

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

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

FORM 10-K/A3

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 []

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

Accelerated filer []

Non-accelerated filer []

Smaller reporting [X]
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 [X]

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.

GIGA-TRONICS INCORPORATED
FORM 10-K/A
EXPLANATORY NOTE

This Amendment No. 3 to the annual report of Giga-tronics Incorporated on Form 10-K/A (“Form 10-K/A” or “Amended Filing”) amends our annual report on Form 10-K for the year ended March 26, 2011, which was originally filed on May 19, 2011 (“Original Form 10-K”). This amendment is being filed for the purpose of restating certain amounts in the Selected Financial Data in Item 6, Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7, Financial Statements in Item 8, Controls and Procedures in Item 9A and Exhibits in Item 15.

Subsequent to filing the Company’s annual report on Form 10-K, for the year ended March 26, 2011, the Company determined that a full valuation allowance on its deferred tax asset should have been maintained as of March 26, 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 and is restating its financial statements on this Amended Filing for the year ended March 26, 2011.

The results of this change on the Consolidated Balance Sheet as of March 26, 2011, Consolidated Statement of Operations for the year ended March 26, 2011, and Consolidated Statement of Cash Flows for the year ended March 26, 2011, are discussed under Note 2 to the 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, Item 15, Part IV 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, and 32.

This Form 10-K/A does not reflect events occurring after the filing of the Original Form 10-K, other than the restatement for the matter discussed above. Accordingly, this Form 10-K/A should be read in conjunction with the Original Form 10-K (except as amended hereby), as well as the Company’s other filings subsequent to the filing of the Original Form 10-K, including any amendments to those filings. Concurrent with the Form 10-K/A, the company will file amended Forms 10-Q for the first, second and third quarters of fiscal year ended March 31, 2012.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the Company's last five fiscal years. This information is derived from the Company's audited consolidated financial statements, unless otherwise stated. This data should be read in conjunction with the consolidated financial statements, related notes, and other financial information included elsewhere in this report.

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SELECTED CONSOLIDATED FINANCIAL DATA

Summary of Operations:

(In thousands except per share data)	Years Ended				
	As restated March 26, 2011	March 27, 2010	March 28, 2009	March 29, 2008	March 31, 2007
Net sales	\$ 21,029	\$ 19,057	\$ 17,421	\$ 18,331	\$ 18,048
Gross profit	8,929	8,435	7,504	7,748	7,546
Operating expenses	8,086	7,117	7,914	7,939	9,548
Interest income (expense), net	4	(16)	7	36	108
Pre-tax income (loss) from continuing operations	847	1,302	(403)	(201)	(1,894)
Provision for income taxes	31	2	2	2	1
Income (loss) from continuing operations	816	1,300	(405)	(203)	(1,895)
Income (loss) on discontinued operations, net of income taxes	-	-	75	(31)	28
Net income (loss)	\$ 816	\$ 1,300	\$ (330)	\$ (234)	\$ (1,867)

Basic earnings (loss) per share:

From continuing operations	\$ 0.17	\$ 0.27	\$ (0.08)	\$ (0.04)	\$ (0.40)
On discontinued operations	-	-	0.01	(0.01)	0.01
Net earnings (loss) per share - basic	\$ 0.17	\$ 0.27	\$ (0.07)	\$ (0.05)	\$ (0.39)

Diluted earnings (loss) per share:

From continuing operations	\$ 0.16	\$ 0.26	\$ (0.08)	\$ (0.04)	\$ (0.40)
On discontinued operations	-	-	0.01	(0.01)	0.01
Net earnings (loss) per share - dilutive	\$ 0.16	\$ 0.26	\$ (0.07)	\$ (0.05)	\$ (0.39)

Shares of common stock -

basic	4,935	4,846	4,824	4,813	4,809
dilutive	5,040	4,907	4,824	4,813	4,809

Financial Position:

(In thousands except per share data)	Years Ended				
	As restated March 26, 2011	March 27, 2010	March 28, 2009	March 29, 2008	March 31, 2007
Current ratio	4.75	2.77	3.14	3.68	3.09
Working Capital	\$10,142	\$8,683	\$7,131	\$7,231	\$7,280
Total assets	\$13,392	\$13,919	\$10,789	\$10,361	\$11,161
Shareholders' equity	\$10,265	\$8,943	\$7,332	\$7,392	\$7,393

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Percentage Data:

(Percentage of net sales)	Years Ended									
	As restated March 26, 2011		March 27, 2010		March 28, 2009		March 29, 2008		March 31, 2007	
Gross profit	42.5	%	44.3	%	43.1	%	42.3	%	41.8	%
Operating expenses	38.5	%	37.3	%	45.4	%	43.3	%	52.9	%
Interest (expense) income, net	0.0	%	(0.1)	%	0.0	%	0.2	%	0.6	%
Pre-tax income (loss) from continuing operations	4.0	%	6.8	%	(2.3)	%	(1.1)	%	(10.5)	%
Income (loss) on discontinued operations, net of income taxes	0.0	%	0.0	%	0.4	%	(0.2)	%	0.2	%
Net income (loss)	3.9	%	6.8	%	(1.9)	%	(1.3)	%	(10.3)	%

SELECTED CONSOLIDATED FINANCIAL DATA

The following is a summary of unaudited results of operations for the fiscal years ended March 26, 2011 and March 27, 2010.

Quarterly Financial Information

(Unaudited)

(In thousands except per share data)	2011 (As restated)					Year
	First	Second	Third	Fourth		
Net sales	\$4,701	\$4,749	\$4,640	\$6,939	\$21,029	
Gross profit	1,933	1,910	2,066	3,020	8,929	
Operating expenses	1,876	2,086	2,052	2,072	8,086	
Interest (expense) income, net	(1)	1	4	-	4	
Pre-tax income (loss) from continuing operations	56	(175)	18	948	847	
Provision for income taxes	-	-	-	31	31	
Net income (loss)	\$56	\$(175)	\$18	\$917	\$816	
Net earnings (loss) per share - basic	\$0.01	\$(0.04)	\$0.00	\$0.18	\$0.17	
Net earnings (loss) per share - diluted	\$0.01	\$(0.04)	\$0.00	\$0.18	\$0.16	
Shares of common stock - basic	4,901	4,913	4,946	4,982	4,935	
Shares of common stock - diluted	5,000	4,913	5,062	5,116	5,040	

Quarterly Financial Information

(Unaudited)

(In thousands except per share data)	2010					Year
	First	Second	Third	Fourth		
Net sales	\$4,469	\$4,623	\$4,784	\$5,181	\$19,057	
Gross profit	2,114	2,113	2,054	2,154	8,435	
Operating expenses	1,775	1,734	1,738	1,870	7,117	
Interest (expense) income, net	(3)	(6)	(7)	-	(16)	
Pre-tax income from continuing operations	335	373	309	285	1,302	
Provision for income taxes	2	-	-	-	2	
Net income	\$333	\$373	\$309	\$285	\$1,300	
Net earnings per share - basic	\$0.07	\$0.08	\$0.06	\$0.06	\$0.27	
Net earnings per share - diluted	\$0.07	\$0.08	\$0.06	\$0.06	\$0.26	
Shares of common stock - basic	4,824	4,828	4,846	4,887	4,846	
Shares of common stock - diluted	4,826	4,844	4,940	5,013	4,907	

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis should be read together with the Company's financial statements and related notes thereto included in Item 8 in this Amendment No. 3 on Form 10-K/A ("Amendment No. 3") and gives effect to the restatement discussed in Note 2 to the Consolidated Financial Statements.

Our business and the associated risks have changed since the date this report was originally filed with the SEC, and we undertake no obligation to update the forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operation. Further, except for the forward-looking statements included in Item 9A, "Controls and Procedures" and under the heading "Restatement of Financial Statements" under this Item 7, all forward-looking statements contained in this Amendment No. 3 on Form 10-K/A to our Annual Report, unless they are specifically otherwise stated to be made as of a different date, are made as of the original filing date of our Annual Report on Form 10-K for the year ended March 26, 2011. This Amendment No. 3 amends and restates the following items of our Form 10-K as affected by the revised valuation allowance against deferred tax assets: (i) Part II, Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operation; (ii) Part II, Item 8 — Financial Statements and Supplementary Data; (iii) Part II, Item 9A — Controls and Procedures; and, (iv) Part IV, Item 15 — Exhibits. All information in our Annual Report on Form 10-K for the fiscal year ended March 26, 2011, as amended by this Amendment No. 3, speaks as of the date of the original filing of our Form 10-K for such period and does not reflect any subsequent information or events, except as expressly noted in this Amendment No. 3.

The following discussion is presented on a consolidated basis, and analyzes our financial condition and results of operations for the years ended March 26, 2011 (as restated) and March 27, 2010.

Unless the context indicates or suggests otherwise reference to "we", "our", "us" and the "Company" in this section refers to the consolidated operations of Giga-tronics Incorporated ("Giga-tronics") and its wholly-owned subsidiary, Microsource Incorporated ("Microsource").

Restatement of Financial Statements

The Company is filing this Amendment No. 3 to its Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 19, 2011. This filing amends and restates our previously reported financial statements for the fiscal year ended March 26, 2011 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, the Company determined that a full valuation allowance on its deferred tax asset should have been maintained as of March 26, 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, as discussed more fully in Note 2 to the Consolidated Financial Statements.

The result of this change on the Consolidated Balance Sheet as of March 26, 2011, Consolidated Statement of Operations and Consolidated Statement of Cash Flows for the year ended March 26, 2011 is as follows:

CONSOLIDATED BALANCE SHEET

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(Dollars 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 shareholders' equity	\$26,648	\$(13,256)	\$13,392

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**CONSOLIDATED STATEMENT OF
OPERATIONS**

(Dollars in thousands)	For the year ended March 26 2011		
	As reported	Adjustments	As restated
(Benefit) provision for income taxes	\$ (13,225)	\$ 13,256	\$ 31
Net income	\$ 14,072	\$ (13,256)	\$ 816
Earnings per share - basic	\$ 2.85	\$ (2.68)	\$ 0.17
Earnings per share - diluted	\$ 2.79	\$ (2.63)	\$ 0.16

**CONSOLIDATED STATEMENT OF
SHAREHOLDERS' EQUITY**

(Dollars in thousands)	For the year ended March 26 2011		
	As reported	Adjustments	As restated
Net income	\$ 14,072	\$ (13,256)	\$ 816
Accumulated earnings (deficit)	\$ 9,036	\$ (13,256)	\$ (4,220)
Total shareholders' equity	\$ 23,521	\$ (13,256)	\$ 10,265

**CONSOLIDATED STATEMENT OF CASH
FLOWS**

(Dollars in thousands)	For the year ended March 26 2011		
	As reported	Adjustments	As restated
Net income	\$ 14,072	\$ (13,256)	\$ 816
Deferred income taxes	\$ (13,256)	\$ 13,256	\$ -
Net cash used in operating activities	\$ (1,503)	\$ -	\$ (1,503)

Overview

Giga-tronics produces instruments, subsystems and sophisticated microwave components that have broad applications in both defense electronics and wireless telecommunications. In 2011 Giga-tronics' business consisted of two operating and reporting segments: Giga-tronics Division and Microsource.

The Company's business is highly dependent on government spending in the defense electronics sector and on the wireless telecommunications market. Defense orders have declined on a year-to-date basis for fiscal 2011 versus fiscal 2010 whereas on a year-to-date basis, commercial orders have improved in fiscal 2011 versus fiscal 2010.

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

Results of Operations

New orders by segment are as follows for the fiscal years ended:

New Orders				% change		
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009	
(Dollars in thousands)						
Giga-tronics Division	\$14,603	\$11,387	\$11,599	28	%	(2 %)
Microsource	1,579	7,061	7,399	(78	%)	(5 %)
Total	\$16,182	\$18,448	\$18,998	(12	%)	(3 %)

New orders received in fiscal 2011 decreased 12% to \$16,182,000 from the \$18,448,000 received in fiscal 2010. New orders decreased primarily due to a decrease in military orders partially offset by an increase in commercial orders.

New orders received in fiscal 2010 decreased 3% to \$18,448,000 from the \$18,998,000 received in fiscal 2009. New orders decreased primarily due to a decrease in commercial orders.

In fiscal 2011, orders at Giga-tronics Division increased primarily due to an increase in commercial demand for its products whereas orders at Microsource decreased primarily due to a shifting of military orders from fiscal 2011 to fiscal 2012.

In fiscal 2010, orders at Giga-tronics Division decreased primarily due to a decrease in military demand for its products whereas orders at Microsource decreased primarily due to a decrease in commercial demand for its products.

The following table shows order backlog and related information at fiscal year-end:

Backlog				% change			
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009		
(Dollars in thousands)							
Backlog of unfilled orders	\$3,649	\$8,496	\$9,105	(57 %)	(7 %)		
Backlog of unfilled orders shippable within one year	3,333	7,599	6,810	(56 %)	12 %		
Previous fiscal year end (FYE) long term backlog reclassified during year as shippable within one year	1,123	2,414	1,382	(53 %)	75 %		
Net cancellations during year of previous FYE one-year backlog	---	---	---	---	---		

The decrease in backlog at year-end 2011 of 57% was primarily due to receiving only the first year of a four-year contract for products installed on military planes.

The decrease in backlog at year-end 2010 of 7% was primarily due to increased shipments.

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

Allocation of Net Sales				% change			
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009		
(Dollars in thousands)							
Commercial	\$11,600	\$6,743	\$6,303	72 %	7 %		
Government / Defense	9,429	12,314	11,118	(23 %)	11 %		
Total	\$21,029	\$19,057	\$17,421	10 %	9 %		

The allocation of net sales by segment was as follows for the fiscal years shown:

Allocation of Net Sales by Segment				% change			
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009		
(Dollars in thousands)							
Giga-tronics Division							
Commercial	\$10,281	\$4,882	\$4,694	111 %	4 %		
Government / Defense	3,665	7,119	6,989	(49 %)	2 %		
Total	\$13,946	\$12,001	\$11,683	16 %	3 %		

Microsource

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Commercial	\$1,319	\$1,861	\$1,609	(29	%)	16	%
Government / Defense	5,764	5,195	4,129	11	%	26	%
Total	\$7,083	\$7,056	\$5,738	0	%	23	%

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Fiscal 2011 net sales were \$21,029,000, a 10% increase from the \$19,057,000 of net sales in 2010. The increase in sales was primarily due to an increase in commercial shipments. Sales at Giga-tronics Division increased 16% or \$1,945,000. Microsource sales increased by \$27,000.

Fiscal 2010 net sales were \$19,057,000, a 9% increase from the \$17,421,000 of net sales in 2009. The increase in sales was primarily due to an increase in military shipments. Sales at Giga-tronics Division increased 3% or \$318,000. Microsource sales increased 23% or \$1,318,000.

Cost of sales was as follows for the fiscal years shown:

Cost of Sales				% change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
(Dollars in thousands)					
Cost of sales	\$12,100	\$10,622	\$9,917	14%	7%

In fiscal 2011, cost of sales increased 14% to \$12,100,000 from \$10,622,000 in fiscal 2010, driven primarily by an increase in sales.

In fiscal 2010, cost of sales increased 7% to \$10,622,000 from \$9,917,000 in fiscal 2009, driven by an increase in sales.

Operating expenses were as follows for the fiscal years shown:

Operating Expenses				% change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
(Dollars in thousands)					
Engineering	\$2,159	\$1,522	\$1,975	42%	(23)%
Selling, general and administrative	5,927	5,595	5,939		