

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 June 25, 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 94583
(Address of principal executive offices)

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

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):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes [] No [X]

There were a total of 4,997,532 shares of the Registrant's Common Stock outstanding as of August 3, 2011.

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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 months ended June 25, 2011 and June 26, 2010, which was originally filed on August 3, 2011 (“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 December 31, 2011.

The results of this change on the Consolidated Balance Sheet as of June 25, 2011 and March 26, 2011, Consolidated Statements of Operations for the three months ended June 25, 2011 and June 26, 2010, and Consolidated Statements of Cash Flows for the three months ended June 25, 2011 and June 26, 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 ended June 25, 2011 and June 26, 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 months ended June 25, 2011 and June 26, 2010.

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Part I – Financial Information

Item 1 - Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (In thousands except share data) | June 25, 2011 (as restated, see Note 2) | March 26, 2011 (as restated, see Note 2) |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash-equivalents | \$3,592 | \$1,408 |
| Trade accounts receivable, net of allowance of \$195 and \$248, respectively | 1,932 | 5,632 |
| Inventories, net | 5,644 | 5,386 |
| Prepaid expenses and other current assets | 341 | 420 |
| Total current assets | 11,509 | 12,846 |
| Property and equipment, net | 532 | 530 |
| Other assets | 16 | 16 |
| Total assets | \$12,057 | \$13,392 |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Accounts payable | 616 | \$972 |
| Accrued commission | 203 | 139 |
| Accrued payroll and benefits | 564 | 455 |
| Accrued warranty | 200 | 200 |
| Income taxes payable | 3 | 30 |
| Deferred revenue | 62 | 586 |
| Deferred rent | 41 | 36 |
| Capital lease obligations | 74 | 93 |
| Other current liabilities | 245 | 193 |
| Total current liabilities | 2,008 | 2,704 |
| Long term obligations - deferred rent | 400 | 413 |
| Long term obligations - capital lease | - | 10 |
| Total liabilities | 2,408 | 3,127 |
| Commitments | | |
| Shareholders' equity: | | |
| Preferred stock of no par value; | | |
| Authorized - 1,000,000 shares; no shares issued or outstanding at June 25, 2011 and March 26, 2011 | - | - |
| Common stock of no par value; | | |
| Authorized - 40,000,000 shares; 4,997,532 shares at June 25, 2011 and 4,994,157 shares at March 26, 2011 issued and outstanding | 14,543 | 14,485 |
| Accumulated deficit | (4,894) | (4,220) |
| Total shareholders' equity | 9,649 | 10,265 |
| Total liabilities and shareholders' equity | \$12,057 | \$13,392 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| (In thousands except per share data) | Three Months Ended | |
|--|---|---|
| | June 25, 2011 (as restated, see Note 2) | June 26, 2010 (as restated, see Note 2) |
| Net sales | \$3,497 | \$4,701 |
| Cost of sales | 2,054 | 2,768 |
| Gross margin | 1,443 | 1,933 |
| Engineering | 680 | 485 |
| Selling, general and administrative | 1,434 | 1,391 |
| Total operating expenses | 2,114 | 1,876 |
| Operating (loss) income | (671) | 57 |
| Interest expense, net | - | (1) |
| (Loss) income before income taxes | (671) | 56 |
| Provision for income taxes | 3 | - |
| Net (loss) income | \$(674) | \$56 |
| (Loss) earnings per share - basic | \$(0.13) | \$0.01 |
| (Loss) earnings per share - diluted | \$(0.13) | \$0.01 |
| Weighted average shares used in per share calculation: | | |
| Basic | 4,995 | 4,901 |
| Diluted | 4,995 | 5,000 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| (In thousands) | Three Months Ended | |
|--|---|---|
| | June 25, 2011 (as restated, see Note 2) | June 26, 2010 (as restated, see Note 2) |
| Cash flows from operating activities: | | |
| Net (loss) income | \$(674 |) \$56 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 34 | 36 |
| Share based compensation | 54 | 76 |
| Change in deferred rent | (8 |) 143 |
| Changes in operating assets and liabilities | 2,839 | (96 |
| Net cash provided by operating activities | 2,245 | 215 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (36 |) (76 |
| Net cash used in investing activities | (36 |) (76 |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 4 | 39 |
| Principal payments on capital leases | (29 |) (17 |
| Net cash (used in) provided by financing activities | (25 |) 22 |
| Increase in cash and cash-equivalents | 2,184 | 161 |
| Beginning cash and cash-equivalents | 1,408 | 3,074 |
| Ending cash and cash-equivalents | \$3,592 | \$3,235 |
| Supplementary disclosure of cash flow information: | | |
| Cash paid for income taxes | \$40 | \$2 |
| Cash paid for interest | - | - |

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 normal recurring entries) 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 months ended June 25, 2011 and June 26, 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 December 31, 2011.

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

Consolidated Balance Sheet

(In thousands)

| | As of June 25, 2011 | | | As of March 26, 2011 | | |
|--|---------------------|--------------|-------------|----------------------|--------------|-------------|
| | As | | As | As | | As |
| | Reported | Adjustments | Restated | Reported | Adjustments | Restated |
| Current deferred income tax | \$2,527 | \$ (2,527) | \$- | \$2,320 | \$ (2,320) | \$- |
| Deferred income tax - long term | \$10,936 | \$ (10,936) | \$- | \$10,936 | \$ (10,936) | \$- |
| Total assets | \$25,520 | \$ (13,463) | \$12,057 | \$26,648 | \$ (13,256) | \$13,392 |
| Retained earnings (accumulated deficit) | \$8,569 | \$ (13,463) | \$ (4,894) | \$9,036 | \$ (13,256) | \$ (4,220) |
| Total shareholders' equity | \$23,112 | \$ (13,463) | \$9,649 | \$23,521 | \$ (13,256) | \$10,265 |
| Total liabilities and shareholder's equity | \$25,520 | \$ (13,463) | \$12,057 | \$26,648 | \$ (13,256) | \$13,392 |

| Consolidated Statement of Operations (In thousands) | Three Months Ended June 25, 2011 | | | Three Months Ended June 26, 2010 | | |
|--|----------------------------------|-------------|----------|----------------------------------|--------------|----------|
| | As | | As | As | | As |
| | Reported | Adjustments | Restated | Reported | Adjustments | Restated |
| (Benefit) provision for income taxes | \$(204) | \$ 207 | \$3 | \$(13,569) | \$ 13,569 | \$- |
| Net (loss) income | \$(467) | \$ (207) | \$(674) | \$13,625 | \$ (13,569) | \$56 |

| Consolidated Statement of Cash Flows (In thousands) | Three Months Ended June 25, 2011 | | | Three Months Ended June 26, 2010 | | |
|--|----------------------------------|-------------|----------|----------------------------------|--------------|----------|
| | As | | As | As | | As |
| | Reported | Adjustments | Restated | Reported | Adjustments | Restated |
| Net (loss) income | \$(467) | \$ (207) | \$(674) | \$13,625 | \$ (13,569) | \$56 |
| Deferred income taxes | \$(204) | \$ 207 | \$3 | \$(13,569) | \$ 13,569 | \$- |
| Net cash provided by (used in) operating activities | \$2,245 | \$ - | \$2,245 | \$215 | \$ - | \$215 |

(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

Inventories consist of the following:

| (In thousands) | June 25, 2011 | March 26, 2011 |
|-------------------------|---------------|-------------------|
| Raw materials | \$3,580 | \$3,518 |
| Work-in-progress | 1,315 | 1,349 |
| Finished goods | 269 | 134 |
| Demonstration inventory | 480 | 385 |
| Total | \$5,644 | \$5,386 |

(5) Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing net income or loss by the weighted average common shares outstanding during the period. Diluted EPS reflects the net incremental shares that would be issued if unvested restricted shares became vested and dilutive outstanding stock options were exercised, using the treasury stock method. Certain options are considered antidilutive because the options' exercise prices were above 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 | |
|---|--------------------------------|--------------------------------|
| | June 25, 2011 (as restated) | June 26, 2010 (as restated) |
| Net (loss) income | \$(674 |) \$56 |
| Weighted average: | | |
| Common shares outstanding | 4,995 | 4,901 |
| Potential common shares | - | 99 |
| Common shares assuming dilution | 4,995 | 5,000 |
| Net (loss) income per share of common stock | \$(0.13 |) \$0.01 |
| Net (loss) income per share of common stock assuming dilution | \$(0.13 |) \$0.01 |
| Stock options not included in computation that could potentially dilute EPS in the future | 852 | 614 |
| Restricted stock awards not included in computation that could potentially dilute EPS in the future | 90 | 60 |

The number of stock options not included in the computation of diluted EPS for the three month period ended June 25, 2011 is a result of the Company's loss from continuing operations and, therefore, the options are antidilutive. The number of stock options not included in the computation of diluted EPS for the three month period ended June 26, 2010 reflects stock options where the exercise prices and related 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 month periods ended June 25, 2011 and June 26, 2010 reflect contingently issuable shares for which the performance conditions necessary for the awards to vest had not been met as of June 25, 2011 and June 26, 2010. The weighted average exercise price of excluded options was \$1.93 and \$2.13 as of June 25, 2011 and June 26, 2010 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 17,500 options granted in the first quarter of fiscal 2012 and 135,000 options granted in the first quarter of fiscal 2011. The weighted average grant date fair value was \$1.67 and \$1.59, respectively. There were no restricted stock awards granted in the first quarter of fiscal 2012 and 60,000 restricted stock awards granted in the first quarter of fiscal 2011. The restricted stock awards are considered fixed awards as the number of shares and fair value is 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 months ended June 25, 2011 and June 26, 2010 because management believes it is not more likely than not that the performance criteria will 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 months ended June 25, 2011 and June 26, 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 | | | |
|-------------------------|--------------------|---|---------------|---|
| | June 25, 2011 | | June 26, 2010 | |
| | None | % | None | % |
| Dividend yield | | | | |
| Expected volatility | 94.00 | % | 100.00 | % |
| Risk-free interest rate | 1.55 | % | 1.27 | % |
| Expected term (years) | 5.9 | | 4.0 | |

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 maturity similar to the expected term of the option on the date of grant.

A summary of the changes in stock options outstanding for the three month period ended June 25, 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 | 17,500 | 2.28 | | |
| Exercised | 3,375 | 1.39 | | |
| Forfeited / Expired | 47,250 | 2.63 | | |
| Outstanding at June 25, 2011 | 851,889 | \$1.93 | 2.4 | \$194,656 |
| Exercisable at June 25, 2011 | 464,139 | \$1.85 | 1.6 | \$134,370 |
| Expected to vest at June 25, 2011 | 283,205 | \$ 2.03 | 3.4 | \$ 44,032 |

As of June 25, 2011, there was \$303,166 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 1.09 years. There were 44,375 options that vested during the quarter ended June 25, 2011. There were 23,750 options that vested during the quarter ended June 26, 2010. The total fair value of options vested during each of the quarters ended June 25, 2011 and June 26, 2010 was \$62,692 and \$26,457, respectively. Cash received from the exercise of stock options for the three month period ended June 25, 2011 was \$4,691. Cash received from stock option exercises for the three month period ended June 26, 2010 was \$39,356. Share based compensation cost recognized in operating results for the three months ended June 25, 2011 and June 26, 2010 totaled \$53,820 and \$75,769, 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.

The tables below present information for the three month periods ended June 25, 2011 and June 26, 2010.

| June 25, 2011 (Dollars in thousands) | Giga-tronics | | Total |
|--------------------------------------|--------------|-------------|---------|
| | Division | Microsource | |
| Net sales | \$2,423 | \$1,074 | \$3,497 |
| Net loss (as restated) | (316) | (358) | (674) |
| Total Assets (as restated) | 8,826 | 3,231 | 12,057 |

| June 26, 2010 (Dollars in thousands) | Giga-tronics | | Total |
|--------------------------------------|--------------|-------------|---------|
| | Division | Microsource | |
| Net sales | \$2,345 | \$2,356 | \$4,701 |
| Net (loss) income (as restated) | (200) | 256 | 56 |
| Total Assets (as restated) | 6,974 | 6,266 | 13,240 |

(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 | |
|--------------------------------|--------------------|---------------|
| | June 25, 2011 | June 26, 2010 |
| Balance at beginning of period | \$200 | \$139 |
| Provision, net | 65 | 25 |
| Warranty costs incurred | (65) | (43) |
| Balance at end of period | \$200 | \$121 |

(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 months ending June 25, 2011 and June 26, 2010 was 0% (as restated) due to a valuation allowance recorded against the net deferred tax asset balance.

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 the first quarter of fiscal year 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 an increase in defense orders for the first quarter of fiscal 2012 versus the first quarter of fiscal 2011. Commercial orders are slightly down for the quarter ended June 25, 2011 as compared to the quarter ended June 26, 2010.

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 months ended June 25, 2011 and June 26, 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 December 31, 2011.

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

Consolidated Balance Sheet (In thousands)

| | As of June 25, 2011 | | | As of March 26, 2011 | | |
|---|---------------------|--------------|-------------|----------------------|--------------|-------------|
| | As Reported | Adjustments | As Restated | As Reported | Adjustments | As Restated |
| Current deferred income tax | \$2,527 | \$ (2,527) | \$- | \$2,320 | \$ (2,320) | \$- |
| Deferred income tax - long term | \$10,936 | \$ (10,936) | \$- | \$10,936 | \$ (10,936) | \$- |
| Total assets | \$25,520 | \$ (13,463) | \$12,057 | \$26,648 | \$ (13,256) | \$13,392 |
| Retained earnings (accumulated deficit) | \$8,569 | \$ (13,463) | \$(4,894) | \$9,036 | \$ (13,256) | \$(4,220) |
| Total shareholders' equity | \$23,112 | \$ (13,463) | \$9,649 | \$23,521 | \$ (13,256) | \$10,265 |
| | \$25,520 | \$ (13,463) | \$12,057 | \$26,648 | \$ (13,256) | \$13,392 |

Total liabilities and shareholder's
equity

13

| Consolidated Statement of Operations (In thousands) | Three Months Ended June 25, 2011 | | | Three Months Ended June 26, 2010 | | |
|--|----------------------------------|-------------|-------------|----------------------------------|--------------|-------------|
| | As Reported | Adjustments | As Restated | As Reported | Adjustments | As Restated |
| (Benefit) provision for income taxes | \$ (204) | \$ 207 | \$ 3 | \$ (13,569) | \$ 13,569 | \$ - |
| Net (loss) income | \$ (467) | \$ (207) | \$ (674) | \$ 13,625 | \$ (13,569) | \$ 56 |

| Consolidated Statement of Cash Flows (In thousands) | Three Months Ended June 25, 2011 | | | Three Months Ended June 26, 2010 | | |
|--|----------------------------------|-------------|-------------|----------------------------------|--------------|-------------|
| | As Reported | Adjustments | As Restated | As Reported | Adjustments | As Restated |
| Net (loss) income | \$ (467) | \$ (207) | \$ (674) | \$ 13,625 | \$ (13,569) | \$ 56 |
| Deferred income taxes | \$ (204) | \$ 207 | \$ 3 | \$ (13,569) | \$ 13,569 | \$ - |
| Net cash provided by (used in) operating activities | \$ 2,245 | \$ - | \$ 2,245 | \$ 215 | \$ - | \$ 215 |

Results of Operations

New orders received by segment are as follows:

NEW ORDERS

| (Dollars in thousands) | Three Months Ended | | % change |
|------------------------|--------------------|---------------|----------|
| | June 25, 2011 | June 26, 2010 | |
| Giga-tronics Division | \$ 3,885 | \$ 2,943 | 32 % |
| Microsource | 1,663 | 136 | 1123 % |
| Total | \$ 5,548 | \$ 3,079 | 80 % |

New orders received in the first quarter of fiscal 2012 increased by 80% to \$5,548,000 from the \$3,079,000 received in the first quarter of fiscal 2011. New orders at Giga-tronics Division and at Microsource increased primarily due to an increase in new military orders.

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

BACKLOG

| (Dollars in thousands) | Three Months Ended | | % change |
|--|--------------------|---------------|----------|
| | June 25, 2011 | June 26, 2010 | |
| Backlog of unfilled orders | \$ 5,700 | \$ 6,874 | (17 %) |
| Backlog of unfilled orders shippable within one year | 4,177 | 6,349 | (34 %) |
| Previous fiscal year end (FYE) long term backlog reclassified during year as shippable within one year | 28 | 174 | (84 %) |

Net cancellations during year of previous FYE one-year backlog - - -

Backlog at the end of the first quarter of fiscal 2012 decreased 17% as compared to the end of the same period last year. Even though our orders increased in the first quarter the backlog went down because the period of comparison is over a 12 month period for the backlog and 3 months for the orders entered.

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

ALLOCATION OF NET SALES

| (Dollars in thousands) | Three Months Ended | | % change | |
|------------------------|--------------------|------------------|----------|----|
| | June 25, 2011 | June 26, 2010 | | |
| Giga-tronics Division | \$2,423 | \$2,345 | 3 | % |
| Microsource | 1,074 | 2,356 | (54 | %) |
| Total | \$3,497 | \$4,701 | (26 | %) |

Fiscal 2012 first quarter net sales were \$3,497,000, a 26% decrease from the \$4,701,000 in the first quarter of fiscal 2011. Sales at Giga-tronics Division increased 3% or \$78,000 primarily due to an increase in commercial shipments of its products. Sales at Microsource decreased 54% or \$1,282,000 during the first quarter of fiscal 2012 versus the first quarter of fiscal 2011 largely due to a decrease in military shipments and to a lesser extent a decrease in commercial shipments.

Cost of sales was as follows for the periods shown:

COST OF SALES

| (Dollars in thousands) | Three Months Ended | | % change | |
|------------------------|--------------------|------------------|----------|----|
| | June 25, 2011 | June 26, 2010 | | |
| Cost of sales | \$2,054 | \$2,768 | (26 | %) |

Cost of sales as a percentage of sales decreased slightly for the first quarter of fiscal 2012 to 58.7% compared to 58.9% from the first quarter of fiscal 2011 due to a change in product mix.

Operating expenses were as follows for the periods shown:

OPERATING EXPENSES

| (Dollars in thousands) | Three Months Ended | | % change | |
|-------------------------------------|--------------------|------------------|----------|---|
| | June 25, 2011 | June 26, 2010 | | |
| Engineering | \$680 | \$485 | 40 | % |
| Selling, general and administrative | 1,434 | 1,391 | 3 | % |
| Total | \$2,114 | \$1,876 | 13 | % |

Operating expenses increased 13% or \$238,000 in the first quarter of fiscal 2012 over fiscal 2011 due to an increase of \$195,000 in product development expenses, and an increase of \$43,000 in selling, general and administrative expense. The increase in product development expenses is due to a more aggressive investment in our instrument products.

Giga-tronics recorded a net loss of \$674,000 (as restated) or \$0.13 per fully diluted share for the first quarter of fiscal 2012 versus a net profit of \$56,000 (as restated) or \$0.01 per fully diluted share in the same period last year.

Financial Condition and Liquidity

As of June 25, 2011, Giga-tronics had \$3,592,000 in cash and cash equivalents, compared to \$1,408,000 as of March 26, 2011.

Working capital at June 25, 2011 was \$9,501,000 (as restated) compared to \$10,142,000 (as restated) at March 26, 2011. The decrease in working capital was primarily due to a decrease in accounts receivable partially offset by a decrease in accounts payable 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 June 25, 2011 was 5.73 (as restated) compared to 4.75 (as restated) on March 26, 2011.

Cash provided by operations amounted to \$2,245,000 in the first quarter of fiscal 2012. Cash provided by operations in the first quarter of fiscal 2011 amounted to \$215,000. Cash provided by operations in the first quarter of fiscal 2012 is primarily attributed to collection of accounts receivable. Cash provided by operations in the first quarter of fiscal 2011 is primarily attributed to a decrease in rent payments due to credits from the landlord.

Additions to property and equipment were \$36,000 in the first quarter of 2012. There was \$76,000 in additions 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.

On June 15, 2011, the Company obtained a 60-day extension of its secured revolving line of credit for \$1,500,000, with interest payable at prime rate plus 1%. The borrowing capacity under this line of credit is based on accounts receivable and is secured by all of the assets of the Company. The Company was in compliance with all required covenants at June 25, 2011. At June 25, 2011 and June 26, 2010 there was no balance on the line of credit.

Item 4T - Controls and Procedures

At the time that our Quarterly Report on Form 10-Q for the three months ended June 25, 2011 was filed on August 3, 2011, our Chief Executive Officer and then Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 25, 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 June 25, 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).