GIGA TRONICS INC
Form 10QSB
November 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 September 29, 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 and 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 November 6, 2007: 4,814,021 shares

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

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Part I FINANCIAL INFORMATION
Item 1

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands except share data)	September 29, 2007	March 31, 2007
(Unaudited)		
Assets		
Current assets		
Cash and cash equivalents	$ 1,617	$ 1,804
Trade accounts receivable, net	2,591	2,750
Inventories	5,740	5,841
Prepaid expenses and other assets	383	360
Total current assets	10,331	10,755
Property and equipment, net	353	324
Other assets	19	82
Total assets	$ 10,703	$ 11,161
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	$ 809	$ 1,106
Accrued commissions	206	192
Accrued payroll and benefits	555	666
Accrued warranty	181	207
Customer advances	538	681
Other current liabilities	443	623
Total current liabilities	2,732	3,475
Deferred rent	192	293
Total liabilities	2,924	3,768
Commitments		
Shareholders equity		
Preferred stock of no par value; Authorized 1,000,000 shares; no shares issued and outstanding at September 29, 2007 and March 31, 2007		
Common stock of no par value; Authorized 40,000,000 shares; 4,814,021 shares at September 29, 2007 and 4,809,021 at March 31, 2007 issued and outstanding	13,271	13,165
Accumulated deficit	(5,492)	(5,772)
Total shareholders equity	7,779	7,393
Total liabilities and shareholders equity	$ 10,703	$ 11,161

See accompanying notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
(In thousands except per share data)	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
(Unaudited)				
Net sales	$ 4,651	$ 3,934	$ 9,279	$ 7,320
Cost of sales	2,570	2,077	5,254	4,264
Gross profit	2,081	1,857	4,025	3,056
Engineering	514	938	1,100	1,899
Selling, general and administrative	1,365	1,368	2,640	2,665
Restructuring			80	
Operating expenses	1,879	2,306	3,820	4,564
Operating income (loss)	202	(449)	205	(1,508)
Other expense	13			
Interest income, net	9	37	23	66
Income (loss) from continuing operations before income taxes	198	(412)	228	(1,442)
Provision for income taxes		1	2	1
Income (loss) from continuing operations	198	(413)	226	(1,443)
(Loss) income on discontinued operations, net of income taxes	(10)	10	54	13
Net income (loss)	$ 188	$ (403)	$ 280	$ (1,430)
Basic net income (loss) per share:				
From continuing operations	$ 0.04	$ (0.08)	$ 0.05	$ (0.30)
On discontinued operations	(0.00)	0.00	0.01	0.00
Basic net income (loss) per share	$ 0.04	$ (0.08)	$ 0.06	$ (0.30)
Diluted net income (loss) per share:				
From continuing operations	$ 0.04	$ (0.08)	$ 0.05	$ (0.30)
On discontinued operations	(0.00)	0.00	0.01	0.00

Diluted net income (loss) per share	$ 0.04	$ (0.08)	$ 0.06	$ (0.30)
Shares used in per share calculation:				
Basic	4,810	4,809	4,810	4,809
Diluted	4,880	4,809	4,871	4,809

See accompanying notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements Of Cash Flows

(In thousands) (Unaudited)	Six Months Ended September 29, 2007	Six Months Ended September 30, 2006
Cash flows from operations:		
Net income (loss)	$ 280	$ (1,430)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operations:		
Depreciation and amortization	65	124
Share based compensation	96	72
Deferred rent	(101)	(49)
Changes in operating assets and liabilities	(443)	1,319
Net cash (used in) provided by operations	(103)	36
Cash flows from investing activities:		
Proceeds from sale of equipment		2
Purchases of property and equipment	(94)	(164)
Net cash used in investing activities	(94)	(162)
Cash flows from financing activities:		
Issuance of common stock	10	
Net cash provided by financing activities	10	
Decrease in cash and cash equivalents	(187)	(126)
Cash and cash equivalents at beginning of period	1,804	3,412
Cash and cash equivalents at end of period	$ 1,617	$ 3,286

Supplementary disclosure of cash flow information:
Cash paid for income taxes was $2 for the six month period ended September 29, 2007. Cash paid for income taxes was $1 for the six month period ended September 30, 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 only normal recurring accruals) 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 fiscal 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 the value of this collateral deteriorated during fiscal 2005. Accordingly, the Company considers the note receivable to be impaired and has recorded a provision for loss of $250,000 through discontinued operations in the 2005 fiscal year. During the six month period ended September 29, 2007, the Company recorded $54,000 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 September 29, 2007 and March 31, 2007:

Inventory

(In thousands)	September 29, 2007	March 31, 2007
Raw materials	$ 3,182	$ 3,163
Work-in-progress	2,004	2,128
Finished goods	184	209
Demonstration inventory	370	341
Total inventory	$ 5,740	$ 5,841

(5) Earnings (Loss) 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		Six Months Ended	
(In thousands except per share data)	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Net income (loss)	$ 188	$ (403)	$ 280	$ (1,430)
Weighted average:				
Common shares outstanding	4,810	4,809	4,810	4,809
Potential common shares	70		61	
Common shares assuming dilution	4,880	4,809	4,871	4,809
Net income (loss) per share of common stock	0.04	(0.08)	0.06	(0.30)
Net income (loss) per share of common stock assuming dilution	0.04	(0.08)	0.06	(0.30)
Stock options not included in computation	393	698	393	698

The number of stock options not included in the computation of diluted EPS for the three and six month period ended September 29, 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 and six month periods ended September 30, 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 $2.45 and $2.03 as of September 29, 2007 and September 30, 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

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in the first half of fiscal 2008. There were 328,900 option grants made in the six month period ended September 30, 2006.

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 and six month periods ended September 29, 2007 and September 30, 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 September 30, 2006
Dividend yield	None
Expected volatility	72.80%
Risk-free interest rate	4.97%
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 September 29, 2007, there was $362,000 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 1.61 years. There were 61,000 and 13,100 options that vested during the three month periods ended September 29, 2007 and September 30, 2006, respectively. The total fair value of options vested during the three month periods ended September 29, 2007 and September 30, 2006 was $61,600 and $15,700, respectively. There were 73,500 and 19,500 options that vested during the six month periods ended September 29, 2007 and September 30, 2006, respectively. The total fair value of options vested during the six month periods ended September 29, 2007 and September 30, 2006 was $78,100 and $25,000, respectively. Cash received from the exercise of stock options for the three month period ended September 29, 2007 was $9,800. No cash was received from stock option exercises for the three month period ended September 30, 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. Transactions and balances between segments are eliminated in consolidation.

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Information on reportable segments is as follows:

(In thousands)	Three Months Ended September 29, 2007		Three Months Ended September 30, 2006	
	Net Sales	Pre-tax Income (loss)	Net Sales	Pre-tax Income (loss)
Giga-tronics Instrument	$2,021	$ (319)	$1,606	$ (668)
ASCOR	1,563	488	885	(130)
Microsource	1,067	56	1,443	70
Corporate		(27)		316
Total	$4,651	$ 198	$3,934	$ (412)

(In thousands)	Six Months Ended September 29, 2007		Six Months Ended September 30, 2006	
	Net Sales	Pre-tax Income (loss)	Net Sales	Pre-tax Income (loss)
Giga-tronics Instrument	$4,454	$ (663)	$3,376	$ (1,310)
ASCOR	2,556	694	1,487	(409)
Microsource	2,269	229	2,457	(377)
Corporate		(32)		654
Total	$9,279	$ 228	$7,320	$(1,442)

(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 September 29, 2007	Three Months Ended September 30, 2006	Six Months Ended September 29, 2007	Six Months Ended September 30, 2006
Balance at beginning of period	$ 195	$ 244	$ 207	$ 250
Provision, net	26	(26)	79	16
Warranty costs incurred	(40)	(28)	(105)	(76)
Balance at end of period	$ 181	$ 190	$ 181	$ 190

(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 for the six month period ended September 29, 2007 was a one-time restructuring charge of $80,000 in severance costs.

(10) 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

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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.

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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 fiscal year 2008, our business has 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 reduction in defense orders for the second quarter versus the first quarter of fiscal 2008. However, defense orders have improved on a year to date basis for fiscal 2008 versus fiscal 2007. The Company has seen some improvement in commercial orders for the second quarter versus the first quarter of fiscal 2008, whereas year to date commercial orders are down in fiscal 2008 versus fiscal 2007. On a year to date basis, total orders are relatively flat.

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.

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.

Results of Operations

New orders received from continuing operations in the second quarter of fiscal 2008 decreased 36% to $3,751,000 from the $5,812,000 received in the second quarter of fiscal 2007. Orders received for the first half of fiscal 2008 remained relatively flat as compared to the first half of fiscal 2007. Orders received for the six month period ended September 29, 2007 and September 30, 2006 were $8,731,000 and $8,745,000, respectively.

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New orders by segment were as follows for the fiscal periods shown:

New Orders

(Dollars in thousands)	Three Months Ended September 29, 2007	% change	September 30, 2006	Six Months Ended September 29, 2007	% change	September 30, 2006
Instrument Division	$2,304	6%	$ 2,169	$4,696	16%	$ 4,067
ASCOR	1,232	(19%)	1,528	3,284	49%	2,199
Microsource	215	(90%)	2,115	751	(70%)	2,479
Total	$3,751	(36%)	$ 5,812	$8,731		$ 8,745

Orders at the Instrument Division increased for the three and six month periods ended September 29, 2007 primarily due to an increase in commercial demand for its products. Orders at ASCOR decreased in the second quarter of fiscal year 2008 as compared to the second quarter of fiscal year 2007 primarily due to a decrease in commercial demand for its products, whereas orders for ASCOR increased for the six month period ended September 29, 2007 due to an increase in military demand for its products. Orders at Microsource decreased for the three and six month periods ended September 29, 2007 primarily due to a decrease in commercial demand for its products.

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

(Dollars in thousands)	September 29, 2007	% Change	September 30, 2006
Backlog of unfilled orders	$ 7,891	(33%)	$ 11,754
Backlog of unfilled orders shippable within one year	5,389	(33%)	7,980
Previous fiscal year (FY) quarter end backlog reclassified during year as shippable later than one year	297	70%	175
Net cancellations during year of previous FY quarter end one-year backlog			862

Backlog at the end of the first half of fiscal 2008 decreased 33% 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 fiscal periods shown:

Net Sales

(Dollars in thousands)	Three Months Ended September 29, 2007	% change	September 30, 2006	Six Months Ended September 29, 2007	% change	September 30, 2006
Instrument Division	$2,021	26%	$ 1,606	$4,454	32%	$ 3,376
ASCOR	1,563	77%	885	2,556	72%	1,487
Microsource	1,067	(26%)	1,443	2,269	(8%)	2,457

Total	$4,651	18%	$	3,934	$9,279	27%	$ 7,320

Fiscal 2008 second quarter net sales from continuing operations were $4,651,000, an 18% increase from the $3,934,000 in the second quarter of fiscal 2007. Sales at the Instrument Division increased 26% or $415,000, ASCOR sales increased 77% or $678,000 and sales at Microsource decreased 26% or $376,000 during the second quarter of fiscal 2008 versus the second quarter of fiscal 2007. For the six months ended September 29, 2007 sales increased 27% to $9,279,000 from $7,320,000 for the same period in the prior year. Sales at the Instrument Division increased 32% or $1,078,000, ASCOR sales increased 72% or $1,069,000 and sales at Microsource decreased 8% or $188,000 during the first half of fiscal 2008 versus the first half of fiscal 2007. The increase in sales at the Instrument Division for the second quarter of fiscal 2008 was a result of an increase in commercial shipments, whereas the increase in sales for the first half of fiscal 2008 was primarily a result of an increase in military shipments. The increase in ASCOR sales for the three and six month periods ended September 29, 2007 was primarily due to an increase in military demand for its products. The decrease in shipments at Microsource for the three and six month periods ended September 29, 2007 is due to lower shipping requirements for that year on a five year contract with Boeing.

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

Cost of Sales

(Dollars in thousands)	Three Months Ended September 29, 2007	% change	September 30, 2006	Six Months Ended September 29, 2007	% change	September 30, 2006
Cost of sales	$2,570	24%	$ 2,077	$5,254	23%	$ 4,264

In the second quarter of fiscal 2008, cost of sales from continuing operations increased 24% to $2,570,000 from $2,077,000 for the same period last year primarily due to an increase in shipment levels. For the six months ended September 29, 2007, cost of sales from continuing operations increased 23% to $5,254,000 from $4,264,000 for the similar period ended September 30, 2006. This increase is primarily attributable to an increase in shipment levels and, on a year to date basis, the total cost of sales ratio has gone down one percent.

Operating expenses were as follows for the fiscal periods shown:

Operating Expenses

(Dollars in thousands)	Three Months Ended September 29, 2007	% change	September 30, 2006	Six Months Ended September 29, 2007	% change	September 30, 2006
Engineering	$ 514	(45%)	$ 938	$1,100	(42%)	$ 1,899
Selling, general and administrative	1,365		1,368	2,640	(1%)	2,665
Restructuring				80		
Total	$1,879	(19%)	$ 2,306	$3,820	(16%)	$ 4,564

Operating expenses from continuing operations decreased 19% or $427,000 in the second quarter of fiscal 2008 over fiscal 2007. This was the result of the restructuring that had previously occurred in the first quarter of fiscal 2008. Engineering costs from continuing operations decreased 45% or $424,000 in the second quarter of fiscal 2008. Selling, general and administrative expenses from continuing operations decreased less than one percent or $3,000 for the second quarter of fiscal year 2008 compared to the same period in the prior year. The decrease is a result higher commission expenses of $148,000 on higher commissionable sales for the quarter, offset by lower administrative expenses of $151,000.

Operating expenses from continuing operations decreased 16% or $744,000 for the six months ended September 29, 2007 over the same period for the prior year. This was the result of the restructuring that had previously occurred. A one-time restructuring charge of $80,000 in severance costs was made in the first quarter of fiscal 2008. Engineering costs from continuing operations decreased 42% or $799,000 for the six month period ended September 29, 2007. Selling, general and administrative expenses from continuing operations decreased 1% or $25,000 for the six month period ended September 29, 2007. The decrease is a result higher commission expenses of $274,000 on higher commissionable sales for the quarter and higher marketing expenses of $89,000, offset by lower administrative expenses of $388,000.

Giga-tronics recorded net income of $188,000 or $0.04 per fully diluted share for the second quarter of fiscal 2008 versus a net loss of $403,000 or $0.08 per fully diluted share in the same period last year. Giga-tronics recorded net income of $280,000 or $0.06 per fully diluted share for the first half of fiscal 2008 versus a net loss of $1,430,000 or

$0.30 per fully diluted share in the same period last year.

Financial Condition and Liquidity

As of September 29, 2007, Giga-tronics had $1,617,000 in cash and cash equivalents, compared to $1,804,000 as of March 31, 2007.

Working capital at September 29, 2007 was $7,599,000 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.

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The Company s current ratio (current assets divided by current liabilities) at September 29, 2007 was 3.8 compared to 3.09 on March 31, 2007.

Cash used in operations amounted to $103,000 in the first half of fiscal 2008. Cash provided by operations amounted to $36,000 in the same period of fiscal 2007. Cash used by operations in the first half of fiscal 2008 is primarily attributed to the net change in operating assets and liabilities offset by the operating income in the year. Cash provided by operations in the first half of fiscal 2007 was primarily attributed to the net change in operating assets and liabilities offset by the operating loss in the year.

Additions to property and equipment were $94,000 in the first half of fiscal 2008 compared to $164,000 for the same period last year. The capital equipment spending in fiscal 2008 was due to the implementation of the ERP (Enterprise Resource Plan) system at Microsource. 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 September 29, 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 September 29, 2007. Management has, therefore, established a valuation allowance against its net deferred tax assets as of September 29, 2007.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are likely to have a current or future material effect on the Company s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

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.

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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 of test and measurement, as well as components for the wireless communications market has improved. The Company s 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 market should decline further, then shipments in the current year could fall short of plan resulting in a decline in earnings or further losses.

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.

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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 control over financial reporting.

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Part II OTHER INFORMATION

Item 1

Legal Proceedings

As of November 6, 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 4

Submission of matters to a vote of security holders

Annual Meeting of stockholders was held on September 25, 2007.

(1) The vote for the nominated Directors was as follows:

Nominee	In Favor	Withheld
George H. Bruns, Jr.	3,566,327	81,928
James A. Cole	3,566,327	81,928
Garrett A. Garrettson	3,561,627	86,628
Kenneth A. Harvey	3,563,627	84,628
John R. Regazzi	3,566,527	81,728
Robert C. Wilson	3,563,427	84,828

(2) Other matters voted upon at the meeting were as follows:

(a) Ratification of the selection of Perry-Smith LLP as independent public accountants for the fiscal year 2008 was approved as follows:

	No. of Votes on Proposal	Percent of Votes Cast
For	3,616,883	99.14%
Against	13,719	0.38%
Abstain	17,653	0.48%
Quorum	3,648,255	100.00%

Broker non-voted Shares = 0

Outstanding shares on Record Date = 4,809,021

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)

Date: November 6, 2007

By: /s/ JOHN R. REGAZZI
John R. Regazzi
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 6, 2007

/s/ PATRICK J. LAWLOR
Patrick J. Lawlor
Vice President, Finance/
Chief Financial Officer and Secretary
(Principal Accounting Officer)

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