reclassifications and similar events. The Warrant will cease to be exercisable 30 months after the Shareholder Approval Date, which is defined as the date on which shareholders approve exercise of the Warrant as required by rules of NASDAQ relating to certain private sales of securities. The Company held a special meeting of shareholders on February 7, 2012, at which the shareholders gave the required approval for exercise of the Warrant. Therefore, February 7, 2012 is the Shareholder Approval Date, and the Warrant must be exercised, if at all, on or before August 7, 2014.



As of December 31, 2011, the Company had recorded \$1,997,000 as preferred stock on the consolidated balance sheet. This amount is net of stock offering costs of approximately \$202,000 and represents the value attributable to both the convertible preferred stock and warrants issued to the Investor.

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

The forward-looking statements included in this report including, without limitation, statements containing the words "believes", "anticipates", "estimates", "expects", "intends" and words of similar import, which reflect management's best judgment based on factors currently known, involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to those listed in Giga-tronics' Annual Report on Form 10-K for the fiscal year ended March 26, 2011 Part I, under the heading "Certain Factors Which May Adversely Affect Future Operations or an Investment in Giga-tronics", and Part II, under the heading "Management's Discussion and Analysis of Financial Conditions and Results of Operations".

### Overview

Giga-tronics produces instruments, subsystems and sophisticated microwave components that have broad applications in both defense electronics and wireless telecommunications. In fiscal 2012, the Company consisted of two operating and reporting segments: Giga-tronics Division and Microsource.

Our business is highly dependent on government spending in the defense electronics sector and on the wireless telecommunications market. The Company has seen a decrease in orders for the first nine months of fiscal 2012 versus the first nine months of fiscal 2011. Defense orders improved during this period as compared to the same period last year, while commercial orders declined.

The Company continues to monitor costs, including reductions in personnel, facilities and other expenses, to more appropriately align costs with revenues.

### Restatement

This filing amends and restates our previously reported financial statements for the three and nine months ended December 31, 2011 and December 25, 2010 to reflect a full valuation allowance against its deferred tax assets. Subsequent to filing the Company's annual report on Form 10-K, for the year ended March 26, 2011 and quarterly reports on Form 10-Q for the quarters ended June 25, 2011, September 24, 2011 and December 31, 2011, the Company determined that a full valuation allowance on its deferred tax asset should have been maintained as of June 26, 2010 and as of all subsequent quarters through December 31, 2011. Management determined that it was necessary to maintain the valuation allowance against its deferred tax assets after considering information that should have been used to measure the positive and negative evidence regarding the ultimate realization of the net deferred tax assets in the original assessment.

Realization of the net deferred tax asset is dependent upon the Company's ability to generate future taxable income. In its reassessment, Management concluded that objective and verifiable negative evidence represented by historic losses outweighed more subjective positive evidence of anticipated future income. As a result, the Company determined it necessary to maintain a full valuation allowance against its net deferred tax asset; restated its financial statements and filed an amended Form 10-K for the year ended March 26, 2011 on June 19, 2012. The Company has also filed amended quarterly reports for the quarters ended June 25, 2011, September 24, 2011 and this Amended Filing as of December 31, 2011.



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The following tables disclose the impact of the changes on the Consolidated Balance Sheets as of March 26, 2011, Consolidated Statements of Operations for the three months and nine months ended December 31, 2011 and December 25, 2010, and on the Consolidated Statements of Cash Flows for the nine months ended December 31, 2011 and December 25, 2010:

Consolidated Balance Sheet

(In thousands)

As of March 26, 2011

	As Reported	Adjustments	As Restated
Current deferred income tax	\$2,320	\$(2,320 )	\$-
Deferred income tax - long term	\$10,936	\$(10,936 )	\$-
Total assets	\$26,648	\$(13,256 )	\$13,392
Retained earnings (accumulated deficit)	\$9,036	\$(13,256 )	\$(4,220 )
Total shareholders' equity	\$23,521	\$(13,256 )	\$10,265
Total liabilities and shareholder's equity	\$26,648	\$(13,256 )	\$13,392

Consolidated Statement of Operations

(In thousands)

Three Months Ended  
December  
31, 2011

Three Months Ended  
December  
25, 2010

	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Provision for income taxes	\$13,841	\$(13,841 )	\$-	\$29	\$(29 )	\$-
Net (loss) income	\$(16,454 )	\$13,841	\$(2,613 )	\$(11 )	\$29	\$18

(In thousands)

Nine Months Ended  
December  
31, 2011

Nine Months Ended  
December  
25, 2010

	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Provision for income taxes	\$13,258	\$(13,256 )	\$2	\$(13,637 )	\$13,637	\$-
Net (loss) income	\$(17,208 )	\$13,256	\$(3,952 )	\$13,536	\$(13,637 )	\$(101 )

Consolidated Statement of Cash Flows

(In thousands)

Nine Months Ended  
December  
31, 2011

Nine Months Ended  
December  
25, 2010

	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Net (loss) income	\$(17,208 )	\$13,256	\$(3,952 )	\$13,536	\$(13,637 )	\$(101 )
Deferred income taxes	\$13,256	\$(13,256 )	\$-	\$(13,637 )	\$13,637	\$-
Net cash provided by (used in) operating activities	\$272	\$-	\$272	\$(111 )	\$-	\$(111 )





## Results of Operations

New orders received, net of orders cancelled by segment, are as follows for the periods shown:

## NEW ORDERS

(Dollars in thousands)	Three Months Ended		% change
	December 31, 2011	December 25, 2010	
Giga-tronics Division	\$2,190	\$6,599	(67 %)
Microsource	310	(378 )	182 %
Total	\$2,500	\$6,221	(60 %)

  

(Dollars in thousands)	Nine Months Ended		% change
	December 31, 2011	December 25, 2010	
Giga-tronics Division	\$8,405	\$11,432	(26 %)
Microsource	2,108	1,478	43 %
Total	\$10,513	\$12,910	(19 %)

New orders received, net of orders cancelled in the third quarter of fiscal 2012 decreased by 60% to \$2,500,000 from the \$6,221,000 received in the third quarter of fiscal 2011. New orders received, net of orders cancelled, for the nine months ended December 31, 2011 decreased 19% to \$10,513,000 from the \$12,910,000 received for the same period a year ago. Orders at Giga-tronics Division decreased for the three and nine month periods ended December 31, 2011 primarily due to a decrease in commercial orders. This decrease was led by switch orders from the telecommunication market which has been slow in coming. On the instrument side, orders for capital equipment are still suffering from the recession; whereas orders at Microsource increased for the three and nine month periods ended December 31, 2011 primarily due to an increase in new military orders and cancellation of previous quarter's backlog.

The following table shows order backlog and related information at the end of the respective periods:

## BACKLOG

(Dollars in thousands)	At and for the Three Months Ended		% change
	December 31, 2011	December 25, 2010	
Backlog of unfilled orders	\$3,780	\$7,316	(48 %)
Backlog of unfilled orders shippable within one year	3,780	6,694	(44 %)
Previous fiscal year end (FYE) long term backlog reclassified during year as shippable within one year	1,142	587	95 %
Net cancellations during year of previous FYE one-year backlog	-	460	0 %

Backlog at the end of the third quarter of fiscal 2012 decreased 48% as compared to the end of the same period last year. This was due to a reduction in commercial backlog of \$2,683,000 and a reduction of \$853,000 in military backlog. The reduction in commercial backlog was driven by shipping more out of backlog than was replenished by new orders. On the military backlog, orders were sporadic and driven by large annual or bi-annual orders. Although the Company expected to close a few orders in the third quarter, some slipped to the fourth quarter pending final negotiations.



The allocation of net sales was as follows for the periods shown:

#### ALLOCATION OF NET SALES

(Dollars in thousands)	Three Months Ended		% change
	December 31, 2011	December 25, 2010	
Giga-tronics Division	\$2,207	\$2,988	(26 %)
Microsource	592	1,652	(64 %)
Total	\$2,799	\$4,640	(40 %)

(Dollars in thousands)	Nine Months Ended		% change
	December 31, 2011	December 25, 2010	
Giga-tronics Division	\$8,218	\$8,036	2 %
Microsource	2,164	6,054	(64 %)
Total	\$10,382	\$14,090	(26 %)

Fiscal 2012 third quarter net sales decreased by 40%, or \$1,841,000, to \$2,799,000 from the \$4,640,000 received in the third quarter of fiscal 2011. Net sales for both Giga-tronics Division and Microsource were down for the quarter, however, military sales at Giga-tronics Division increased by \$130,000. Net sales for the nine month period ended December 31, 2011 were \$10,382,000, a 26% decrease from the \$14,090,000 in the nine month period ended December 25, 2010. Sales at Giga-tronics Division increased for the nine month period ended December 31, 2011 primarily due to an increase in military shipments which was accomplished by shipping out of backlog; whereas shipments at Microsource decreased for the nine month period ended December 31, 2011 due to decreases in both military and commercial demand for its products. The Company anticipates increased business pending final negotiations with Boeing.

Cost of sales was as follows for the periods shown:

#### COST OF SALES

(Dollars in thousands)	Three Months Ended		% change
	December 31, 2011	December 25, 2010	
Cost of sales	\$3,269	\$2,574	27 %

(Dollars in thousands)	Nine Months Ended		% change
	December 31, 2011	December 25, 2010	
Cost of sales	\$7,877	\$8,181	(4 %)

Cost of sales as a percentage of sales increased by 61.3% for the third quarter of fiscal 2012 to 116.8% compared to 55.5% for the third quarter of fiscal 2011. The increase at both Giga-tronics and Microsource was due to volume-based low manufacturing overhead absorption; and, a large charge to inventory reserves. Giga-tronics management undertook a critical review of products offered for sale resulting in a 100% reserve for products deemed to have limited or no likelihood of future sales.

Cost of sales as a percentage of sales increased by 17.8% for the first nine months of fiscal 2012 to 75.9% compared to 58.1% for the first nine months of fiscal 2011 due to the third quarter events described above.



Operating expenses were as follows for the fiscal periods shown:

#### OPERATING EXPENSES

(Dollars in thousands)	Three Months Ended		% change	
	December 31, 2011	December 25, 2010		
Engineering	\$745	\$559	33	%
Selling, general and administrative	1,397	1,493	(6)	%)
Total	\$2,142	\$2,052	4	%

(Dollars in thousands)	Nine Months Ended		% change	
	December 31, 2011	December 25, 2010		
Engineering	\$2,060	\$1,608	28	%
Selling, general and administrative	4,393	4,406	0	%)
Total	\$6,453	\$6,014	7	%

Operating expenses increased 4% or \$90,000 in the third quarter of fiscal 2012 over fiscal 2011 due to an increase of \$186,000 in product development expenses offset by a decrease of \$96,000 in selling, general and administrative expense. The increase in product development expenses is due to a more aggressive investment in our instrument products.

Operating expenses increased 7% or \$439,000 for the first nine months of fiscal 2012 over fiscal 2011 due to an increase of \$452,000 in product development expenses offset by a decrease of \$13,000 in selling, general and administrative expense. The increase in product development expenses as stated above increased research and development in our instrument products.

Giga-tronics recorded loss before income taxes of \$2,613,000 for the third quarter of fiscal 2012 versus income before income taxes of \$18,000 for the same period last year. The loss before income taxes for the first nine months of fiscal 2012 was \$3,950,000 compared to a loss of \$101,000 for the first nine months of fiscal 2011. The increase in loss before income taxes was primarily due to a decrease in volume, an increase in cost of sales driven by higher inventory reserves and an increase in operating expenses primarily associated with an increase in R&D efforts in fiscal 2012.

#### Deferred Tax Assets

Deferred tax assets are subject to a valuation allowance when management is unable to conclude that its deferred tax assets will more likely than not be realized from the results of operations. The Company has reviewed all available evidence (both positive and negative) as described in Accounting Standards Codification 740.

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 projected future taxable income and tax planning strategies in making this assessment. Based on historical operations and projections for future operations over the periods in which the deferred tax assets become deductible, management believes it is more likely than not the Company will not generate taxable income sufficient to realize the benefits of deferred tax assets prior to expiration, and consequently, has recorded a full valuation allowance against the company's net deferred tax assets as of December 31, 2011 and March 26, 2011.



## Financial Condition and Liquidity

As of December 31, 2011, the Company had \$3,476,000 in cash and cash equivalents, compared to \$1,408,000 as of March 26, 2011.

Working capital at December 31, 2011 was \$8,391,000 compared to \$10,142,000 (as restated) at March 26, 2011. The decrease in working capital was primarily due to a reduction in accounts receivable, offset by higher cash plus a decrease in deferred revenue as a result of shipping finished goods to the customer.

The Company's current ratio (current assets divided by current liabilities) at December 31, 2011 was 6.32 compared to 4.75 (as restated) on March 26, 2011.

Cash provided by operations amounted to \$272,000 for the nine months ended December 31, 2011. Cash used in operations amounted to \$111,000 in the same period of fiscal 2011. Cash provided by operations in the first nine months of fiscal 2012 is primarily attributed to decreases in accounts receivable, inventory, and deferred revenue. Cash used in operations in the first nine months of fiscal 2011 is primarily attributed to a decrease in deferred revenue.

Additions to property and equipment were \$192,000 in the first nine months of fiscal 2012 compared to \$362,000 for the same period last year. The capital equipment spending in fiscal 2012 was due to an upgrade of capital equipment enabling the manufacture of new products being released.

Effective September 15, 2011, the Company secured its revolving line of credit for \$2,500,000, with interest payable at prime rate plus 1.5%. The line of credit expires on September 15, 2012. The borrowing capacity under this line of credit is based on the Company's accounts receivable and is secured by all of the assets of the Company. Because of the full valuation allowance against its net deferred tax assets, the Company defaulted on its tangible net worth Covenant at December 31, 2011. Silicon Valley Bank has subsequently issued a waiver to the default and has amended the Covenants. At December 31, 2011 and December 25, 2010 there was no balance on the line of credit.

## Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 11 to the Condensed Consolidated Financial Statements included in this report.

## Item 4T - Controls and Procedures

At the time that our Quarterly Report on Form 10-Q for the three months ended December 31, 2011 was filed on February 10, 2012, our Chief Executive Officer and then Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2011. Subsequent to that evaluation, in connection with the restatement and filing of this Quarterly Report on Form 10-Q/A, our management, including our Chief Executive Officer and current Chief Financial Officer (acting), concluded that our disclosure controls and procedures were not effective as of December 31, 2011 because of a material weakness in internal control over the assessment of valuation allowance against deferred tax assets. Refer to Note 2 to the Condensed Consolidated Financial Statements for further discussion.

There were no significant changes in internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## Item 6 - Exhibits



See the Exhibit Index immediately following the signature page to this report.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GIGA-TRONICS INCORPORATED  
(Registrant)

By:

Date: June 19, 2012

/s/ JOHN R. REGAZZI  
John R. Regazzi  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: June 19, 2012

/s/ FRANK D. ROMEJKO  
Frank D. Romejko  
Vice President of Finance/  
Chief Financial Officer (Acting)  
(Principal Accounting Officer)

EXHIBIT INDEX

- 3.1 Certificate of Determination for Series B Convertible Voting Perpetual Preferred Stock, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 14, 2011.
- 4.1 Form of stock certificate for shares of Series B Convertible Voting Perpetual Preferred Stock, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 14, 2011.
- 10.1 Securities Purchase Agreement dated October 31, 2011, between the Company and Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 3, 2011.
- 10.2 Warrant to purchase 848,684 shares of common stock, dated November 10, 2011, issued to Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 14, 2011.
- 10.3 Investor Rights Agreement dated November 10, 2011, between the company and Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 14, 2011.
- 10.4 Form of Voting Agreement between the Investor and members of the board of directors of the Company with respect to exercisability of the Warrant, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 14, 2011.
- 10.5 Securities Purchase Agreement dated October 31, 2011, between the Company and Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 3, 2011.
- 10.6 Warrant to purchase 848,684 shares of common stock, dated November 10, 2011, issued to Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 14, 2011.
- 10.7 Investor Rights Agreement dated November 10, 2011, between the company and Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 14, 2011.
- 10.8 Form of Voting Agreement between the Investor and members of the board of directors of the Company with respect to exercisability of the Warrant, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 14, 2011.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act.

101.1 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, formatted in XBRL ("eXtensible Business Reporting Language"): (i) the Consolidated Balances Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, and (iv) the Notes to the Consolidated Financial Statements, tagged as blocks of text (furnished but not filed).