GIGA TRONICS INC
Form 10QSB
August 06, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

(Mark One)

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the quarterly period ended June 30, 2007

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

for the transition period from __________ to __________

Commission File No. 0-12719

GIGA-TRONICS INCORPORATED

(Exact name of small business issuer as specified in its charter)

California	94-2656341
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

4650 Norris Canyon Road, San Ramon, CA 94583
(Address of principal executive offices)
Issuer s telephone number: (925) 328-4650
N/A
(Former name, former address an former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for 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 þ No o

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

Yes o No þ

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date:

Common stock outstanding as of August 3, 2007: 4,809,021 shares

Transitional Small Business Disclosure Format (Check one) Yes o No þ

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Item 1

Condensed Consolidated Balance Sheets

(In thousands except share data)	June 30, 2007	March 31, 2007
(Unaudited)		
Assets		
Current assets		
Cash and cash equivalents	$ 1,815	$ 1,804
Trade accounts receivable, net	2,394	2,750
Inventories	5,766	5,841
Prepaid expenses and other assets	465	360
Total current assets	10,440	10,755
Property and equipment, net	315	324
Other assets	29	82
Total assets	$ 10,784	$ 11,161
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	$ 881	$ 1,106
Accrued commissions	231	192
Accrued payroll and benefits	678	666
Accrued warranty	195	207
Customer advances	563	681
Income taxes payable	2	
Other current liabilities	498	623
Total current liabilities	3,048	3,475
Deferred rent	203	293
Total liabilities	3,251	3,768
Commitments		
Shareholders equity		
Preferred stock of no par value; Authorized 1,000,000 shares; no shares issued and outstanding at June 30, 2007 and March 31, 2007		
Common stock of no par value; Authorized 40,000,000 shares; 4,809,021 shares at June 30, 2007 and March 31, 2007 issued and outstanding	13,213	13,165
Accumulated deficit	(5,680)	(5,772)
Total shareholders equity	7,533	7,393
Total liabilities and shareholders equity	$ 10,784	$ 11,161

See accompanying notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements Of Operations

(In thousands except per share data)	Three Months Ended June 30, 2007	June 24, 2006
(Unaudited)		
Net sales	$ 4,628	$ 3,386
Cost of sales	2,684	2,187
Gross profit	1,944	1,199
Product development	586	961
Selling, general and administrative	1,275	1,297
Restructuring	80	
Operating expenses	1,941	2,258
Operating income (loss)	3	(1,059)
Other income	13	
Interest income, net	14	29
Income (loss) from continuing operations before income taxes	30	(1,030)
Provision for income taxes	2	
Income (loss) from continuing operations	28	(1,030)
Income on discontinued operations, net of income taxes	64	3
Net income (loss)	$ 92	$ (1,027)
Basic and diluted net income (loss) per share:		
From continuing operations	$ 0.01	$ (0.21)
On discontinued operations	0.01	(0.00)
Basic and diluted net income (loss) per share	$ 0.02	$ (0.21)
Shares used in per share calculation:		
Basic	4,809	4,809
Diluted	4,863	4,809

See accompanying notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements Of Cash Flows

(In thousands) (Unaudited)	Three Months Ended June 30, 2007	June 24, 2006
Cash flows from operations:		
Net income (loss) [1]	$ 92	$ (1,027)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	31	69
Share based compensation	48	4
Deferred rent	(90)	(24)
Changes in operating assets and liabilities	(48)	1,436
Net cash provided by operations	33	458
Cash flows from investing activities:		
Proceeds from sale of equipment		2
Purchases of property and equipment	(22)	(146)
Net cash used in investing activities	(22)	(144)
Cash flows from financing activities:		
Net cash provided by financing activities		
Increase in cash and cash equivalents	11	314
Cash and cash equivalents at beginning of period	1,804	3,412
Cash and cash equivalents at end of period	$1,815	$ 3,726

Supplementary disclosure of cash flow information:

(1) No cash was paid for income taxes and interest in the three month periods ended June 30, 2007 and June 24, 2006.

See accompanying notes to unaudited condensed consolidated financial statements.

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GIGA-TRONICS INCORPORATED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Giga-tronics (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-KSB, filed with the Securities and Exchange Commission for the year ended March 31, 2007.

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

(2) Discontinued Operations

In the first quarter of 2004, Giga-tronics discontinued the operations at its Dymatix Division due to the substantial losses incurred over the previous two years. In the fourth quarter of fiscal 2004, Giga-tronics consummated the sale of its Dymatix Division and recognized a gain of $53,000 in connection with the sale. The sales price was $300,000. The Company received a $50,000 cash payment from the buyer and a $250,000 note receivable with $50,000 due in May 2004 and quarterly installments of $25,000 due beginning in July 2004. The Company agreed to reschedule the payment due in May 2004 to August 2004 and, to date, has not received payments due. The note is secured by collateral and in management s opinion this collateral deteriorated during fiscal 2005. Accordingly, the Company considers the note receivable to be impaired and recorded a provision of loss of $250,000 through discontinued operations in the 2005 fiscal year. During the three month period ended June 30, 2007, the Company recorded $64,000 as income on discontinued operations due to the receipt of a payment of $18,000 on previously reserved receivables, a payment of $41,000 from the sale of a previously written off asset, and an adjustment of $5,000 to the sub-lease accrual.

(3) Revenue Recognition

The Company records revenue in accordance with Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements* and SAB 104, *Revenue Recognition*. As such, revenue is recorded when there is evidence of an arrangement, delivery has occurred, the price is fixed and determinable, and collectability is assured. This occurs when products are shipped, unless the arrangement involves acceptance terms. If the arrangement involves acceptance terms, the Company defers revenue until product acceptance is received.

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 two to four years for the 2400 and 2500 families of Microwave Synthesizers and one year for all other products. 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.

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(4) Inventories

Inventory is comprised of the following at June 30, 2007 and March 31, 2007:

Inventory

(In thousands)	June 30, 2007	March 31, 2007
Raw materials	$ 3,122	$ 3,163
Work-in-progress	1,916	2,128
Finished goods	335	209
Demonstration inventory	393	341
Total inventory	$ 5,766	$ 5,841

(5) Earnings Per Share

Basic earnings (loss) per share (EPS) is calculated by dividing net income or loss by the weighted average common shares outstanding during the period. Diluted earnings (loss) per share reflects the net incremental shares that would be issued if dilutive outstanding stock options were exercised, using the treasury stock method. In the case of a net loss, it is assumed that no incremental shares would be issued because they would be antidilutive. In addition, certain options are considered antidilutive because the options exercise price was above the average market price during the period. The shares used in per share computations are as follows:

	Three Months Ended	
(In thousands except per share data)	June 30, 2007	June 24, 2006
Net income (loss)	$ 92	$ (1,027)
Weighted average:		
Common shares outstanding	4,809	4,809
Potential common shares	54	
Common shares assuming dilution	4,863	4,809
Net income (loss) per share of common stock	$ 0.02	$ (0.21)
Net income (loss) per share of common stock assuming dilution	0.02	(0.21)
Stock options not included in computation	525	467

The number of stock options not included in the computation of diluted EPS for the three month period ended June 30, 2007 reflects stock options where the exercise prices were greater than the average market price of the common shares and are, therefore, antidilutive. The number of stock options not included in the computation of diluted EPS for the three-month period ended June 24, 2006 is a result of the Company s loss from continuing operations and, therefore, the options are antidilutive. The weighted average exercise price of excluded options was $2.32 and $2.46 as of June 30, 2007 and June 24, 2006 respectively.

(6) Stock Based Compensation

The Company established a 2005 Equity Incentive Plan, which provided for the granting of options for up to 700,000 shares of Common Stock. Effective March 26, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share Based Payment* (SFAS 123(R)), using the modified prospective application transition method, which requires recognizing expense for options granted prior to the adoption date equal to the fair value of the unvested amounts over their remaining vesting period, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 *Accounting for Stock Based Compensation,* and compensation cost for all share based payments granted subsequent to January 1, 2006, based on the grant date fair values estimated in accordance with the provisions of SFAS 123(R). There were no grants made in the first quarter of fiscal 2008 and there were 60,000 grants made in the first quarter of fiscal 2007.

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SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as a cash flow from financing in the statement of cash flows. These excess tax benefits were not significant for the Company, for each of the three months ended June 30, 2007 and June 24, 2006.

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 24, 2006
Dividend yield	None
Expected volatility	.51%
Risk-free interest rate	4.73%
Expected term (years)	5

The computation of expected volatility used in the Black-Scholes Merton option-pricing model is based on the historical volatility of our share price. The expected term is estimated based on a review of historical employee exercise behavior with respect to option grants. The risk-free interest rate is based on the U.S. Treasury rates with terms based on the expected term of the option on the date of grant.

As of June 30, 2007, there was $404,000 of total unrecognized compensation cost related to nonvested options granted under the plans. That cost is expected to be recognized over a weighted average period of 1.66 years. There were 12,500 options that vested during the quarter ended June 30, 2007. The total fair value of options vested during the quarter ended June 30, 2007 and June 24, 2006 was $16,500 and $1,600, respectively. No cash was received from stock option exercises for each of the three-month periods ended June 30, 2007 and June 24, 2006.

(7) Industry Segment Information

The Company has four reportable segments: Giga-tronics Instrument Division, ASCOR, Microsource and Corporate. Giga-tronics Instrument 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. ASCOR 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. Corporate handles the financing needs of each segment and lends funds to each segment as required and are eliminated in consolidation.

Information on reportable segments is as follows:

	Three Months Ended			
(In thousands)	June 30, 2007		June 24, 2006	
	Net Sales	Net Income (loss)	Net Sales	Net Income (loss)
Instrument Division	$ 2,433	$ (344)	$ 1,770	$ (642)
ASCOR	993	206	602	(279)
Microsource	1,202	173	1,014	(447)
Corporate		57		341
Total	$ 4,628	$ 92	$ 3,386	$ (1,027)

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(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 30, 2007	June 24, 2006
Balance at beginning of quarter	$ 207	$ 250
Provision for current quarter sales	53	42
Warranty costs incurred and adjustments	(65)	(48)
Balance at end of quarter	$ 195	$ 244

(9) Restructuring

In an effort to improve results and make optimal use of its resources, Giga-tronics decided to integrate all ASCOR and Instrument Division engineering and manufacturing activities at the San Ramon, California facility. The Microsource subsidiary, located in Santa Rosa, California, remains strictly a manufacturing operation, with all product development work being performed in San Ramon. The impact on operations in the first quarter of fiscal 2008 was a one-time restructuring charge of $80,000 in severance costs.

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Item 2

MANAGEMENT S DISCUSSION AND ANALYSIS
OF OPERATIONS AND FINANCIAL CONDITION

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-KSB for the fiscal year ended March 31, 2007 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 2008, our business consisted of four operating and reporting segments: Instrument Division, ASCOR, Microsource and Corporate.

Our business is highly dependent on government spending in the defense electronics sector and on the wireless telecommunications market. The Company has seen some improvement in its domestic and international defense business. Commercial orders for the quarter declined slightly due to delays in new product introductions.

The Company continues to monitor costs, including reductions in personnel, facilities and other expenses, to more appropriately align costs with revenues. The Company s employees have been on salary reductions over the last four years. In April 2007, the Company reversed the prior salary reductions. In March 2007, the Company moved ASCOR s engineering, sales and marketing, and administrative activities to the San Ramon, California facility, effectively abandoning its Fremont, California facility. As a result, the Company has accrued its future lease obligations, net of estimated sub-lease income, through June 2009. The Company is pursuing subleasing of this facility. Microsource sales and marketing and engineering activities were also consolidated into the San Ramon facility to better integrate our component development activities with the Company s overall new product plans. The Microsource facility in Santa Rosa, California, however, remains open as a manufacturing operation.

The Company released the 2500 synthesizer (part of the 2500 family of products) during the 2007 fiscal year. These products are being accepted by the market and management believes there is significant room for growth. This release demonstrates the Company s commitment to new product development. The three operating divisions of Giga-tronics will now take an integrated approach to research and development in key growth areas in order to expand product lines and update existing ones with new features.

While the management at Microsource estimates that prospects for new orders will improve in this new fiscal year, its short-term sales growth will be limited due to extended customer delivery schedules.

Results of Operations

New orders received from continuing operations in the first quarter of fiscal 2008 increased 70% to $4,980,000 from the $2,933,000 received in the first quarter of fiscal 2007. New orders increased primarily due to an increase in new military orders as follows:

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New Orders

(Dollars in thousands)	Three Months Ended June 30, 2007	% change	June 24, 2006
Instrument Division	$ 2,392	26%	$ 1,898
ASCOR	2,052	206%	671
Microsource	536	47%	364
Total new orders	$ 4,980	70%	$ 2,933

All three divisions experienced an increase in new orders due to an increase in military demand in the first quarter of fiscal 2008 as compared to the first quarter of fiscal 2007.

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

Backlog

(Dollars in thousands)	Three Months Ended June 30, 2007	% change	June 24, 2006
Backlog of unfilled orders	$ 8,791	(11%)	$ 9,876
Backlog of unfilled orders shippable within one year	5,898	3%	5,756
Previous fiscal year (FY) end backlog reclassified during quarter as shippable later than one year	126	97%	64
Net cancellations during quarter of previous FY quarter end one year backlog			38

Backlog at the end of the first quarter of fiscal 2008 decreased 11% as compared to the end of the same period last year. This is primarily due to Microsource being one year further into its five-year contract with Boeing valued at $7.6 million.

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

Allocation of Net Sales

(Dollars in thousands)	Three Months Ended June 30, 2007	% change	June 24, 2006
Instrument Division	$ 2,433	38%	$ 1,770
ASCOR	993	65%	602
Microsource	1,202	19%	1,014
Total net sales	$ 4,628	37%	$ 3,386

Fiscal 2008 first quarter net sales were $4,628,000, a 37% increase from the $3,386,000 in the first quarter of fiscal 2007. The increase in sales for all three divisions was primarily due to an increase in military demand. Sales at the Instrument Division increased 38% or $663,000, ASCOR sales increased 65% or $391,000 and sales at Microsource increased 19% or $188,000 during the first quarter of fiscal 2008 versus the first quarter of fiscal 2007.

Cost of sales were as follows for the periods shown:

Cost of Sales

	Three Months Ended		
(Dollars in thousands)	June 30, 2007	% change	June 24, 2006
Cost of sales	$ 2,684	23%	$ 2,187

In the first quarter of fiscal 2008, our revenue increased by 37%, while our cost of sales increased 23% to $2,684,000 from $2,187,000 for the same period last year. This increase is primarily attributable to the increase in shipment levels, partially offset by 6.5% reduction in cost of sales percentage.

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Operating expenses were as follows for the periods shown:

Operating Expenses

	Three Months Ended		
(Dollars in thousands)	June 30, 2007	% change	June 24, 2006
Product development	$ 586	(39%)	$ 961
Selling, general and administrative	1,275	(2%)	1,297
Restructuring	80		
Total operating expenses	$ 1,941	(14%)	$ 2,258

Operating expenses decreased 14% or $317,000 in the first quarter of fiscal 2008 over fiscal 2007 due to decreases of $375,000 in product development expenses and a decrease of $22,000 in selling, general and administrative expense. Product development costs decreased 39% or $375,000 for the three months ended June 30, 2007 as compared to the same period in the prior year. This was the result of the 2500 synthesizer placed in service and the restructuring that had previously occurred. Selling, general and administrative expenses decreased 2% or $22,000 for the first quarter of fiscal year 2008 compared to the prior year. The decrease is a result of $239,000 less in administrative expenses offset by higher commission expense of $126,000 and higher marketing expenses of $91,000. A one-time restructuring charge of $80,000 in severance costs was made in the first quarter of fiscal 2008.

Giga-tronics recorded net income of $92,000 or $0.02 per fully diluted share for the first quarter of fiscal 2008 versus a net loss of $1,027,000 or $0.21 per fully diluted share in the same period last year. A $2,000 provision for income taxes was incurred in the first quarter of fiscal 2008.

Financial Condition and Liquidity

As of June 30, 2007, Giga-tronics had $1,815,000 in cash and cash equivalents, compared to $1,804,000 as of March 31, 2007.

Working capital at June 30, 2007 was $7,392,000 compared to $7,280,000 at March 31, 2007. The increase in working capital was primarily due to lower accounts payable and accrued expenses in fiscal 2008.

The Company s current ratio (current assets divided by current liabilities) at June 30, 2007 was 3.43 compared to 3.09 on March 31, 2007.

Cash provided by operations amounted to $33,000 in the first quarter of fiscal 2008. Cash provided by operations amounted to $458,000 in the first quarter of fiscal 2007. Cash provided by operations in the first quarter of fiscal 2008 is primarily attributed to the operating profit in the quarter and the net change in operating assets and liabilities. Cash provided by operations in the first quarter of fiscal 2007 is primarily attributed to the decrease in trade accounts receivable and increase in accounts payable offset by the operating loss in the quarter.

Additions to property and equipment were $22,000 in the first quarter of 2008 compared to $146,000 for the same period last year. The capital equipment spending in fiscal 2007 was due to an upgrade of capital equipment enabling the manufacture of new products being released.

On June 18, 2007, the Company renewed its secured revolving line of credit for $2,500,000, with interest payable at prime rate plus 1%. The borrowing under this line of credit is based on the Company s accounts receivable and inventory and is secured by all of the assets of the Company. The Company had no borrowings under this line of credit during the period ended June 30, 2007. From time to time, Giga-tronics considers a variety of acquisition opportunities to also broaden its product lines and expand its market. Such acquisition activity could also increase the Company s operating expenses and require the additional use of capital resources. The Company also intends to maintain research and development expenditures for the purpose of broadening its product line.

Future tax benefits are subject to a valuation allowance when management is unable to conclude that its deferred tax assets will more likely than not be realized from the results of operations. The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based on historical taxable income and projections for future taxable income over the periods in which the deferred tax assets become deductible, management has taken a conservative approach that the Company will not realize benefits of these deductible differences as of June 30, 2007. Management has, therefore, established a valuation allowance against its net deferred tax assets as of June 30, 2007.

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes . FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return that results in a tax benefit. Additionally, FIN 48 provides guidance on de-recognition, statement of operations classification of interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of March 31, 2007, as required. The adoption of FIN 48 did not have a material impact on its consolidated financial positions, results of operations or cash flows.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, which addresses how uncorrected errors in previous years should be considered when quantifying errors in current-year financial statements. SAB 108 requires companies to consider the effect of all carry over and reversing effects of prior-year misstatements when quantifying errors in current-year financial statements and the related financial statement disclosures. SAB 108 must be applied to annual financial statements for the first fiscal year ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on the Company s consolidated financial position, results of operations or cash flow.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurement (FAS 157). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company has not determined the effect that the adoption of FAS 157 will have on its consolidated financial position, results of operations or cash flows.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this section of the report, including statements regarding sales under OVERVIEW and statements under FINANCIAL CONDITION AND LIQUIDITY , are forward-looking. While Giga-tronics believes that these statements are accurate, Giga-tronics business is dependent upon general economic conditions and various conditions specific to the test and measurement, wireless and semiconductor industries. Future trends and these factors could cause actual results to differ materially from the forward-looking statements that we have made. In particular: Giga-tronics core business is test and measurement, as well as components for the wireless communications market, which continue to be soft. The Company s commercial product backlog has a number of risks and uncertainties such as the cancellation or deferral of orders, dispute over performance and our ability to collect amounts due. If the commercial market should decline further, then shipments in the current year could fall short of plan resulting in a decline in earnings. Also, Giga-tronics has a significant number of defense-related orders.

If the defense market should decline, shipments in the current year could be less than anticipated and cause a decrease in earnings.

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The market for electronics equipment is characterized by rapidly changing technology and evolving industry standards. Giga-tronics believes that its future success will depend, in part, upon its ability to develop and commercialize its existing products, develop new products and applications and in part to develop, manufacture and successfully introduce new products and product lines with improved capabilities and continue enhancing existing products. There can be no assurance that Giga-tronics will successfully complete the development of current or future products or that such products will achieve market acceptance. Giga-tronics may also experience difficulty obtaining critical parts or components required in the manufacturing of our products, resulting in an inability to fulfill orders in a timely manner, which may have a negative impact on earnings. Also, the Company may not timely ramp manufacturing capacity to meet order demand and quickly adapt cost structures to changing market conditions.

As part of its business strategy, Giga-tronics has in the past broadened its product lines and expanded its markets, in part through the acquisition of other business entities, and it may do so in the future. The Company is subject to various risks in connection with past and any future acquisitions. Such risks include, among other things, the difficulty of assimilating the operations and personnel of the acquired companies, the potential disruption of the Company s business, the inability of the Company s management to maximize the financial and strategic position of the Company by the successful incorporation of acquired technology and rights into the Company s product offerings, the maintenance of uniform standards, controls, procedures and policies, and the potential loss of key employees of acquired companies. No assurance can be given that any acquisition by Giga-tronics will or will not occur, that if an acquisition does occur, that it will not materially and adversely affect the Company or that any such acquisition will be successful in enhancing the Company s business. Giga-tronics currently contemplates that future acquisitions may involve the issuance of additional shares of the Company s common stock. Any such issuance may result in dilution to all shareholders of the Company, and sales of such shares in significant volume by the shareholders of acquired companies may depress the price of the Company s common stock.

Item 3

Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures provide reasonable assurances that the information the Company is required to disclose in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period required by the Commission s rules and forms. There were no significant changes in the Company s 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 controls over financial reporting.

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Part II OTHER INFORMATION

Item 1

Legal Proceedings

As of June 30, 2007, Giga-tronics has no material pending legal proceedings. From time to time, Giga-tronics is involved in various disputes and litigation matters that arise in the ordinary course of business.

Item 6

EXHIBITS

Exhibits

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.

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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: August 3, 2007	/s/ JOHN R. REGAZZI John R. Regazzi President and Chief Executive Officer (Principal Executive Officer)
Date: August 3, 2007	/s/ PATRICK J. LAWLOR Patrick J. Lawlor Vice President, Finance/ Chief Financial Officer and Secretary (Principal Accounting Officer)

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