GIGA TRONICS INC
Form 10-K
June 09, 2015
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-K

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 28, 2015 ,
or

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____________ to _____________.

Commission File No. 0-12719

GIGA-TRONICS INCORPORATED
(Exact name of registrant as specified in its charter)

California	94-2656341
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4650 Norris Canyon Road, San Ramon, CA	94583
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

Common Stock, No par value The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

[X]

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[X]

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

Yes [ ] No [X]

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the price at which the common equity was sold or the average bid and asked prices as of September 27, 2014 was $9,731,799.

There were a total of 6,725,281 shares of the Registrant's Common Stock outstanding as of June 2, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated by reference into the parts indicated:

PART OF FORM 10-K	DOCUMENT
PART III	Registrant's PROXY STATEMENT for its 2015 Annual Meeting of Shareholders to be filed no later than 120 days after the close of the fiscal year ended March 28, 2015.

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PART 1

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 discussed under "Certain Factors Which May Adversely Affect Future Operations Or An Investment In Giga-tronics" in Item 1 below and in Item 7, "Management's Discussion and Analysis".

ITEM 1. BUSINESS

General

Giga-tronics Incorporated (Giga-tronics, or the Company) includes the operations of the Giga-tronics Division and Microsource Inc. (Microsource), a wholly owned subsidiary. Giga-tronics Division designs, manufactures and markets 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. These products are used primarily in the design, production, repair and maintenance of commercial telecommunications, radar, and electronic warfare equipment.

Microsource develops and manufactures a broad line of YIG (Yttrium, Iron, Garnet) tuned oscillators, filters and microwave synthesizers, which are used by its customers in operational applications and in manufacturing a wide variety of microwave instruments and devices.

Giga-tronics was incorporated on March 5, 1980, and Microsource was acquired by Giga-tronics on May 18, 1998.

The combined Company principal executive offices are located at 4650 Norris Canyon Road, San Ramon, California, and its telephone number at that location is (925) 328-4650.

Giga-tronics intends to broaden its product lines and expand its market primarily through internal development of new products.

Industry Segments

The Company manufactures products used in test, measurement and control. The Company has two reporting segments: Giga-tronics Division and Microsource.

For more information regarding the Company's two reporting segments, see "Part II-Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements-Significant Customers and Industry Segment Information."

Products and Markets

Giga-tronics

The Giga-tronics Division produces signal sources, generators, power measurement and amplification instruments for use in the microwave and radio frequency (RF) range (10 kilohertz (kHz) to 50 gigahertz (GHz)). Within each product line are a number of different models and options allowing customers to select frequency range and specialized capabilities, features and functions. The end-user markets for these products can be divided into three broad segments: electronic warfare, radar and commercial telecommunications. These instruments are used in the design, production, repair and maintenance and calibration of other manufacturers' products, from discrete components to complex systems.

The Giga-tronics Division also produces switching systems that operate with a bandwidth from direct current (DC) to optical frequencies. These switch systems may be incorporated within customers' automated test equipment. The end-user markets for these products are primarily related to defense, aeronautics, communications, satellite and electronic warfare, commercial aviation and semiconductors.

Microsource

The Microsource segment develops and manufactures a broad line of YIG tuned oscillators, filters, filter components, and microwave synthesizers, which are used by its customers in operational applications and in manufacturing a wide variety of microwave instruments or devices. The end-user markets for these products are primarily related to defense and commercial aerospace.

Sources and Availability of Raw Materials and Components

Substantially all of the components required by Giga-tronics to make its assemblies are available from more than one source. The Company occasionally uses sole source arrangements to obtain leading-edge technology or favorable pricing or supply terms, but not in any material volume. In the Company's opinion, the loss of any sole source arrangement it has would not be material to its operations. Some suppliers are also competitors of Giga-tronics. In the event a competitor-supplier chooses not sell its products to Giga-tronics, production delays could occur as the Company seeks new suppliers; or, as the Company re-designs components to its products.

Although extended delays in receipt of components from its suppliers could result in longer product delivery schedules for the Company, the Company believes that its protection against this possibility stems from its practice of dealing with well-established suppliers and maintaining good relationships with such suppliers.

Patents and Licenses

The Company's competitive position is largely dependent upon its ability to provide performance specifications for its instruments and systems that (a) are easy to use and effectively and reliably meet customers' needs and (b) selectively surpass competitors' specifications in competing products. Patents may occasionally provide some short-term protection of proprietary designs. However, because of the rapid progress of technological development in the Company's industry, such protection is most often, although not always, short-lived. Therefore, although the Company occasionally pursues patent coverage, it places major emphasis on the development of new products with superior performance specifications and the upgrading of existing products toward this same end.

The Company's products are based on its own designs, which are derived from its own engineering abilities. If the Company's new product engineering efforts fall behind, its competitive position weakens. Conversely, effective product development greatly enhances its competitive status.

The Company presently holds 31 patents. Some of these are critical to the Company's ongoing business, and the Company intends to actively maintain them. Capitalized costs relating to these patents were both incurred and fully amortized prior to March 27, 2011. Accordingly, these patents have no recorded value included in the Company's consolidated financial statements for the fiscal years ended March 28, 2015 ("fiscal 2015") and March 29, 2014 ("fiscal 2014").

The Company is not dependent on trademarks, licenses or franchises. It does utilize certain software licenses in certain functional aspects for some of its products. Such licenses are readily available, non-exclusive and are obtained at either no cost or for a relatively small fee.

Seasonal Nature of Business

The business of the Company is not seasonal.

Working Capital Practices

The Company generally strives to maintain adequate levels of inventory and generally sells to customers on 30-day payment terms in the U.S. and generally allows more time for overseas payments. Typically, the Company receives payment terms of 30 days from its suppliers. The Company believes that these practices are consistent with typical industry practices.

Importance of Limited Number of Customers

The Company is a supplier of microwave and RF test instruments to various United States (U.S.) government defense agencies, as well as to their prime contractors. Management anticipates sales to U.S. government agencies and their prime contractors will remain significant in fiscal 2016. U.S. and international defense-related agencies accounted for 73% and 57% of net sales in fiscal 2015 and 2014, respectively. Commercial business accounted for the remaining 27% and 43% of net sales in fiscal 2015 and fiscal 2014, respectively.

At the Giga-tronics Division, U.S. defense agencies and their prime contractors accounted for 40% and 25% of net sales in fiscal 2015 and fiscal 2014, respectively. Microsource reported 98% and 96% of net sales to U.S. defense agencies and their prime contractors during fiscal 2015 and fiscal 2014, respectively.

During fiscal 2015, one customer accounted for 28% of the Company’s consolidated revenues and was included in the Microsource reporting segment. A second customer accounted for 23% of the Company’s consolidated revenues during fiscal 2015 and was also included in the Microsource reporting segment. A third customer accounted for 14% of the Company’s consolidated revenues during fiscal 2015 and was included in the Giga-tronics Division reporting segment.

During fiscal 2014, one customer accounted for 39% of the Company’s consolidated revenues and was included in the Microsource reporting segment. A second customer accounted for 16% of the Company’s consolidated revenues during fiscal 2014 and was included in the Giga-tronics Division reporting segment.

In management’s opinion, the Company could experience a material adverse effect on its financial stability if there was a significant loss of either its defense or commercial customers.

The Company's products are largely capital investments for its customers, and the Company's belief is that its customers have economic cycles in which capital investment budgets for the kinds of products that the Company produces expand and contract. The Company, therefore, expects that a major customer in one year will often not be a major customer in the following year. Accordingly, the Company's net sales and earnings will decline if the Company is unable to find new customers or increase its business with other existing customers to replace declining net sales from the previous year's major customers. A substantial decline in net sales to U.S. government defense agencies and their prime contractors would also have a material adverse effect on the Company's net sales and results of operations unless replaced by net sales in the commercial sector.

Backlog of Orders

On March 28, 2015, the Company's backlog of unfilled orders was approximately $5.7 million compared to approximately $6.7 million at March 29, 2014. As of March 28, 2015, there were approximately $521,000 of orders scheduled for shipment beyond one year. As of March 29, 2014, there were approximately $1.2 million of orders scheduled for shipment beyond one year. Orders for the Company's products include program orders from both the U.S. government and defense contractors with extended delivery dates. Accordingly, the backlog of orders may vary substantially from year to year and the backlog entering any single quarter may not be indicative of sales for any period.

Backlog includes only those customer orders for which a delivery schedule has been agreed upon between the Company and the customer and, in the case of U.S. government orders, for which funding has been appropriated.

Competition

Giga-tronics serves the broad market for electronic instrumentation with applications ranging from the design, test, calibration and maintenance of other electronic devices to providing sophisticated components for complex electronic systems to sub-systems capable of sorting and identifying high frequency signals. These applications cut across the military, commercial and industrial segments of the broader market. The Company has a variety of competitors. Several of its competitors such as Agilent/Keysight, Anritsu and Rohde & Schwarz are much larger than the Company and have greater resources in research and development and manufacturing with substantially broader product lines and channels. Others are of comparable size or have small product divisions with more limited product lines, such as EADS Company, VTI Instruments, Elcom Group, Aeroflex (now Cobham Plc) and Herley Industries (now Kratos Electronic Products Division).

To compete effectively in this circumstance, the Company (a) places strong emphasis on maintaining a high degree of technical competence as it relates to the development of new products and the upgrading of existing products in less competitive growth areas, (b) is highly selective in establishing technological objectives and (c) focuses sales and marketing activities in areas that are weakly served or underserved. The Company does not attempt to compete ‘across the board’, but selectively based upon its particular strengths, the competitors’ perceived limitations, the customer’s needs and market opportunities.

The Company is able to compete by offering differentiated products that meet a customer’s particular specification requirements in high value niches; by being able to present the correct product functionality at a high quality level, and by configuring its core platforms to fit the application need. All of these advantages are attributable to the Company’s continuing investment in platform research and development and in a highly trained engineering staff.

When the opportunity involves custom solutions, satisfying the customer’s specific requirements assumes greater importance and the Company has more flexibility in making modifications and enhancements than its larger and more structured competitors.

Sales and Marketing

Giga-tronics and Microsource market their products through various independent distributors and representatives to commercial and government customers for its instrument products but sell primarily direct on its switch and component products, although not necessarily through the same distributors and representatives.

Product Development

Products of the type manufactured by Giga-tronics historically have had relatively long product life cycles. However, the electronics industry is subject to rapid technological changes at the component level. The future success of the Company is dependent on its ability to steadily incorporate advancements in component technologies into its new products. In fiscal 2015 and fiscal 2014, product development expenses totaled approximately $3.2 million and $3.9 million respectively.

Activities included the development of new products and the improvement of existing products. It is management’s intention to maintain product development at levels required to sustain its competitive position. The Company’s product development activities are funded internally, or through outside equity investment and debt. Product development activities are expensed as incurred.

The Company expects to continue to make significant investments in research and development. There can be no assurance that future technologies, processes or product developments will not render the Company’s current product offerings obsolete or that the Company will be able to develop and introduce new products or enhancements to existing products that satisfy customer needs in a timely manner or achieve market acceptance. Failure to do so could adversely affect the Company’s business.

Manufacturing

The assembly and testing of Giga-tronics Division and Microsource’s products are done at its San Ramon facility.

Environment

To the best of its knowledge, the Company is in compliance with all Federal, state and local laws and regulations involving the protection of the environment.

Employees

As of March 28, 2015 and March 29, 2014, the Company employed 71 and 76 individuals on a full-time basis, respectively. Management believes that the future success of the Company depends on its ability to attract and retain skilled personnel. None of the Company’s employees are represented by a labor union, and the Company considers its employee relations to be good.

Information about Foreign Operations

The Company sells to its international customers through a network of foreign technical sales representative organizations. All transactions between the Company and its international customers are in U.S. dollars.

Geographic Distribution of Net Sales

(Dollars in thousands)	**2015**	**2014**	**2015**	**2014**
Domestic	$16,985	$11,832	92 %	89 %
International	1,467	1,477	8 %	11 %
Total	$18,452	$13,309	100.0 %	100.0 %

See Item 8, footnote 7 of the consolidated financial statements for further breakdown of international sales for the last two years.

ITEM 1A. RISK FACTORS

Future liquidity is uncertain

Based on current levels of sales and expenses, and based on management's forecast of operations in the near future, management believes that cash and cash equivalents remain adequate to meet current operating needs. The cash forecasts are based on projections that may or may not be realized, and therefore actual cash usage could be greater than projected. In this circumstance, the Company could encounter a need to obtain additional funds from outside sources. If such additional working capital is required, there are no assurances that such financing sources will be available on favorable terms to the Company, if at all.

Customer orders and production of new product platform

The Company invested heavily in the development of its new product platform, the Advanced Signal Generation system. In the fourth quarter of fiscal 2015 two customers accepted their initial units of the Advanced Signal Generation System. Longer than anticipated sales cycles in fiscal 2016, or delays in production and shipping volume quantities, could significantly contribute to additional losses.

Ability to stay listed for trading on The NASDAQ Capital Market

If the Company's shareholders' equity falls below $2.5 million, The Nasdaq Stock Market could delist the Company from The Nasdaq Capital Market. On February 20, 2015, the Company received a letter from The Nasdaq Stock Market informing the Company that a Nasdaq Hearings Panel (the "Panel") determined that the Company had regained compliance with Nasdaq Listing Rule 5550(b)(1), the minimum stockholders' equity rule (the "Stockholders' Equity Rule"). As a result, the Panel determined that the Company is in compliance with all applicable listing standards required for listing on The Nasdaq Capital Market, and accordingly, the Panel has determined to continue the listing of the Company's securities on The Nasdaq Stock Market. However, because the Company has met compliance with the Stockholders' Equity Rule by a relatively small margin, the Panel has imposed a Panel Monitor to monitor the Company's continued compliance with the Stockholders' Equity Rule until February 27, 2016. The Company is under certain notification obligations during this time period, including the obligation to notify the Panel Monitor if it fails to comply with the Stockholders' Equity Rule or any other applicable listing requirement. If the Company's Common Stock ceases to be listed for trading on The Nasdaq Capital Market, the Company expects that its Common Stock would be traded on the Over-the-Counter Bulletin Board on or about the same day.

Giga-tronics' sales are substantially dependent on the defense industry

Giga-tronics has a significant number of defense-related orders. If the defense market demand decreases, actual shipments could be less than projected shipments with a resulting decline in sales. The Company's product backlog has a number of risks and uncertainties such as the cancellation or deferral of orders, dispute over performance and the Company's ability to collect amounts due under these orders. If any of these events occur, actual shipments could be lower than projected shipments and revenues could decline.

Giga-tronics' markets involve rapidly changing technology and standards

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, and in part to develop, manufacture and successfully introduce new products and product lines with improved capabilities and to continue to enhance 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. The inability to develop new products in a timely manner could have a material adverse impact on operating performance and liquidity.

Giga-tronics' common stock price is volatile

The market price of the Company's common stock could be subject to significant fluctuations in response to variations in quarterly operating results, reduction in revenues or lower earnings or increased losses and reduced levels of liquidity when compared to previous quarterly periods, and other factors such as announcements of technological innovations or new products by Giga-tronics or by competitors, government regulations or developments in patent or other proprietary rights. In addition, NASDAQ and other stock markets have experienced significant price fluctuations in recent years. Some of these fluctuations often have been unrelated to the reported operating performance of the specific companies whose stocks are traded. Broad market fluctuations, as well as general foreign and domestic economic conditions, may adversely affect the market price of the common stock.

Giga-tronics stock at any time has historically traded on low volume on the NASDAQ Capital Market. Sales of a significant volume of stock could result in a decline of Giga-tronics' share price.

Performance problems in Giga-tronics' products or problems arising from the use of its products together with other vendors' products may harm its business and reputation

Products as complex as those Giga-tronics produces may contain unknown and undetected defects or performance problems. For example, it is possible that a product might not comply with stipulated specifications under all circumstances. In addition, Giga-tronics' customers generally use its products together with their own products and products from other vendors. As a result, when problems occur in a combined environment, it may be difficult to identify the source of the problem. A defect or performance problem could result in lost revenues, increased warranty costs, diversion of engineering and management time and effort, impaired customer relationships and injury to Giga-tronics' reputation generally. To date, performance problems in Giga-tronics' products or in other products used together with Giga-tronics' products have not had a material adverse effect on its business. However, management cannot be certain that a material adverse impact will not occur in the future.

Giga-tronics' competition has greater resources

The Company's instrument, switch, oscillator and synthesizer products compete with Agilent/Keysight, Anritsu, EADS Company, Aeroflex (now Cobham Plc) and Rohde & Schwarz. All of these companies have substantially greater research and development, manufacturing, marketing, financial, and technological personnel and managerial resources than Giga-tronics. These resources also make these competitors better able to withstand difficult market conditions than the Company. There can be no assurance that any products developed by the competitors will not gain greater market acceptance than any developed by Giga-tronics.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Giga-tronics' principal executive office and the marketing, sales and engineering offices and manufacturing facilities are located in approximately 47,300 square feet in San Ramon, California, which the Company occupies under a lease agreement expiring December 31, 2016.

The Company believes that its facilities are adequate for its business activities.

ITEM 3. LEGAL PROCEEDINGS

A sole distributor of certain products has made a claim for commissions in connection with prior and future sales by the Company of products that the Company believes are excluded from the terms of the distribution agreement between the parties. As of March 28, 2015, the Company 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. MINE SAFETY DISCLOSURES

Not applicable

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PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES

Common Stock Market Prices

Giga-tronics' common stock is traded on the Nasdaq Capital Market using the symbol 'GIGA'. The number of record holders of the Company's common stock as of March 28, 2015 was approximately 113. The table below shows the high and low closing bid quotations for the common stock during the indicated fiscal periods. These quotations reflect inter-dealer prices without mark-ups, mark-downs, or commission and may not reflect actual transactions.

	2015	High	Low	2014	High	Low
First Quarter	(3/30 - 6/28)	$3.45	$1.16	(4/1 - 6/30)	$1.79	$1.37
Second Quarter	(6/29 - 9/27)	3.21	1.84	(7/1 - 9/28)	1.44	1.22
Third Quarter	(9/28 - 12/27)	2.00	1.40	(9/29 - 12/28)	1.24	0.90
Fourth Quarter	(12/28 - 3/28)	1.95	1.43	(12/29 - 3/29)	1.55	0.92

On February 20, 2015, the Company received a letter from The Nasdaq Stock Market informing the Company that a Nasdaq Hearings Panel (the "Panel") determined that the Company had regained compliance with Nasdaq Listing Rule 5550(b)(1), the minimum stockholders' equity rule (the "Stockholders' Equity Rule"). As a result, the Panel determined that the Company is in compliance with all applicable listing standards required for listing on The Nasdaq Capital Market, and accordingly, the Panel has determined to continue the listing of the Company's securities on The Nasdaq Stock Market. However, because the Company has met compliance with the Stockholders' Equity Rule by a relatively small margin, the Panel has imposed a Panel Monitor to monitor the Company's continued compliance with the Stockholders' Equity Rule until February 27, 2016. The Company is under certain notification obligations during this time period, including the obligation to notify the Panel Monitor if it fails to comply with the Stockholders' Equity Rule or any other applicable listing requirement. If the Company's Common Stock ceases to be listed for trading on the Nasdaq Capital Market, the Company expects that its Common Stock would be traded on the Over-the-Counter Bulletin Board on or about the same day.

The market price of the Company's Common Stock may be adversely affected if it ceases to be listed for trading on the Nasdaq Capital Market.

Giga-tronics has not paid cash dividends in the past and has no current plans to do so in the future, believing the best use of its available capital is in the enhancement of its product position.

On February 16, 2015, the Company entered into a Securities Purchase Agreement and Warrant Agreement with Alara Capital in which the Company received total gross cash proceeds of approximately $1.5 million. Funds were received from Alara in separate closings dated February 16, 2015 and February 23, 2015 in which Alara exercised a total of 1,002,818 of its existing Series C and Series D warrants to purchase common shares, all of which had an exercise price of $1.43 per share for total cash proceeds of $1,434,000, which was recorded net of $42,000 of issuance costs. As part of the consideration for this exercise, the Company sold to Alara two new warrants to purchase an additional 898,634 and 194,437 common shares at an exercise price of $1.78 and $1.76 per share, respectively, for a total purchase price of $137,000 or $0.125 per share, The new warrants have a term of five years and may be paid in cash or through a cashless net share settlement. The Company and Alara amended the remaining 14,587 warrants as part of the February closings. On May 14, 2015, Alara exercised the remaining 14,587 warrants by acquiring 7,216 of shares of the Company's common stock through a cashless net share settlement. All such transactions were previously reported in current reports on Form 8-K.

Equity Compensation Plan Information

The following table provides information on options and other equity rights outstanding and available at March 28, 2015.

Equity Compensation Plan Information

Plan Category	No. of securities to be issued upon exercise of outstanding options, stock awards, warrants and rights **(a)**	Weighted average exercise price of outstanding options, stock awards, warrants and rights **(b)**	No. of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) **(c)**
Equity compensation plans approved by security holders	2,208,975	$1.23	397,425
Equity compensation plans not approved by security holders	—	—	n/a
Total	2,208,975	$1.23	397,425

Issuer Repurchases

The Company did not repurchase any of its equity securities during the fiscal year ended March 28, 2015.

ITEM 6. SELECTED FINANCIAL DATA

Pursuant to Item 301(c) of Regulation S-K., the Company, as a smaller reporting company, is not required to provide the information required by this item.

ITEM 7. 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. The Company has two reporting segments: Giga-tronics Division and Microsource.

Giga-tronics Division produces a broad line of test and measurement equipment used in the development, test and maintenance of wireless communications products and systems, flight navigational equipment, electronic defense systems and automatic testing systems and designs, manufactures, and markets a line of switching devices that link together many specific purpose instruments that comprise automatic test systems. These products are used primarily in the design, production, repair and maintenance of radar, electronic warfare equipment and commercial telecommunications.

Microsource develops and manufactures a broad line of YIG (Yttrium, Iron, Garnet) tuned oscillators, filters and microwave synthesizers, which are used by its customers in operational applications and in manufacturing a wide variety of microwave instruments and devices.

In fiscal 2015 the Giga-tronics Division received a $2.4 million order from the United States Navy ("Navy") for its Model 8003 Precision Scalar Analyzers product ("8003"). The Navy was a significant customer for the Company in fiscal 2015. Also, in both fiscal 2015 and fiscal 2014 the Giga-tronics Division had a range of customers, both domestic and international, and one significant reseller.

In fiscal 2015 the Microsource business unit received a $6.5 million order from a major aerospace company for non-recurring engineering services to develop a variant of its high performance fast tuning YIG filters for an aircraft platform and to deliver a limited number of flight-qualified prototype hardware units (the "NRE Order"). On May 14, 2015 the Company finalized a multi-year follow-on order for $10.0 million associated with the production units, which are anticipated to start shipping in August of 2016.

In fiscal 2015 and fiscal 2014, almost all of the orders and sales for the Microsource business unit were from two large aerospace customers. Almost all the orders and revenue for the Microsource business is associated with programs for retrofitting radar filter components on existing military aircraft and radar filter components for new military aircraft.

The timing of orders and milestone achievements associated with these customers causes significant differences in orders, backlog, sales, deferred revenue, inventory and cash flow when comparing one fiscal period to another.

The Company experienced significant improvements to net sales and results of operations in fiscal 2015, when compared to fiscal 2014, due to the Giga-tronics Division Navy 8003 order and Microsource NRE Order.

Since fiscal 2012, the Company has invested heavily in the development of a new Advanced Signal Generation System. This investment contributed to substantial losses in fiscal years 2012 to 2014 and has comprised a significant portion of the Company’s research and development expenses since fiscal 2012. Late in fiscal 2015, the Company achieved an important milestone when two customers formally accepted their initial units of the Company’s new product. The Company believes the new Advanced Signal Generation System will significantly contribute to the Company’s long term success.

Results of Operations

New orders by reporting segment are as follows for the fiscal years ended:

NEW ORDERS			% change	
			2015 vs. 2014	**2014 vs. 2013**
(Dollars in thousands)	**2015**	**2014**		
Giga-tronics Division	$9,095	$8,684	5 %	(4%)
Microsource	8,416	4,947	70%	(43%)
Total	$17,511	$13,631	28%	(23%)

New orders received in fiscal 2015 increased 28% to $17.5 million from the $13.6 million received in fiscal 2014. The increase in orders was primarily due to Microsource's receipt in fiscal 2015 of the approximately $6.5 million NRE order from a large aerospace company. The increase in new orders for the Giga-tronics Division in fiscal 2015 is primarily due to the $2.4 million order from the Navy, which was partially offset by decreases in orders associated with older legacy Giga-tronics Division products.

New orders received in fiscal 2014 decreased 23% to $13.6 million from the $17.7 million received in fiscal 2013. The decrease was primarily due to Microsource's receipt in fiscal 2013 of $8.2 million in long term contracts from a large aerospace company compared to $4.0 million in fiscal 2014.

The following table shows order backlog and related information at fiscal year-end:

Backlog			% change	
			2015 vs. 2014	**2014 vs. 2013**
(Dollars in thousands)	**2015**	**2014**		
Backlog of unfilled orders	$5,729	$6,669	(14%)	(9%)
Backlog of unfilled orders shippable within one year	5,208	5,438	(4%)	(19%)
Long term backlog reclassified during year as shippable within one year	521	931	(44%)	(57%)

The decreases in backlog at the end of fiscal 2015 and fiscal 2014 are primarily due to the timing of the Microsource business unit's receipt of annual production contracts and production delivery schedules requested by customers.

The allocation of net sales by reporting segment was as follows for the fiscal years shown:

Allocation of Net Sales			% change	
			2015 vs. 2014	**2014 vs. 2013**
(Dollars in thousands)	**2015**	**2014**		
Giga-tronics Division	$9,123	$7,290	25%	(22 %)
Microsource	9,329	6,019	55%	25 %
Total	$18,452	$13,309	39%	(6%)

Net sales in fiscal 2015 were $18.5 million, a 39% increase from $13.3 million in fiscal 2014. Sales for the Giga-tronics Division increased 25%, or $1.8 million, primarily due to the fulfillment of the $2.4 million Navy 8003 order. Sales for the Microsource business unit increased 55%, or $3.3 million, largely due to recognizing $4.7 million of sales associated with the $6.5 million NRE Order received during the year. This was partially offset by a $1.4 million decrease in the delivery of YIG filter production units associated with the contractual timing of shipments to a large aerospace company.

Net sales in fiscal 2014 were $13.3 million, a 6% decrease from $14.2 million in fiscal 2013. Sales for the Giga-tronics Division decreased 22%, or $2.1 million, primarily due to a decrease in SCPM switch product sales as a result of the sale of this product line during fiscal 2014 (see Note 5, Gain on Sale of Product Line). Sales for the Microsource business unit increased 25%, or $1.2 million, largely due to the contractual timing of shipments associated with long-term contracts from a large aerospace company.

The allocation of cost of sales by reporting segment was as follows for the fiscal years shown:

Cost of Sales			% change	
(Dollars in thousands)	**2015**	**2014**	**2015 vs. 2014**	**2014 vs. 2013**
Giga-tronics Division	$5,600	$5,093	10%	(11 %)
Microsource	4,845	3,718	30%	25 %
Total	$10,445	$8,811	19%	1 %

Cost of sales as a percentage of sales decreased in fiscal 2015 to 56.6%, from 66.2% for fiscal 2014. The decrease in fiscal 2015 was primarily due to the fulfillment of the Microsource NRE Order, which had a lower cost of sales compared to product sales.

Cost of sales as a percentage of sales increased in fiscal 2014 to 66.2%, compared to 61.4% for fiscal 2013. The increase in fiscal 2014 was primarily due to the change in product mix of Giga-tronics Division, which saw an increase in the sales of lower margin legacy products in fiscal 2014 when compared to fiscal 2013.

Operating expenses were as follows for the fiscal years shown:

Operating Expenses			% change	
(Dollars in thousands)	**2015**	**2014**	**2015 vs. 2014**	**2014 vs. 2013**
Engineering	$3,210	$3,897	(18%)	(9%)
Selling, general and administrative	4,783	4,809	(1%)	(3%)
Restructuring	—	331	(100%)	(21%)
Total	$7,993	$9,037	(12%)	(7%)

Operating expenses decreased 12%, or $1.0 million, in fiscal 2015 compared to fiscal 2014. Engineering expenses decreased $687,000 during fiscal 2015 when compared to fiscal 2014, which was primarily due to certain engineers being assigned to a Microsource nonrecurring engineering project that is recorded as cost of sales. Selling, general and administrative expenses were approximately $4.8 million for both fiscal 2015 and fiscal 2014. Restructuring expenses decreased $331,000 in fiscal 2015 when compared to fiscal 2014, primarily due to the Company's completion of its closure of the Santa Rosa facility in May 2013. (see Note 13, Restructuring).

Operating expenses decreased 7%, or $639,000, in fiscal 2014 compared to fiscal 2013. Engineering expenses decreased $385,000 during fiscal 2014 when compared to fiscal 2013, which was primarily due to certain engineers being assigned to a Microsource nonrecurring engineering project that is recorded as cost of sales. Selling, general and administrative expenses decreased $167,000 in fiscal 2014 when compared to fiscal 2013, primarily due to reductions in personnel. Restructuring expenses decreased $87,000 in fiscal 2014 when compared to fiscal 2013, primarily due to the Company's completion of its closure of the Santa Rosa facility in May 2013. (see Note 13, Restructuring).

Operating Income (Loss)

Giga-tronics had operating income of $14,000 in fiscal 2015 compared to an operating loss of $4.5 million for fiscal 2014. The $4.5 million improvement in the results of operation in fiscal 2015 compared to fiscal 2014 was primarily due to increased revenues associated with the Microsource NRE Order and the Navy 8003 order.

Gain on the Sale of Product Line

On March 18, 2013, the Company entered into an Asset Purchase Agreement with Teradyne Inc. ("Teradyne"), whereby Teradyne agreed to purchase the Giga-tronics Division product line known as SCPM for $1.0 million, resulting in a net gain of $913,000 in fiscal 2014. (see Note 5, Gain on Sale of Product Line).

Warrant Charge Expense

In fiscal 2015 the Company recorded a $1.2 million one-time non-cash charge related to the issuance of new warrants in connection with a Stock Purchase Agreement and Warrant Agreement with Alara Capital dated February 16, 2015. Pursuant to the agreements, the Company received during February 2015 total cash proceeds of approximately $1.5 million through Alara's exercise of its existing Series C and Series D warrants to purchase common shares, all of which had an exercise price of $1.43 per share for total cash proceeds of $1,434,000, which was recorded net of $42,000 of stock issuance costs. As part of the consideration for this exercise, the Company sold to Alara two new warrants to purchase an additional 898,634 and 194,437 common shares at an exercise price of $1.78 and $1.76 per share, respectively, for a total purchase price of $137,500 or $0.125 per share. The new warrants were accounted for and resulted in the charges described above. (see Note 17, Exercise of Series C and Series D Warrants).

Net Interest Expense

Net interest expense in fiscal 2015 was $406,000, an increase of $300,000 over fiscal 2014 and was primarily due to borrowings under the Silicon Valley Bank ("SVB") line of credit and the loans from Partners For Growth IV, L.P. ("PFG"). For fiscal 2015, the Company also recorded $152,000 of interest expense related to accretion of discounts on the PFG Loan and Warrant Debt. There was no such accretion recorded in fiscal 2014 as the loan was funded in late fiscal 2014. (see Note 15, Term Loan, revolving Line of Credit and Warrants).

The SVB line of credit expired on April 15, 2015 and was replaced with a $2.5 million line of credit with Bridge Bank. (see Note 18, Subsequent Events).

Derivative Liability

For fiscal 2015 and 2014, there were no gains or losses recorded in association with the revaluation of the PFG debt derivative liability.

Net Loss

Giga-tronics recorded a pre-tax loss of $1.6 million for fiscal 2015 primarily due to the $1.2 million Alara Capital non-cash warrant charge described above. In fiscal 2014 Giga-tronics recorded a pre-tax loss of $3.7 million due to an operating loss of $4.5 million partially offset by a $913,000 gain on the sale of a product line described above.

Net Inventories

Inventories consisted of the following:

Net Inventories			% change **2015**	
(Dollars in thousands)	**March 28, 2015**	**March 29, 2014**	**vs. 2014**	
Raw materials	$1,631	$1,501	9	%
Work-in-progress	1,598	1,400	14	%
Finished goods	15	353	(96	%)
Demonstration inventory	121	67	81	%
Total	$3,365	$3,321	1	%

Net inventories increased by $44,000 from March 29, 2014 to March 28, 2015. The increase was primarily due to purchases of inventory for future product deliveries.

Financial Condition and Liquidity

As of March 28, 2015, Giga-tronics had $1.2 million in cash and cash-equivalents, compared to $1.1 million as of March 29, 2014.

Working capital at the end of fiscal year 2015 was $3.0 million as compared to $1.0 million at the end of fiscal year 2014. The current ratio (current assets divided by current liabilities) at March 28, 2015 was 1.69 as compared to 1.17 at March 29, 2014. The fiscal 2015 increase in working capital was primarily attributable to a $1.2 million decrease in the line of credit balance resulting from the receipt of $1.5 million in net cash proceeds from Alara Capital's exercise of its warrants (see Note 17, Exercise of Series C and Series D Warrants) and the $508,000 increase in accounts receivable due to the increase in net sales.

Cash used in operating activities amounted to $542,000 in fiscal 2015, primarily due to the net loss of $1.7 million, a $508,000 increase in accounts receivable due to increased sales, and a $457,000 decrease in accounts payable associated with the timing of vendor payments. These were partially offset by non-cash charges of $1.2 million for the Alara Capital warrants and $827,000 for share based compensation. Cash used in operating activities was $2.5 million in fiscal 2014, primarily attributed to the net loss of $3.7 million for the year, which was partially offset by a $1.2 million decrease in inventories.

Additions to property and equipment were $16,000 in fiscal 2015 compared to $228,000 in fiscal 2014. The additions in fiscal 2015 were associated with equipment required to manufacture the new product platform. The additions in the prior year were primarily due to leasehold improvements associated with moving the Microsource manufacturing to the San Ramon facility.

Cash provided by financing activities in fiscal year 2015 was $669,000, primarily due to $1.5 million in net proceeds from the exercise of existing Alara Capital warrants and $500,000 in proceeds from a revolving line of credit with PFG. These proceeds were partially offset by a $1.2 million repayment of the Company's line of credit with SVB and a $200,000 repayment on the term loan with PFG. Cash provided by financing activities in fiscal 2014 was $1.9 million which was primarily the result of $1.0 million in proceeds from the PFG term loan, and $817,000 in net proceeds from the issuance of Series D convertible preferred stock.

On February 16, 2015, the Company entered into a Securities Purchase Agreement and Warrant Agreement with Alara Capital AVI II, LLC ("Alara Capital"), an investment vehicle sponsored by AVI Partners, LLC ("AVI") (with both entities collectively referred to herein as "Alara"), in which the Company received total gross cash proceeds of approximately $1.5 million. Funds were received from Alara in separate closings dated February 16, 2015 and February 23, 2015 in which Alara exercised a total of 1,002,818 of its existing Series C and Series D warrants to purchase common shares, all of which had an exercise price of $1.43 per share for total cash proceeds of $1,434,000, which was recorded net of $42,000 of stock issuance costs. As part of the consideration for this exercise, the Company sold to Alara two new warrants to purchase an additional 898,634 and 194,437 common shares at an exercise price of $1.78 and $1.76 per share, respectively, for a total purchase price of $137,000 or $0.125 per share, The new warrants have a term of five years and may be paid in cash or through a cashless net share settlement. The Company and Alara amended the remaining 14,587 warrants as part of the February closings. On May 14, 2015, Alara exercised the remaining 14,587 warrants by acquiring 7,216 of shares of the Company's common stock through a cashless net share settlement.

On June 16, 2014, Giga-tronics amended its loan agreement with PFG. Under the terms of the amendment, PFG made a revolving line of credit available to Giga-tronics in the amount of $500,000 and the Company borrowed the entire amount on June 17, 2014. The Company's original agreement with PFG was entered into on March 13, 2014 under which the Company received $1.0 million from a three-year term loan. Pursuant to the amended loan agreement, the Company may borrow an additional $500,000. The loan agreement contains financial covenants associated with the Company achieving minimum quarterly net sales and maintaining a minimum monthly shareholders' equity. In the event of default by the Company, all or any part of the Company's obligation to PFG could become immediately due.

In fiscal 2012 the Company began to invest heavily in the development of a new Giga-tronics Division product platform, the Advanced Signal Generation System. Delays in completing the Advanced Signal Generation System have contributed significantly to the losses of the Company. In fiscal 2015 the Company's net loss was $1.7 million, which included a non-cash expense of $1.2 million related to the issuance of new warrants to Alara Capital and $152,000 of non-cash accretion of loan and warrant debt discounts. Also in fiscal 2015 the Company had operating income of $14,000, compared to an operating loss of $4.5 million in fiscal 2014.

In the fourth quarter of fiscal 2015 the Company received $1.5 million of net proceeds associated with Alara Capital exercising 1,002,818 of existing warrants (see Note 17, Exercise of Series C and Series D Warrants). Also in the fourth quarter of fiscal 2015 two customers formally accepted initial units of the Company's new Advanced Signal Generation System. With initial customer acceptance of Advanced Signal Generation System units, similar units of the new platform are in production for potential future sales to customers. The Company could experience longer than anticipated sales cycles or delays in production and shipping volume quantities of the Advanced Signal Generation System, however, the Company believes the Advanced Signal Generation System will significantly contribute to the Company's long term success. Furthermore management expects the Company's cash and liquidity needs will be met through fiscal 2016, even if the Company experiences such delays. On June 1, 2015 the Company entered into a two year $2.5 million Revolving Accounts Receivable Line of Credit agreement with Bridge Bank N.A ("Bridge Bank"). The Bridge Bank credit facility replaced the line of credit with SVB, which expired April 15, 2015. The $2.5 million credit facility includes $500,000 of available borrowing not based on accounts receivables. (see Note 18, Subsequent Events).

Given the improved net loss and operating income in fiscal 2015, the $1.5 million of cash received in the fourth quarter of fiscal 2015 from the Alara Capital warrant exercise, the $2.5 million June 1, 2015 Bridge Bank Revolving Accounts Receivable Line of Credit agreement, and management's forecasts of the Company's cash flows for fiscal 2016, management believes the Company will have the necessary liquidity to continue its operations at least for the next twelve months.

Contractual Obligations

The Company leases its facility under an operating lease that expires in December 2016 and leases certain equipment under operating leases. Total future minimum lease payments under these leases amount to approximately $1.3 million.

The Company leases equipment under capital leases that expire through May 2019. The future minimum lease payments under these leases are approximately $158,000.

The Company is committed to repay the PFG loan with a maturity date of January 2017. Future payments under this loan consist of $1.3 million in principal and $110,000 in interest.

The Company is committed to purchase certain inventory under non-cancelable purchase orders. As of March 28, 2015, total non–cancelable purchase orders were approximately $1.6 million and are scheduled to be delivered to the Company at various dates through March 2016.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and the results of operations are based upon the consolidated financial statements included in this report and the data used to prepare them. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and management is required to make judgments, estimates and assumptions in the course of such preparation. The Summary of Significant Accounting Policies included with the consolidated financial statements describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. On an ongoing basis, the Company re-evaluates its judgments, estimates and assumptions. The Company bases its judgment and estimates on historical experience, knowledge of current conditions, and its beliefs of what could occur in the future considering available information. Actual results may differ from these estimates under different assumptions or conditions. Management of Giga-tronics has identified the following as the Company's critical accounting policies:

Revenue Recognition

Revenues are recognized when there is evidence of an arrangement, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. This generally occurs when products are shipped and the risk of loss has passed. Revenue related to products shipped subject to customers' evaluation is recognized upon final acceptance. Revenue recognized under the milestone method is recognized once milestones are met. Determining whether a milestone is substantive is a matter of judgment and that assessment is performed only at the inception of the arrangement. The consideration earned from the achievement of a milestone must meet all of the following for the milestone to be considered substantive:

a. It is commensurate with either of the following:

1. The Company's performance to achieve the milestone

2. The enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the Company's performance to achieve the milestone.

b. It relates solely to past performance.

c. It is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

Milestones for revenue recognition are agreed upon with the customer prior to the start of the contract and some milestones will be tied to product shipping while others will be tied to design review.

On certain contracts with one of the Company's significant customers the Company receives payments in advance of manufacturing. Advanced payments are recorded as deferred revenue until the revenue recognition criteria described above have been met.

Product Warranties

The Company's warranty policy generally provides one to three years of coverage depending on the product. The Company records a liability for estimated warranty obligations at the date products are sold. 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 sufficient historical data has been collected on the new product. Adjustments are made as new information becomes available.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at their net realizable values. The Company has estimated an allowance for uncollectible accounts based on analysis of specifically identified problem accounts, outstanding receivables, consideration of the age of those receivables, the Company's historical collection experience, and adjustments for other factors management believes are necessary based on perceived credit risk.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. The Company periodically reviews inventory on hand to identify and write down excess and obsolete inventory based on estimated product demand.

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. 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. 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 both positive and negative evidence and tax planning strategies in making this assessment.

The Company considers all tax positions recognized in the consolidated financial statements for the likelihood of realization. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the positions taken or the amounts of the positions that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above, if any, would be reflected as unrecognized tax benefits, as applicable, in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of the provision for income taxes in the consolidated statements of operations.

Share Based Compensation

The Company has a stock incentive plan that provides for the issuance of stock options and restricted stock to employees and directors. The Company calculates share based compensation expense for stock options using a Black-Scholes-Merton option pricing model and records the fair value of stock option and restricted stock awards expected to vest over the requisite service period. In so doing, the Company makes certain key assumptions in making estimates used in the model. The Company believes the estimates used, which are presented in Note 10 of Notes to Consolidated Financial Statements, are appropriate and reasonable.

Off-Balance-Sheet Arrangements

The Company has no other off-balance-sheet arrangements (including standby letters of credit, guaranties, contingent interests in transferred assets, contingent obligations indexed to its own stock or any obligation arising out of a variable interest in an unconsolidated entity that provides credit or other support to the Company), that have or are likely to have a material effect on its financial conditions, changes in financial conditions, revenue, expense, results of operations, liquidity, capital expenditures or capital resources.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Pursuant to Item 305 of Regulation S-K, the Company, as a smaller reporting company, is not required to provide the information required by this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index To Financial Statements And Schedules

CONSOLIDATED BALANCE SHEETS

(In thousands except share data)	March 28, 2015	March 29, 2014
Assets		
Current assets:		
Cash and cash-equivalents	$1,170	$1,059
Trade accounts receivable, net of allowance of $45 and $44, respectively	2,354	1,846
Inventories, net	3,365	3,321
Prepaid expenses and other current assets	373	349
Total current assets	7,262	6,575
Property and equipment, net	718	949
Other long term assets	74	69
Total assets	$8,054	$7,593
Liabilities and shareholders' equity		
Current liabilities:		
Line of credit	$—	$1,165
Current portion of long term debt	811	200
Accounts payable	973	1,430
Accrued payroll and benefits	678	755
Deferred revenue	1,127	1,329
Deferred rent	127	104
Capital lease obligations	69	147
Other current liabilities	501	472
Total current liabilities	4,286	5,602
Long term loan and warrant debt, net of discounts	392	672
Derivative liability, at estimated fair value	252	128
Long term obligations - deferred rent	111	237
Long term obligations - capital lease	58	77
Total liabilities	5,099	6,716
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 March 28, 2015 and March 29, 2014 issued and outstanding	—	—
Series B, C, D- designated 19,500 shares; 18,533.51 shares at March 28, 2015 and March 29, 2014 issued and outstanding; (liquidation preference of $3,540 at March 28, 2015 and March 29, 2014)	2,911	2,911
Common stock of no par value; Authorized - 40,000,000 shares; 6,706,065 shares at March 28, 2015 and 5,181,247 at March 29, 2014 issued and outstanding	19,975	16,224
Accumulated deficit	(19,931)	(18,258)
Total shareholders' equity	2,955	877
Total liabilities and shareholders' equity	$8,054	$7,593

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands except per-share data)	**Years Ended March 28, 2015**	**March 29, 2014**
Net sales	$18,452	$13,309
Cost of sales	10,445	8,811
Gross margin	8,007	4,498
Operating expenses:		
Engineering	3,210	3,897
Selling, general and administrative	4,783	4,809
Restructuring	—	331
Total operating expenses	7,993	9,037
Operating income/(loss)	14	(4,539)
Gain on sale of product line	—	913
Warrant expense	(1,232)	—
Other loss	(2)	(8)
Interest expense:		
Interest expense, net	(254)	(106)
Interest expense from accretion of loan and warrant debt discounts	(152)	—
Total interest expense	(406)	(106)
Loss before income taxes	(1,626)	(3,740)
Provision for income taxes	47	2
Net loss	$(1,673)	$(3,742)
Loss per common share – basic	$(0.32)	$(0.74)
Loss per common share – diluted	$(0.32)	$(0.74)
Weighted average common shares used in per share calculation:		
Basic	5,279	5,058
Diluted	5,279	5,058

See Accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock		Accumulated	
(In thousands except share data)	Shares	Amount	Shares	Amount	Deficit	Total
Balance at March 30, 2013	13,422	$ 2,454	5,079,747	$ 15,132	$ (14,278)	$ 3,308
Net loss					(3,742)	(3,742)
Restricted stock granted			71,500			
Stock granted without restrictions			30,000			
Share based compensation				494		494
Series D preferred stock issuance, net of offering costs of $41	5,112	457		598	(238)	817
Balance at March 29, 2014	18,534	2,911	5,181,247	16,224	(18,258)	877
Net loss					(1,673)	(1,673)
Restricted stock granted			432,000	—		
Option exercises			90,000	163		163
Share based compensation				827		827
Warrant charge expense			—	1,232		1,232
Warrant exercise and newly issued warrant, net of issuance cost			1,002,818	1,529		1,529
Balance at March 28, 2015	18,534	$ 2,911	6,706,065	$ 19,975	$ (19,931)	$ 2,955

See Accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended March 28, 2015	March 29, 2014
Cash flows from operating activities:		
Net loss	$(1,673)	$(3,742)
Adjustments to reconcile net loss to net cash used in operating activities:		
Warrant issuance expense	1,232	—
Depreciation and amortization	311	284
Share based compensation	827	494
Accretion of discounts on loan and warrant debt	152	—
Change in deferred rent	(103)	(81)
Changes in operating assets and liabilities:		
Trade accounts receivable	(508)	(180)
Inventories	(44)	1,239
Prepaid expenses and other assets	(29)	83
Accounts payable	(457)	642
Accrued payroll and benefits	(77)	(292)
Deferred revenue	(202)	(949)
Other current liabilities	29	(33)
Net cash used in operating activities	(542)	(2,535)
Cash flows from investing activities:		
Purchases of property and equipment	(16)	(228)
Net cash used in investing activities	(16)	(228)