

GIGA TRONICS INC
Form S-1
October 17, 2018

Registration Statement No. 333-_____

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 17, 2018

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

FORM S-1

REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

Giga-tronics Incorporated
(Exact name of Registrant as specified in its charter)

California <i>(State or other jurisdiction</i>	3825 <i>(Primary Standard Industrial</i>	94-2656341 <i>(I.R.S. Employer</i>
<i>of incorporation or</i>	<i>Classification Code Number)</i>	<i>Identification No.)</i>
<i>organization)</i>		

5990 Gleason Drive

Dublin, California 94568

Telephone: 925-328-4650

(Address and telephone number of principal executive offices)

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5990 Gleason Drive
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(Name, address and telephone number of agent for service)

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Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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Shares of Common Stock underlying Warrants (4)	331,636	\$ 1.15	(3)	\$381,381	\$ 46.22
Common Stock, no par value (5)	1,172,858	\$ 0.31	(6)	\$363,586	\$ 44.07
TOTAL	11,624,452			\$4,943,467	\$ 599.15

(1) Pursuant to Rule 416 under the Securities Act of 1933, as amended (the "Act"), the shares of common stock being registered hereunder include such indeterminate number of shares of common stock as may be issuable with respect to the shares of common stock being registered hereunder as a result of stock splits, stock dividends or similar transactions.

(2) Shares issuable upon conversion of outstanding shares of 6.0% Series E Senior Convertible Voting Perpetual Preferred Stock.

(3) Pursuant to Rule 457(g) under the Act, the offering price is based upon the respective average exercise or conversion price.

(4) Shares issuable upon exercise of outstanding warrants.

(5) Represents 600,000 shares of common stock potentially issuable as payment-in-kind dividends on the outstanding shares of 6.0% Series E Senior Convertible Voting Perpetual Preferred Stock and 572,858 shares of outstanding common stock issued upon exercise of warrants.

(6) Estimated solely for the purpose of calculating the registration fee and based on the average of the high and low sales prices of our common stock OTC Bulletin Board of \$0.31 on October 15, 2018 pursuant to Rule 457(c) under the Securities Act of 1933, as amended.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. The selling securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

SUBJECT TO COMPLETION

**DATED OCTOBER
17, 2018**

11,624,452 Shares of Common Stock

GIGA-TRONICS INCORPORATED

This prospectus relates to the sale by the selling securityholders named in this prospectus (the “Selling Securityholders”) of up to 11,624,452 shares of common stock of Giga-tronics Incorporated (we, the “Company” or “Giga-tronics”), including 7,000,000 shares of common stock issuable upon conversion of our 6.0% Series E Senior Convertible Voting Perpetual Preferred Stock, which we refer to as “Series E Shares,” 3,451,594 shares of common stock issuable upon exercise of common stock purchase warrants, 572,858 shares of common stock that we issued upon exercise of warrants and 600,000 shares of common stock potentially issuable as dividends on the Series E Shares. We will not receive any of the proceeds from the sale by the Selling Securityholders of such securities. However, we will receive proceeds from the exercise of the warrants if they are exercised for cash by the Selling Securityholders. We will bear all expenses of registration incurred in connection with this offering, but all selling and other expenses incurred by the selling shareholders will be borne by them.

Our Common Stock is quoted on the OTC Bulletin Board under the symbol GIGA.QB. The high and low bid prices for shares of our Common Stock on October 15, 2018, were \$0.37 and \$0.25 per share, respectively, based upon bids that represent prices quoted by broker-dealers on the OTC Bulletin Board. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

The Selling Securityholders and any broker-dealers that participate in the distribution of the securities may be deemed to be “underwriters” as that term is defined in Section 2(a)(11) of the Securities Act of 1933, as amended.

Investing in our common stock is highly speculative and involves a high degree of risk. You should carefully consider the risks and uncertainties described under the heading “Risk Factors” beginning on page 11 of this prospectus before making a decision to purchase our common stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is October 17, 2018.

ABOUT THIS PROSPECTUS

In this prospectus, unless the context suggests otherwise, unless otherwise noted, references to “the Company,” “we,” “us,” and “our” refer to Giga-tronics Incorporated and its consolidated subsidiaries.

This prospectus describes the specific details regarding this offering and the terms and conditions of the common stock being offered hereby and the risks of investing in our common stock. You should read this prospectus, any free writing prospectus and the additional information about us described in the section entitled “Where You Can Find More Information” before making your investment decision.

Neither we, nor any of our officers, directors, agents or representatives make any representation to you about the legality of an investment in our common stock. You should not interpret the contents of this prospectus to be legal, business, investment or tax advice. You should consult with your own advisors for that type of advice and consult with them about the legal, tax, business, financial and other issues that you should consider before investing in our common stock.

ADDITIONAL INFORMATION

You should rely only on the information contained or incorporated by reference in this prospectus and in any accompanying prospectus supplement. No one has been authorized to provide you with different or additional information. The shares of common stock are not being offered in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of such documents.

TRADEMARKS AND TRADE NAMES

This prospectus includes trademarks which are protected under applicable intellectual property laws and are our property or the property of our subsidiaries. This prospectus also contains trademarks, service marks, trade names and/or copyrights of other companies, which are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this prospectus may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and trade names.

INDUSTRY AND MARKET DATA

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate, including market position and market opportunity, is based on information from our management's estimates, as well as from industry publications and research, surveys and studies conducted by third parties. The third-party sources from which we have obtained information generally state that the information contained therein has been obtained from sources believed to be reliable, but we cannot assure you that this information is accurate or complete. We have not independently verified any of the data from third-party sources nor have we verified the underlying economic assumptions relied upon by those third parties. However, assumptions and estimates of our future performance, and the future performance of our industry, are subject to numerous known and unknown risks and uncertainties, including those described under the heading "Risk Factors" in this prospectus and those described elsewhere in this prospectus, and the other documents we file with the Securities and Exchange Commission, or SEC, from time to time. These and other important factors could result in our estimates and assumptions being materially different from future results. You should read the information contained in, or incorporated by reference into, this prospectus completely and with the understanding that future results may be materially different and worse from what we expect. See the information included under the heading "Forward-Looking Statements."

FORWARD LOOKING STATEMENTS

This prospectus contains forward-looking statements. These statements relate to future events or future predictions, including events or predictions relating to our future financial performance, and are based on current expectations, estimates, forecasts and projections about us, our future performance, our beliefs and management's assumptions.

They are generally identifiable by use of the words "may," "will," "should," "expect," "plan," "anticipate," "believe," "feel," "estimate," "intend," "predict," "forecast," "project," "potential" or "continue" or the negative of such terms or other variations of these words or comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks described under "Risk Factors" that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In addition to the risks described in Risk Factors, important factors to consider and evaluate in such forward-looking statements include: (i) general economic conditions and changes in the external competitive market factors which might impact our results of operations; (ii) unanticipated working capital or other cash requirements including those created by our failure to adequately anticipate the costs associated with product development and other critical activities; (iii) changes in our corporate strategy or an inability to execute our strategy due to unanticipated changes; and (iv) our failure to complete any or all sales or shipments of products or on the terms currently contemplated. In light of these risks and uncertainties, many of which are described in greater detail elsewhere in the section titled Risk Factors, we cannot assure you that the forward-looking statements contained in this prospectus will in fact transpire.

Although we believe that the expectations reflected in the forward-looking statements are reasonable as of the date of this prospectus, we cannot guarantee future results, levels of activity, performance or achievements. We will update or revise the forward-looking statements to the extent required by applicable law.

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PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. This summary may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our historical financial statements and related notes included elsewhere in this prospectus and incorporated hereby by reference. In this prospectus, unless otherwise noted or the context requires, the terms “Company,” “Giga-tronics Incorporated,” “we,” “us,” and “our” refer to Giga-tronics Incorporated and its consolidated subsidiaries.

The Company

We manufacture specialized electronics equipment for use in military defense applications. Our operations consist of two business segments, those of our subsidiary, Microsource Inc. (“Microsource”) and those of our Giga-tronics Division.

Microsource

Microsource develops YIG (Yttrium, Iron, Garnet) tuned oscillators, filters, and microwave synthesizers for use in military defense applications. Microsource’s two largest customers are prime contractors for which we develop and manufacture YIG RADAR filters used in fighter jet aircrafts. Revenues from Microsource comprised a majority of our revenues for the fiscal years ended March 31, 2018 and March 25, 2017.

Giga-tronics Division

Our Giga-tronics Division designs, manufactures and markets a family of functional test products for the RADAR and electronic warfare, or RADAR/EW, segment of the defense electronics market. Our RADAR/EW test products are used to evaluate the performance of RADAR and Electronic Warfare, or EW, systems. Giga-tronics Division customers include major prime defense contractors, the United States armed services and research institutes.

Corporate Offices

Our principal executive offices are located at 5990 Gleason Drive, Dublin, California and our telephone number at that location is (925) 328-4650. Our website address is <http://www.Giga-tronics.com>.

Our History

Giga-tronics was incorporated on March 5, 1980. Our original product line consisted of general purpose parametric test products used for the design, production, repair and maintenance of products in the aerospace and telecommunications equipment marketplace. In 1998 we acquired Microsource, which develops YIG tuned oscillators, filters and microwave synthesizers for use in RADAR applications.

We believe the functional RADAR/EW test market offers greater long-term opportunities for revenue growth and improved gross margins compared to the general purpose parametric test equipment marketplace. Beginning in 2011, we chose to focus on the development of RADAR/EW defense industry products. Using technological resources and industry expertise related to RADAR developed within our Microsource division, we began to develop products for RADAR/EW test applications, which together comprise our Advanced Signal Generation and Analysis (“ASGA”) systems. We also sold or eliminated the substantial majority of our original general purpose test products between 2013 and 2016 because of lack of growth potential and poor gross margins. For example, we sold our SCPM product line in 2013; we sold our Power Meters and Amplifiers business in 2015; and we sold our Switch product line to Astronics in 2016.

We have experienced significant operating losses. Developing the ASGA product platform was more expensive and took more time than we anticipated, and the operating revenue of our Giga-tronics Division decreased as we exited our legacy test equipment businesses. We have, however, continued to see increasing operating revenue from sales of Microsource’s RADAR filter products as our customers upgraded the fighter jets’ RADAR systems under the United States Government’s RADAR Modernization Program for prior generation fighter aircraft such as the F/A-18E, F-15D and F-16 jets. In addition to providing cash to help fund the development of the ASGA product platform, the sale of our legacy general-purpose test product lines has allowed us to significantly reduce our headcount and operating expenses. For example, our operating expenses for fiscal 2018 were 15% lower than those for the 2017 fiscal year and 30% lower compared to the 2016 fiscal year.

We substantially completed the development our ASGA system and began shipping in 2016. Through March 31, 2018, we have delivered our new ASGA test systems to eight customers generating approximately \$10 million in revenue.

Corporate Strategy

Our objective is to maintain our position as a sole provider of RADAR filter solutions for prior generations of fighter jet aircraft and become a leading supplier of electronic test systems to government facilities and defense prime contractors tasked with evaluating the performance of RADAR/EW systems.

We believe that several aspects of our Microwave Advanced Signal Generation and Analysis (ASGA) simulation platform are unique. The platform interface is digital and may be customized and scaled with relative ease compared to traditional test systems.

To sell our new specialized testing products, we are changing our approach to sales. We are developing a field salesforce, locating personnel near key military and OEM customers within the RADAR/EW marketplace. This salesforce will have the technical expertise needed to properly understand our customers' needs and provide the optimal solution to position our complex and innovative platform. Members of our salesforce have the security clearances required to enter classified facilities and to hold the necessary conversations with customers to understand their requirements.

Our customers include the US Navy, US Air Force and US Army and prime contractors and test directorates who are developing the devices being tested at military bases. We believe we have the opportunity to expand into new international markets with our functional RADAR/EW test solutions. To do so, we will rely on our relationships at key prime contractors and military customers in France, Israel, Italy and the United Kingdom, for example. We also expect to use sales representative organizations that have relationships with prime contractors and technical expertise in radar testing.

Microsource provides RADAR filter solutions for the F-15, F-16 and F-18 aircraft as their RADAR systems are upgraded. We expect that our filter technology will continue to be a significant source of our revenue because a number of these aircraft have yet to be upgraded. In addition, we may be able to sell our RADAR filters internationally as the RADAR systems of foreign forces' F-15, F-16 and F-18 aircraft are upgraded. We may also have the opportunity to develop and sell RADAR filters to customers for other types of aircrafts. We may also deploy technology from our RADAR/EW test platform, miniaturized and ruggedized with our chip and wire technology, to provide additional Microwave modules to the prime contractors to whom we currently provide our test solutions.

Recent Developments

Going Concern

We have sustained recurring operating losses, raising substantial doubt about our ability to continue as a going concern. We incurred net losses of \$3.1 million in fiscal 2018, and \$1.5 million in fiscal 2017. These losses have contributed to an accumulated deficit of \$28.7 million as of March 31, 2018.

The Company's financial statements for all periods have been prepared assuming that we will continue as a going concern. Our continuation as a going concern is dependent upon us reducing expenses, raising additional capital to fund future operations and recognizing revenue from sales and other factors, as discussed in Note 2 to our Audited Consolidated Financial Statements as of and for the Fiscal Years Ended March 31, 2018 and March 25, 2017 attached to this prospectus. We have utilized cash in operating activities of \$1.6 million and \$945,000 during the fiscal year ended March 31, 2018 and the three months ended June 30, 2018 and we had \$748,000 cash on hand as of our most recently completed fiscal quarter, which ended June 30, 2018.

Sales of Series E Shares

We sold shares of our 6.0% Series E Senior Convertible Voting Perpetual Preferred Stock, or Series E Shares, on March 26, 2018 in a private placement discussed elsewhere in this prospectus of which \$1.1 million (in gross proceeds) was received during March 2018 and \$220,000 (in gross proceeds) was received during our first fiscal quarter ended June 30, 2018, resulting in cash on hand of \$1.5 million at March 31, 2018 and \$748,000 of cash on hand as of June 30, 2018. Since June 30, 2018, we raised an additional \$531,105 of capital through September 28, 2018 through additional sales of Series E Shares and the exercise of warrants to purchase our common stock.

THE OFFERING

Shares of common stock offered by the Selling Securityholders	Up to 11,624,452 shares of common stock that are issuable to the Selling Securityholders. The Selling Securityholders may acquire these shares through the exercise of warrants, the conversion of Series E Shares or as payment-in-kind dividends on our Series E Shares. This total includes 572,858 shares that we recently issued upon exercise of warrants.
Shares of common stock outstanding (1)	10,939,011
Shares of common stock outstanding assuming the conversion of all outstanding shares (2)	26,654,514
Terms of the Offering	The Selling Securityholders will sell their shares at a prices based on the market price at the time of sale. The Selling Securityholders will determine when and how they sell the shares of common stock offered in this prospectus, as described in “Plan of Distribution” beginning on page 54.
Use of Proceeds	We will not receive any of the proceeds from the sale of shares by the Selling Securityholders. Any proceeds received from the exercise of warrants or options by Selling Securityholders will be used by the Company for working capital purposes. See “Use of Proceeds.”
Dividend Policy	We have never declared any cash dividends on our common stock. We currently intend to use all available funds and any future earnings for use in financing the growth of our business and do not anticipate paying any cash dividends for the foreseeable future. See “Dividend Policy.”
Trading Symbol	GIGA

Risk Factors

An investment in the Company's common stock involves a high degree of risk. You should carefully read the "Risk Factors" beginning on page 11 before making an investment decision.

(1) The number of shares of common stock outstanding is based on 10,939,011 shares of common stock issued and outstanding as of September 28, 2018 and does not include the following: 2,237,700 shares of common stock issuable upon exercise of outstanding options, 3,451,594 shares of common stock issuable upon exercise of outstanding warrants, 8,853,351 shares of common stock issuable upon conversion of all of our outstanding preferred shares, 572,858 shares recently issued upon exercise of warrants, and 600,000 shares of common stock potentially issuable as dividends on the Series E Shares.

(2) Reflects the number of shares of common stock outstanding assuming the conversion or exercise of options to purchase 2,237,700 shares of common stock, warrants to purchase 3,451,594 shares of common stock, 8,853,351 shares of common stock issuable upon conversion of all of our outstanding preferred shares, 572,858 shares recently issued upon exercise of warrants, and 600,000 shares of common stock potentially issuable as dividends on the Series E Shares that were outstanding as of September 28, 2018.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows use to “incorporate by reference” the information we have filed with the SEC, which means that we can disclose important information to you by referring you to those documents. The information that the Company incorporates by reference is an important part of this prospectus, and information that it files later with the SEC will automatically update and supersede this information. The documents the Company is incorporating by reference are:

Our Annual Report on Form 10-K for the year ended March 31, 2018 filed with the SEC on June 19, 2018;

Our Quarterly Report on Form 10-Q filed with the SEC on August 14, 2018;

Our Current Reports on Form 8-K filed with the SEC on July 9, 2018, August 20, 2018, August 29, 2018 and September 24, 2018; and

The description of our common stock included in the registration statement on Form 8-A filed on July 31, 1984 and any amendment or report filed for the purpose of updating such description.

Additionally, all documents filed by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) after (i) the date of the initial registration statement and prior to effectiveness of the registration statement, and (ii) the date of this prospectus and before the termination or completion of any offering hereunder, shall be deemed to be incorporated by reference into this prospectus from the respective dates of filing of such documents, except that we do not incorporate any document or portion of a document that is “furnished” to the SEC, but not deemed “filed.”

We will provide, without charge, to each person to whom a copy of this prospectus is delivered, including any beneficial owner, upon the written or oral request of such person, a copy of any or all of the documents incorporated by reference herein, including exhibits. Requests should be directed to: Attention: Investor Relations, 5990 Gleason Drive, Dublin, California 94568. The documents incorporated by reference may be accessed at our website at www.Giga-tronics.com.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Prospective investors should carefully consider the risks described below, together with all of the other information included or referred to in this prospectus, before purchasing shares of our common stock. There are numerous and varied risks that may prevent us from achieving our goals. If any of these risks actually occurs, our business, financial condition or results of operations may be materially adversely affected. In such case, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment.

Risks Related to the Company's Business

Our recurring operating losses have raised substantial doubt regarding our ability to continue as a going concern.

We have sustained recurring operating losses, raising substantial doubt about our ability to continue as a going concern. We incurred net losses of \$3.1 million in fiscal 2018, \$1.5 million in fiscal 2017 and \$287,000 for the quarter ended June 30, 2018. These losses have contributed to an accumulated deficit of \$28.7 million as of March 31, 2018 and \$27.8 million as of June 30, 2018.

The Company's financial statements for all periods have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to our Audited Consolidated Financial Statements at and for the fiscal years ended March 31, 2018 and March 25, 2017 and Note 2 to our unaudited Condensed Consolidated Financial Statements at and for the period ended June 30, 2018, each of which is included with this prospectus, our continuation as a going concern depends upon our reducing expenses, raising additional capital to fund future operations and recognizing sufficient revenue from sales. We have utilized cash in operating activities of \$1.6 million and \$945,000 during the fiscal year ended March 31, 2018 and the three months ended June 30, 2018. As of June 30, 2018, we had a total shareholders' equity of \$1,297,000 and an accumulated deficit of \$27,793,000. We sold shares of our Series E Shares on March 26, 2018 in a private placement discussed elsewhere in this prospectus, resulting in cash on hand of \$1,485,000 at March 31, 2018 and we raised an additional \$235,075 of capital through June 30, 2018 through additional sales of Series E Shares and the exercise of warrants to purchase our common stock.

Beginning in fiscal 2012, we invested primarily in the development of our Advanced Signal Generation and Analysis, or ASGA, system product platform for RADAR/EW test applications (which we formerly referred to as "Hydra") because we believe it possesses greater long-term opportunities for revenue growth and improved gross margins compared to our previous general-purpose test product lines, the substantial majority of which have been sold. Through March 31, 2018, we had spent over \$13 million towards the development of the ASGA system product platform. Although we anticipate long-term revenue growth and improved gross margins from the new ASGA product

platform, delays in completing it have also contributed to our losses. We have also experienced delays in the development of features, receipt of orders, and shipments for the new ASGA system products. These delays have significantly contributed to a decrease in working capital from \$620,000 at March 25, 2017 to (\$386,000) at March 31, 2018. Although ASGA system products have now shipped to several customers, potential delays in the refinement of further features, longer than anticipated sales cycles, or the ability to generate shipments in significant quantities, could significantly contribute to additional future losses.

To address these matters, our management has taken several actions to provide additional liquidity and reduce costs and expenses going forward. These actions are described in the section of this prospectus titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 2 to our Audited Consolidated Financial Statements at and for the fiscal year ended March 31, 2018 and March 25, 2017 attached to this prospectus

We have significant working capital requirements and have experienced operating losses. If we continue to experience operating losses, it could have a material adverse effect on its business, financial condition and results of operations.

We are dependent upon obtaining revenues from sales and raising additional capital to meet our working capital needs. Since 2011, we have relied on a series of private placements, legacy product line sales, and loans to fund our operating cash flow deficits. There is no assurance that we will generate the necessary net income or operating cash flows to meet our working capital requirements and pay our debts as they become due in the future due to a variety of factors and other factors discussed in this “Risk Factors” section.

To bring the RADAR/EW product platform to its full potential, we may need to seek additional working capital; however, there are no assurances that such working capital will be available, or on terms acceptable to us. We may also be required to further reduce expenses if our RADAR/EW product platform sales goals are not achieved and could, for example, choose to focus solely on our profitable Microsource component business segment to generate profits and cash from operating activities. As part of such a restructuring, management believes the microwave components which the Company developed for the RADAR/EW test products could be a source of future growth for the Microsource business segment.

To address these matters, we have taken several actions to provide additional liquidity and reduce costs and expenses going forward. These actions are described in the section of this prospectus titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 2 to our audited financial statements for the fiscal years ended March 31, 2018 and March 25, 2017 attached to this prospectus. We cannot assure you, however, that we will be able to successfully take any of these actions, including adjusting expenses sufficiently or in a timely manner, or raising additional equity, increasing borrowings or completing a financing on any terms or on terms that are acceptable to us. Our inability to take these actions as and when necessary would materially adversely affect our liquidity, results of operations, financial condition and ability to operate.

Holders of our Series E Shares have voting rights and preferences that may limit our access to additional capital and their interests may conflict with those of our other shareholders.

We must obtain the approval of the holders of our Series E Shares to complete certain types of transactions. For example, the Certificate of Determination for our Series E Shares prohibits us from issuing any shares having preferences that are superior to or on parity with our Series E Shares. Upon a liquidation of the Company, a sale of our Microsource business line, or sale of our Simulation and Electronic Warfare (formerly known as Hydra) business line, the holders of Series E Shares would be entitled to receive their full liquidation preference of \$37.50 per Series E Share, or approximately \$2.6 million in the aggregate from the liquidation or sale proceeds before we would be permitted to make distributions to holders of our common stock or other series of preferred shares. In addition, under the terms of our Investor Rights Agreement with the holders of our Series E Shares, we are required to obtain the approval of holders representing 66.6% of the Series E Shares to incur any additional indebtedness, other than commercial bank debt or trade debt.

These restrictions could make it more difficult to raise capital through sales of new series of preferred stock or debt without the approval of the holders of our Series E Shares, who interests may be different than those of our other shareholders who are not entitled to similar preferences or approval rights.

Our sales cycles can be long and unpredictable and our sales efforts require considerable time and expense. As a result, our sales and revenue are difficult to predict and may vary substantially from period to period, which may cause our operating results to fluctuate significantly.

The timing of our revenues is difficult to predict. Most of our revenues result from a limited number of relatively large orders that we receive from prime defense contractors. We spend substantial time and resources on our sales efforts without any assurance that our efforts will produce any sales. In addition, purchases of our products are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. Even if we receive a purchase order, there may be circumstances or terms relating to the purchase that delay our ability to recognize revenue from that purchase, which makes our revenue difficult to forecast. Our financial condition may also cause potential customers to delay, postpone or decide against placing orders for our products. As a result, it is difficult to predict whether a sale will be completed, the particular fiscal period in which a sale will be completed or the fiscal period in which revenue from a sale will be recognized. For these reasons, our operating results may vary significantly from quarter to quarter.

Our board of directors and its Audit and Nominating Committees are comprised of directors, a majority of whom are not considered to be independent under the standards of the Nasdaq Stock Market.

The rules applicable to companies with securities listed on certain securities exchanges require that a listed company's board of directors meet certain independence standards. For example, the Nasdaq Stock Market, where our common stock was listed until 2017, requires that the majority of a company's directors be independent and that a company's nominating, audit and compensation committee be comprised entirely of independent directors. We are no longer required to comply with these independence standards because our common stock is no longer listed on the Nasdaq Stock Market. We would not meet these standards if they applied to use because a majority of our board of directors would not be considered to be independent under Nasdaq's standards and our audit and nominating and governance committees include directors who would not be considered independent under Nasdaq's independence standards. See "Management - Committees of the Board of Directors" and "—Independence of Board of Directors." Accordingly, you may not have the same protections afforded to shareholders of companies that have or that are required to have a board and committees that satisfy Nasdaq's independence standards.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers and business partners, some of which is stored on our network and some of which is stored with our third-party vendors. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to operator error, malfeasance or other disruptions. Any such breach could compromise our network and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in competitive hardship, legal claims or proceedings, liability under laws that protect the confidentiality of information, disrupt our operations, and damage our reputation, which could adversely affect our business.

If we are deemed to infringe on the proprietary rights of third parties, we could incur unanticipated expense and be prevented from providing our products and services.

We could be subject to intellectual property infringement claims as the number of our competitors grows and if our products or the functionality of our products overlap with patents of our competitors. While we do not believe that we have infringed or are infringing on any proprietary rights of third parties, we cannot assure you that infringement claims will not be asserted