

GIGA TRONICS INC
Form 10-Q
February 12, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO
 SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended **December 29, 2018**
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. **001-14605**

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.)

5990 Gleason Drive, Dublin CA 94568
(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 every Interactive Data File required to be submitted 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 such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

There were a total of 10,996,511 shares of the Registrant’s Common Stock outstanding as of February 7, 2019.

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FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about Giga-tronics Incorporated (the “Company” or “we”) for which it claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, capital structure and other financial items; (ii) statements of plans, objectives and expectations of the Company or its management or board of directors, including those relating to products, revenue or cost savings; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes", "anticipates", "expects", "intends", "targeted", "projected", "continue", "remain", "will", "should", "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

These forward-looking statements are based on Management’s current knowledge and belief and include information concerning the Company’s possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company’s ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to risks related to (1) the Company’s potential inability to obtain necessary capital to finance its operations and to continue as a going concern; (2) the Company’s ability to develop competitive products in a market with rapidly changing technology and standards; (3) the results of pending or threatened litigation; (4) risks related to customers’ credit worthiness/profiles; (5) changes in the Company’s credit profile and its ability to borrow; (6) a potential decline in demand for certain of the Company’s products; (7) potential product liability claims; (8) the potential loss of key personnel; and (9) U.S. and international economic conditions. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. The reader is directed to the Company’s annual report on Form 10-K for the year ended March 31, 2018 or further discussion of factors that could affect the Company’s business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

PART I – FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS****GIGA-TRONICS INCORPORATED****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(In thousands except share data)	December 29, 2018	March 31, 2018
Assets		
Current assets:		
Cash and cash-equivalents	\$448	\$1,485
Trade accounts receivable, net of allowance of \$8 and \$8, respectively	694	364
Inventories, net	3,182	5,487
Prepaid expenses and other current assets	1,464	87
Total current assets	5,788	7,423
Property and equipment, net	627	833
Other long-term assets	175	175
Total assets	\$6,590	\$8,431
Liabilities and shareholders' equity		
Current liabilities:		
Line of credit	\$455	\$552
Accounts payable	928	996
Loan payable, net of discounts and issuance costs	1,693	1,447
Accrued payroll and benefits	598	343
Deferred revenue	251	3,374
Capital lease obligations	43	52
Deferred liability related to asset sale	40	40
Deferred rent	69	58
Other current liabilities	870	947
Total current liabilities	4,947	7,809
Long term deferred rent	375	429
Long term obligations - capital lease	31	62
Total liabilities	5,353	8,300
Commitments and contingencies		
Shareholders' equity:		
Convertible preferred stock of no par value Authorized - 1,000,000 shares Series A - designated 250,000 shares; no shares at December 29, 2018 and March 31, 2018 issued and outstanding	—	—
Series B, C, D- designated 19,500 shares; 18,533.51 shares at December 29, 2018 and March 31, 2018 issued and outstanding; (liquidation preference of \$3,540 at December 29, 2018 and	2,911	2,911

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March 31, 2018)

Series E- designated 100,000 shares; 80,400 shares at December 29, 2018 and 43,800 shares at March 31, 2018 issued and outstanding; (liquidation preference of \$3,015 at December 29, 2018 and \$1,643 March 31, 2018)	1,439	702
Common stock of no par value; Authorized - 40,000,000 shares; 10,996,511 shares at December 29, 2018 and 10,312,653 shares at March 31, 2018 issued and outstanding	25,478	25,200
Accumulated deficit	(28,591)	(28,682)
Total shareholders' equity	1,237	131
Total liabilities and shareholders' equity	\$6,590	\$8,431

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

GIGA-TRONICS INCORPORATED**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	Three Month Periods Ended		Nine Month Periods Ended	
	December 29,	December 30,	December 29,	December 30,
	2018	2017	2018	2017
(In thousands except per share data)				
Revenue				
Goods	\$100	\$ 1,989	\$416	\$ 2,819
Services	1,793	1,231	7,207	4,634
Total Revenue	1,893	3,220	7,623	7,453
Cost of sales	1,069	2,415	4,367	5,695
Gross profit	824	805	3,256	1,758
Operating expenses:				
Engineering	302	452	1,020	1,313
Selling, general and administrative	853	891	2,754	3,158
Total operating expenses	1,155	1,343	3,774	4,471
Operating loss	(331)	(538)	(518)	(2,713)
Gain on sale of product line	—	324	—	324
Gain on adjustment of warrant liability to fair value	—	7	—	67
Interest expense:				
Interest expense, net	(128)	(71)	(363)	(238)
Interest expense from accretion of loan discount	(58)	(35)	(163)	(90)
Total interest expense, net	(186)	(106)	(526)	(328)
Loss before income taxes	(517)	(313)	(1,044)	(2,650)
Provision for income taxes	—	—	42	2
Net loss	\$(517)	\$(313)	\$(1,086)	\$(2,652)
Loss per common share - basic	\$(0.05)	\$(0.03)	\$(0.10)	\$(0.27)
Loss per common share - diluted	\$(0.05)	\$(0.03)	\$(0.10)	\$(0.27)
Weighted average shares used in per share calculation:				
Basic	10,676	9,798	10,408	9,769
Diluted	10,676	9,798	10,408	9,769

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

GIGA-TRONICS INCORPORATED**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(In thousands)	Nine Month Periods Ended	
	December 29, 2018	December 30, 2017
Cash flows from operating activities:		
Net loss	\$(1,086)	\$(2,652)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	206	1,025
Share based compensation	168	174
Adjustment of warrant liability to fair value	—	(67)
Accretion of discounts and issuance costs on debt	163	100
Change in fair value of equity forward	—	16
Change in other long-term liabilities	—	31
Accrued interest and fees on loan payable	84	—
Change in deferred rent	(43)	499
Gain on sale of product line	—	(375)
Changes in operating assets and liabilities		
Trade accounts receivable	(330)	124
Inventories	724	(610)
Prepaid expenses and other assets	(1,188)	383
Accounts payable	(68)	356
Accrued payroll and benefits	255	(144)
Deferred revenue	(556)	(524)
Other current liabilities	(77)	299
Net cash used in operating activities	(1,748)	(1,365)
Cash flows from investing activities:		
Purchases of property and equipment	—	(685)
Net cash used in investing activities	—	(685)
Cash flows from financing activities:		
Proceeds from borrowings, net of issuance costs	—	1,456
Repayments of line of credit	(97)	(30)
Principal payments on capital leases	(40)	(37)
Proceeds from issuance of preferred stock, net of issuance costs		