

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended December 26, 2020
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-14605

**GIGA-TRONICS INCORPORATED**

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of incorporation or organization)

94-2656341

(I.R.S. Employer Identification No.)

5990 Gleason Drive, Dublin CA 94568

(Address of principal executive offices)

(925) 328-4650

Registrant's telephone number, including area code

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

| Title of each class        | Trading Symbol(s) | Name of each exchange on which registered |
|----------------------------|-------------------|---|
| Common Stock, No par value | GIGA              | OTCQB Market                              |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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  No

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

|                         |                          |                           |                                     |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
|                         |                          | Emerging growth company   | <input type="checkbox"/>            |

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

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

Yes  No

There were 2,635,856 shares of the Registrant's Common Stock outstanding as of January 29, 2021.

## INDEX

| <b>PART I - FINANCIAL INFORMATION</b> |  | <u>Page No.</u> |
|---------------------------------------|--|-----------------|
| Item 1.                               | Financial Statements   |                 |
|                                       | Unaudited Condensed Consolidated Balance Sheets as of December 26, 2020 and March 28, 2020                                     | 4               |
|                                       | Unaudited Condensed Consolidated Statements of Operations, Three and Nine Months Ended December 26, 2020 and December 28, 2019 | 5               |
|                                       | Unaudited Consolidated Statements of Shareholders' Equity, Nine Months Ended December 26, 2020 and December 28, 2019           | 6               |
|                                       | Unaudited Condensed Consolidated Statements of Cash Flows, Nine Months Ended December 26, 2020 and December 28, 2019           | 7               |
|                                       | Notes to Unaudited Condensed Consolidated Financial Statements   | 8               |
| Item 2.                               | Management's Discussion and Analysis of Financial Condition and Results of Operations  | 18              |
| Item 3.                               | Quantitative and Qualitative Disclosures About Market Risk   | 24              |
| Item 4.                               | Controls and Procedures  | 24              |
| <b>PART II - OTHER INFORMATION</b>    |  |                 |
| Item 1.                               | Legal Proceedings  | 25              |
| Item 1A.                              | Risk Factors   | 25              |
| Item 2.                               | Unregistered Sales of Equity Securities and Use of Proceeds  | 25              |
| Item 3.                               | Defaults Upon Senior Securities  | 25              |
| Item 4.                               | Mine Safety Disclosures  | 25              |
| Item 5.                               | Other information  | 25              |
| Item 6.                               | Exhibits   | 25              |
| <b>SIGNATURES</b>                     |  | 26              |
|                                       | Exhibit Index  |                 |
|                                       | 31.1 Certification of CEO pursuant to Section 302 of Sarbanes-Oxley Act.   |                 |
|                                       | 31.2 Certification of CFO pursuant to Section 302 of Sarbanes-Oxley Act.   |                 |
|                                       | 32.1 Certification of CEO pursuant to Section 906 of Sarbanes-Oxley Act.   |                 |
|                                       | 32.1 Certification of CFO pursuant to Section 906 of Sarbanes-Oxley Act.   |                 |

## FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are based on Management's current knowledge and belief and include information concerning the Company's possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to risks related to (1) the Company's ability to obtain and maintain necessary capital to finance its operations; (2) the Company's ability to develop competitive products in a market with rapidly changing technology and standards; (3) the results of pending or threatened litigation; (4) risks related to customers' credit worthiness/profiles; (5) changes in the Company's credit profile and its ability to borrow; (6) a potential decline in demand for certain of the Company's products; (7) potential product liability claims; (8) the potential loss of key personnel; (9) U.S. and international economic conditions and (10) the COVID-19 pandemic, including the effects of governmental responses to the pandemic. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. The reader is directed to the Company's annual report on Form 10-K for the year ended March 28, 2020 for further discussion of factors that could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

**PART I – FINANCIAL INFORMATION**

**ITEM 1 - FINANCIAL STATEMENTS**

**GIGA-TRONICS INCORPORATED  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| <b>(In thousands except share data)</b>  | <b>December 26,<br/>2020</b> | <b>March 28,<br/>2020*</b> |
|--|------------------------------|----------------------------|
| <b>Assets</b>  |                              |                            |
| Current assets:  |                              |                            |
| Cash and cash-equivalents  | \$ 1,348                     | \$ 657                     |
| Trade accounts receivable, net of allowance of \$8 and \$8, respectively   | 212                          | 932                        |
| Inventories, net   | 3,136                        | 3,261                      |
| Prepaid expenses and other current assets  | 2,393                        | 2,209                      |
| <b>Total current assets</b>  | <b>7,089</b>                 | <b>7,059</b>               |
| Property and equipment, net  | 456                          | 508                        |
| Right of use asset   | 946                          | 1,183                      |
| Other long-term assets   | 176                          | 176                        |
| <b>Total assets</b>  | <b>\$ 8,667</b>              | <b>\$ 8,926</b>            |
| <b>Liabilities and shareholders' equity</b>  |                              |                            |
| Current liabilities:   |                              |                            |
| Accounts payable   | \$ 1,344                     | \$ 803                     |
| Loans payable, net of discounts and issuance costs   | 273                          | 1,320                      |
| Accrued payroll and benefits   | 515                          | 300                        |
| Deferred revenue   | —                            | 159                        |
| Lease obligations  | 440                          | 426                        |
| Other current liabilities  | 331                          | 364                        |
| <b>Total current liabilities</b>   | <b>2,903</b>                 | <b>3,372</b>               |
| Other non-current liabilities  | 30                           | 119                        |
| Long term lease obligations  | 804                          | 1,135                      |
| <b>Total liabilities</b>   | <b>3,737</b>                 | <b>4,626</b>               |
| Shareholders' equity:  |                              |                            |
| Preferred stock; no par value; Authorized - 1,000,000 shares   |                              |                            |
| Series A convertible- designated 250,000 shares; no shares at December 26, 2020 and March 28, 2020 issued and outstanding  | —                            | —                          |
| Series B, C, D convertible - designated 19,500 shares; 17,781.64 shares at December 26, 2020 and March 28, 2020 outstanding; (liquidation preference of \$3,367 at December 26, 2020 and March 28, 2020) | 2,745                        | 2,745                      |
| Series E convertible- designated 100,000 shares; 9,200 shares at December 26, 2020 and March 28, 2020 outstanding; (liquidation preference of \$345 at December 26, 2020 and March 28, 2020)             | 177                          | 177                        |
| Common stock; no par value; Authorized – 13,333,333 shares; 2,635,856 shares at December 26, 2020 and March 28, 2020 issued and outstanding  | 32,157                       | 31,952                     |
| Accumulated deficit  | (30,149)                     | (30,574)                   |
| <b>Total shareholders' equity</b>  | <b>4,930</b>                 | <b>4,300</b>               |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 8,667</b>              | <b>\$ 8,926</b>            |

*See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements*

\* Derived from the audited consolidated financial statements as of and for the fiscal year ended March 28, 2020.

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

| (In thousands except per share data)                          | Three Months Ended   |                      | Nine Months Ended    |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | December 26,<br>2020 | December 28,<br>2019 | December 26,<br>2020 | December 28,<br>2019 |
| <b>Net revenue</b>  |                      |                      |                      |                      |
| Goods   | \$ 1,559             | \$ 193               | \$ 3,490             | \$ 2,576             |
| Services  | 2,525                | 2,439                | 6,834                | 6,589                |
| Total revenue   | 4,084                | 2,632                | 10,324               | 9,165                |
| Cost of sales   | 2,527                | 1,534                | 6,213                | 5,288                |
| <b>Gross profit</b>   | 1,557                | 1,098                | 4,111                | 3,877                |
| Operating expenses:   |                      |                      |                      |                      |
| Engineering   | 557                  | 393                  | 1,548                | 1,097                |
| Selling, general and administrative                           | 937                  | 819                  | 2,832                | 2,617                |
| Total operating expenses                                      | 1,494                | 1,212                | 4,380                | 3,714                |
| <b>Operating income (loss)</b>                                | 63                   | (114)                | (269)                | 163                  |
| Gain on extinguishment of PPP Loan                            | 791                  | —                    | 791                  | —                    |
| Interest expense:   |                      |                      |                      |                      |
| Interest expense, net   | (21)                 | (42)                 | (85)                 | (166)                |
| Interest expense from accretion of loan discount              | —                    | —                    | —                    | (19)                 |
| Total interest expense  | (21)                 | (42)                 | (85)                 | (185)                |
| <b>Income (loss) before income taxes</b>                      | 833                  | (156)                | 437                  | (22)                 |
| Provision for income taxes                                    | —                    | —                    | 2                    | 2                    |
| <b>Net income (loss)</b>                                      | \$ 833               | \$ (156)             | \$ 435               | \$ (24)              |
| Deemed dividend on Series E shares                            | \$ (3)               | \$ (18)              | \$ (10)              | \$ (96)              |
| Cumulative dividends on Series E shares                       | —                    | (1,240)              | —                    | (1,240)              |
| <b>Net income (loss) attributable to common shareholders</b>  | \$ 830               | \$ (1,414)           | \$ 425               | \$ (1,360)           |
| <b>Income (loss) per common share - basic</b>                 | \$ 0.33              | \$ (0.58)            | \$ 0.17              | \$ (0.55)            |
| <b>Income (loss) per common share - diluted</b>               | \$ 0.28              | \$ (0.58)            | \$ 0.14              | \$ (0.55)            |
| <b>Weighted average shares used in per share calculation:</b> |                      |                      |                      |                      |
| Basic   | 2,549                | 2,451                | 2,549                | 2,451                |
| Diluted   | 2,933                | 2,451                | 2,933                | 2,451                |

*See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements*

**GIGA-TRONICS INCORPORATED**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**

| (In thousands except share data)                                    | Preferred Stock |                 | Common Stock     |                  | Accumulated<br>Deficit | Total           |
|---|-----------------|-----------------|------------------|------------------|------------------------|-----------------|
|   | Shares          | Amount          | Shares           | Amount           |                        |                 |
| <b>Balance at March 30, 2019</b>                                    | <b>116,934</b>  | <b>\$ 4,806</b> | <b>757,367</b>   | <b>\$ 25,557</b> | <b>\$ (28,548)</b>     | <b>\$ 1,815</b> |
| Net income  | —               | —               | —                | —                | 15                     | 15              |
| Share based compensation  | —               | —               | —                | 95               | —                      | 95              |
| Equity issuance for PFG Loan  | —               | —               | 167              | —                | —                      | —               |
| Restricted stock forfeited  | —               | —               | (1,333)          | —                | —                      | —               |
| Series E preferred stock issuance, reclass of offering costs of \$2 | —               | (2)             | —                | 2                | —                      | —               |
| <b>Balance at June 29, 2019</b>                                     | <b>116,934</b>  | <b>\$ 4,804</b> | <b>756,201</b>   | <b>\$ 25,654</b> | <b>\$ (28,533)</b>     | <b>\$ 1,925</b> |
| Net income  | —               | —               | —                | —                | 44                     | 44              |
| Share based compensation  | —               | —               | —                | 67               | —                      | 67              |
| Warrant exercises   | —               | —               | 81,808           | 230              | —                      | 230             |
| Series E dividends  | —               | —               | 33,991           | 142              | —                      | 142             |
| Series E converted to common stock                                  | (600)           | (15)            | 4,000            | 20               | (5)                    | —               |
| Series B converted to common stock                                  | (752)           | (166)           | 5,012            | 166              | —                      | —               |
| <b>Balance at September 28, 2019</b>                                | <b>115,582</b>  | <b>\$ 4,623</b> | <b>881,012</b>   | <b>\$ 26,279</b> | <b>\$ (28,494)</b>     | <b>\$ 2,408</b> |
| Net loss  | —               | —               | —                | —                | (156)                  | (156)           |
| Share based compensation  | —               | —               | —                | 67               | —                      | 67              |
| Fractional shares   | —               | —               | (81)             | —                | —                      | —               |
| Warrant exercises   | —               | —               | —                | (18)             | —                      | (18)            |
| Series E dividends  | —               | —               | 10,636           | 47               | (18)                   | 29              |
| Common stock issuances  | —               | —               | 699,333          | 2,053            | —                      | 2,053           |
| Series E converted to common stock                                  | (88,600)        | (1,701)         | 886,000          | 2,941            | (1,240)                | —               |
| <b>Balance at December 28, 2019</b>                                 | <b>26,982</b>   | <b>\$ 2,922</b> | <b>2,476,900</b> | <b>\$ 31,369</b> | <b>\$ (29,908)</b>     | <b>\$ 4,383</b> |

| (In thousands except share data)     | Preferred Stock |                 | Common Stock     |                  | Accumulated<br>Deficit | Total           |
|--------------------------------------|-----------------|-----------------|------------------|------------------|------------------------|-----------------|
|                                      | Shares          | Amount          | Shares           | Amount           |                        |                 |
| <b>Balance at March 28, 2020</b>     | <b>26,982</b>   | <b>\$ 2,922</b> | <b>2,635,856</b> | <b>\$ 31,952</b> | <b>\$ (30,574)</b>     | <b>\$ 4,300</b> |
| Net income                           | —               | —               | —                | —                | 72                     | 72              |
| Share based compensation             | —               | —               | —                | 76               | —                      | 76              |
| <b>Balance at June 27, 2020</b>      | <b>26,982</b>   | <b>\$ 2,922</b> | <b>2,635,856</b> | <b>\$ 32,028</b> | <b>\$ (30,502)</b>     | <b>\$ 4,448</b> |
| Net loss                             | —               | —               | —                | —                | (477)                  | (477)           |
| Share based compensation             | —               | —               | —                | 66               | —                      | 66              |
| <b>Balance at September 26, 2020</b> | <b>26,982</b>   | <b>\$ 2,922</b> | <b>2,635,856</b> | <b>\$ 32,094</b> | <b>\$ (30,979)</b>     | <b>\$ 4,037</b> |
| Net income                           | —               | —               | —                | —                | 830                    | 830             |
| Share based compensation             | —               | —               | —                | 63               | —                      | 63              |
| <b>Balance at December 26, 2020</b>  | <b>26,982</b>   | <b>\$ 2,922</b> | <b>2,635,856</b> | <b>\$ 32,157</b> | <b>\$ (30,149)</b>     | <b>\$ 4,930</b> |

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

| (In thousands)   | Nine Months Ended    |                      |
|--|----------------------|----------------------|
|  | December 26,<br>2020 | December 28,<br>2019 |
| <b>Cash flows from operating activities:</b>   |                      |                      |
| Net income (loss)  | \$ 435               | \$ (24)              |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                      |                      |
| Depreciation and amortization  | 116                  | 140                  |
| Share based compensation   | 205                  | 229                  |
| Gain on extinguishment of PPP Loan   | (786)                | —                    |
| Gain on forgiveness of Interest on PPP Loan  | (5)                  | —                    |
| Accretion of discounts and issuance costs on debt                                    | —                    | 20                   |
| Accrued interest and fees on loan payable  | —                    | (224)                |
| Change in deferred rent  | —                    | 1                    |
| Changes in operating assets and liabilities  |                      |                      |
| Trade accounts receivable  | 720                  | 91                   |
| Inventories  | 125                  | (852)                |
| Prepaid expenses and other assets  | (184)                | (629)                |
| Right of use asset   | 237                  | 197                  |
| Accounts payable   | 541                  | 221                  |
| Accrued payroll and benefits   | 215                  | (74)                 |
| Deferred revenue   | (159)                | 218                  |
| Other current and non-current liabilities  | (127)                | (369)                |
| <b>Net cash provided by (used in) operating activities</b>                           | <b>1,333</b>         | <b>(1,055)</b>       |
| <b>Cash flows from investing activities:</b>   |                      |                      |
| Purchases of property and equipment  | (64)                 | (123)                |
| <b>Net cash used in investing activities</b>   | <b>(64)</b>          | <b>(123)</b>         |
| <b>Cash flows from financing activities:</b>   |                      |                      |
| Principal payments on leases   | (317)                | (282)                |
| Proceeds from issuance of common stock, net of issuance costs                        | —                    | 2,053                |
| Proceeds from exercise of warrants   | —                    | 211                  |
| Proceeds from borrowings, net of issuance costs                                      | 1,941                | 1,051                |
| Repayments of borrowings   | (2,202)              | (1,489)              |
| <b>Net cash provided by (used in) financing activities</b>                           | <b>(578)</b>         | <b>1,544</b>         |
| <b>Increase in cash and cash-equivalents</b>   | <b>691</b>           | <b>366</b>           |
| <b>Beginning cash and cash-equivalents</b>   | <b>657</b>           | <b>878</b>           |
| <b>Ending cash and cash-equivalents</b>  | <b>\$ 1,348</b>      | <b>\$ 1,244</b>      |
| <b>Supplementary disclosure of cash flow information:</b>                            |                      |                      |
| Cash paid for income taxes   | \$ 2                 | \$ 57                |
| Cash paid for interest   | \$ 85                | \$ 376               |
| <b>Supplementary disclosure of noncash financing activities:</b>                     |                      |                      |
| Cumulative effect of adoption of ASC 842 on right of use assets                      | \$ —                 | \$ 1,361             |
| Cumulative effect of adoption of ASC 842 on deferred rent                            | \$ —                 | \$ 429               |
| Cumulative effect of adoption of ASC 842 on lease liability                          | \$ —                 | \$ 1,790             |
| Fair value of dividends in kind  | \$ 10                | \$ (190)             |

*See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements*

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### **(1) Organization and Significant Accounting Policies**

The condensed consolidated financial statements included herein have been prepared by Giga-tronics Incorporated (“Giga-tronics,” “Company” or “we”), pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The consolidated results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments (consisting of normal recurring entries) necessary to make the consolidated results of operations for the interim periods a fair statement of such operations. Please refer to the Company’s Annual Report on Form 10-K for the year ended March 28, 2020 for a discussion of our significant accounting policies. During the nine months ended December 26, 2020, there were no material changes to these policies other than as disclosed below. For further information, refer to the consolidated financial statements and footnotes thereto, included in the Annual Report on Form 10-K, filed with the SEC for the year ended March 28, 2020.

On December 12, 2019, the Company completed a one-for-fifteen reverse stock split of its common stock. All shares and per share amounts included in the financial statements have been adjusted to reflect the effect of the reverse stock split.

*Principles of Consolidation* The consolidated financial statements include the accounts of Giga-tronics and its wholly owned subsidiary, Microsource, Inc. (“Microsource”). All significant intercompany balances and transactions have been eliminated in consolidation.

*Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Leases*

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02 - *Leases* (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification determines whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less are accounted for similar to guidance for operating leases existing prior to ASC 842. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The Company adopted ASC 842 as of March 31, 2019. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. In July 2018, the FASB issued ASU No. 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which amends ASC Topic 842 to provide another transition method, allowing a cumulative effect adjustment to the opening balance of retained earnings during the period of adoption. The Company has two long term office leases; however, the New Hampshire lease is deemed immaterial upon adoption of ASC 842. The adoption of ASU 2016-02 on March 31, 2019 resulted in the recognition of right-of-use assets of approximately \$1.4 million, lease liabilities for operating leases of approximately \$1.8 million and no material impact to the Consolidated Statements of Operations or Cash Flows. See below for further information regarding the impact of the adoption of ASU 2016-02 on the Company’s financial statements.

#### *New Accounting Standards*

In June 2018, the FASB issued ASU 2018-07, “*Improvements to Nonemployee Share-Based Payment Accounting*,” to simplify the accounting for share based transactions with nonemployees in which the grantor acquires goods or services to be used or consumed. Under the new standard, most of the guidance on recording share-based compensation granted to nonemployees are aligned with the requirements for share-based compensation granted to employees. This standard was effective in the first quarter of fiscal 2020, and early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued authoritative guidance under ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 requires lessees to recognize right-of-use assets and lease liabilities for most leases on the balance sheet and to provide expanded disclosures about leasing arrangements. The Company adopted the standard effective March 31, 2019 using the optional transition method and did not restate comparative periods. There was no effect on accumulated deficit at adoption.

#### *Practical Expedients Elected*

The Company has elected the package of practical expedients to (a) not reassess whether expired or existing contracts are or contain leases, (b) not reassess the lease classification for any expired or existing leases and (c) not reassess the accounting for initial direct costs. As a result, leases classified as operating leases prior to adoption of the new lease standard remain as operating leases and leases classified as capital leases prior to adoption of the new lease standard are now finance leases.

## **(2) Inventories, net**

Inventories consisted of the following:

| <b>(In thousands)</b>   | <b>December 26,</b> |              | <b>March 28,</b> |              |
|-------------------------|---------------------|--------------|------------------|--------------|
|                         | <b>2020</b>         |              | <b>2020</b>      |              |
| Raw materials           | \$                  | 1,172        | \$               | 890          |
| Work-in-progress        |                     | 1,651        |                  | 1,828        |
| Finished goods          |                     | 179          |                  | 263          |
| Demonstration inventory |                     | 134          |                  | 280          |
| <b>Total</b>            | <b>\$</b>           | <b>3,136</b> | <b>\$</b>        | <b>3,261</b> |

## **(3) Financed Receivables**

On March 11, 2019, the Company entered into an Amended and Restated Business Financing Agreement (the “Restated Financing Agreement”) with Western Alliance Bank, as successor to Bridge Bank. The Restated Financing Agreement amends, restates and replaces a credit agreement with Bridge Bank dated May 6, 2015 (as previously amended, the “Previous Financing Agreement”) in its entirety.

Under the Restated Financing Agreement, Western Alliance Bank may advance up to 85% of the amounts of invoices issued by the Company, up to a maximum of \$2.5 million in aggregate advances outstanding at any time. The Restated Financing Agreement eliminated a \$500,000 non-formula borrowing base and an asset coverage ratio financial covenant included in the Previous Financing Agreement.

Under the Restated Financing Agreement, interest accrues on outstanding amounts at an annual rate equal to one percent plus the greater of the prime rate or 4.5%. The Company is required to pay certain fees, including an annual facility fee of \$14,700, to be paid in two equal semiannual installments. The Company’s obligations under the Restated Financing Agreement are secured by a security interest in substantially all of the assets of the Company and any domestic subsidiaries, subject to certain customary exceptions. The Restated Financing Agreement has no specified term and may be terminated by either the Company or Western Alliance Bank at any time.

The Restated Financing Agreement contains customary events of default, including, among others: non-payment of principal, interest or other amounts when due; providing false or misleading representations and information; Western Alliance Bank failing to have an enforceable first lien on the collateral; cross-defaults with certain other indebtedness; certain undischarged judgments; bankruptcy, insolvency or inability to pay debts; and a change of control of the Company. Upon the occurrence and during the continuance of an event of default, the interest rate on the outstanding borrowings increases by 500 basis points and Western Alliance Bank may declare the loans and all other obligations under the Restated Financing Agreement immediately due and payable.

As of December 26, 2020 and March 28, 2020, the Company’s total outstanding borrowings under the Restated Financing Agreement were zero and \$527,468, respectively, and are included in Loans payable, net of discounts and issuance costs on the Condensed Consolidated Balance Sheet.

## **(4) Term Loan**

On April 27, 2017, the Company entered into a \$1.5 million loan agreement with Partners For Growth (“PFG”), which was funded on April 28, 2017 (the “PFG Loan Agreement”). The PFG Loan Agreement originally provided for interest only payments during the term of the loan with principal and any accrued interest and fees due upon maturity, originally April 27, 2019. The PFG Loan Agreement bears interest at a fixed aggregate rate equal to 16% per annum, of which 9.5% per annum is payable monthly in cash and 6.5% per annum is accrued monthly and due upon maturity. In addition, the Company agreed to pay PFG a cash fee of up to \$100,000 on maturity (the “back-end fee”), \$76,000 of which was earned on April 27, 2017, and \$24,000 of which was earned at the rate of \$1,000 per month on the first day of each month thereafter provided any amount of the loan principal was outstanding during any day of the prior month.

In December 2018, the Company and PFG agreed to modify the PFG Loan Agreement to extend the maturity date from April 27, 2019 to November 1, 2019, to require the Company to pay all accrued interest on May 1, 2019 and to require the Company to make monthly prepayments of principal of \$75,000 and accrued interest from May 1, 2019 until maturity. The effectiveness of the modification was conditioned on the Company raising \$500,000 in additional equity capital. The Company satisfied this condition on March 30, 2019.

On March 11, 2019, the Company and PFG agreed to further modify the PFG Loan Agreement to extend the maturity date to March 1, 2020 and to add financial covenants requiring the Company to maintain a minimum tangible net worth and minimum revenues.

On June 28, 2019, the Company and PFG agreed to further modify the PFG Loan Agreement to adjust the financial covenants requiring the Company to maintain a minimum tangible net worth and minimum revenues. At December 28, 2019, the Company did not meet a covenant in the amended PFG Loan Agreement requiring the Company to achieve minimum cumulative revenues of \$11 million for the first three quarters of its 2020 fiscal year, which constituted an event of default under the agreement. PFG waived this default on January 31, 2020.

On January 31, 2020, the Company and PFG further amended the PFG Loan Agreement to, among other things, extend the maturity date from March 1, 2020 to March 1, 2021, to require the Company make a single principal payments of \$75,000 on February 1, 2020 and monthly principal payments of \$57,700 thereafter until maturity, and to modify and extend the minimum revenue financial covenant through the new maturity date. The PFG Loan Agreement continues to provide for an annual interest rate of 16%, of which 9.5% is payable monthly and 6.5% is deferred until maturity or payoff. Based on the current payment schedule, the remaining balance at maturity would be less than \$200,000.

As of December 26, 2020 and March 28, 2020, the Company's total outstanding loan balances were \$273,000 and \$792,300, respectively, and are included in Loans payable, net of discounts and issuance costs on the Condensed Consolidated Balance Sheet.

At December 26, 2020, the Company did not meet a covenant in the amended PFG Loan Agreement requiring the Company to achieve minimum cumulative revenues of \$11 million for the first three quarters of its 2021 fiscal year, which constituted an event of default under the agreement. PFG waived this default in January 2021.

#### **(5) Paycheck Protection Program (the "PPP") under the CARES Act**

On April 23, 2020, the Company borrowed \$786,200 from Western Alliance Bank (the "PPP Loan") pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act. The Company accounted for the PPP Loan as a loan under ASC 470 Debt. The PPP Loan had a stated maturity date of April 23, 2022 with interest accruing on the principal balance at the rate of 1.0% per annum, with principal and interest payable monthly commencing on November 1, 2020.

As a result of the Company's request for loan forgiveness, on November 19, 2020, the outstanding principal and accrued interest for the PPP Loan was forgiven in full by the U.S. Small Business Administration ("SBA").

The amount of the PPP Loan forgiven by the SBA is accounted as a gain under ASC 470, which refers to the extinguishment guidance in ASC 405, *Liabilities: Extinguishment of Liabilities*. Under this guidance, debt is extinguished when either of the following conditions is met: the debtor pays the creditor or the debtor is legally released from being the primary obligor by the creditor. The Company was legally released from being the primary obligor when the Company's application for forgiveness was approved by the SBA. The amount forgiven was recognized in the statement of operations as gain on extinguishment.

#### **(6) Leases**

##### *Operating leases*

The Company has a non-cancelable operating lease for an office, research and development, engineering, laboratory, storage and/or warehouse uses in Dublin, California for a term of 77 months from April 1, 2017 through August 31, 2023. The Company agreed to pay rent monthly with an aggregate base rent of \$2,384,913 for the period of 77 months, with an annual increase of \$0.05 per rentable square foot for each subsequent year. The lease provided for rent abatement of \$173,079 during the initial five months of the lease term, subject to the Company performing the terms and conditions required under the lease, and certain tenant improvements completed at the landlord's expense of \$358,095.

The Company also has a non-cancelable operating lease for an office it uses for research and development and engineering in Nashua, New Hampshire for 36 months from March 1, 2020 through February 28, 2023. The Company agreed to pay rent monthly, with an aggregate base rent of \$90,000 for the period of 36 months. This office lease amends and restated in its entirety the Office Lease executed as of December 28, 2018 for the primary purposes of adding additional office space and extending the term from January 31, 2022 to February 28, 2023.

Per the terms of the Company's lease agreements, the Company does not have any residual value guarantees. In calculating the present value of the lease payments, the Company has elected to utilize its incremental borrowing rate. The Company has elected for facility operating leases to not separate each lease component from its associated non-lease components. The building leases includes variable payments (i.e. common area maintenance) which are charged and paid separately from rent based on actual costs incurred and therefore are not included in the right-of-use asset and liability but reflected in operating expense in the period incurred.

### Lease costs

For the nine months ended (in thousands):

|                       | Classification     | December 26,<br>2020 |
|-----------------------|--------------------|----------------------|
| Operating lease costs | Operating expenses | \$ 398               |
| Total lease costs     |                    | \$ 398               |

Other information (in thousands except weighted average amounts):

| For the nine months ended December 26, 2020   | Operating leases |
|---|------------------|
| Operating cash used for leases                | \$ 440           |
| Financing cash used for leases                | —                |
| Weighted-average remaining lease term (years) | 3.21             |
| Weighted-average discount rate                | 6.50%            |

Future lease payments as of December 26, 2020 were as follows (in thousands):

|                                     | Operating leases |
|-------------------------------------|------------------|
| Remainder 2021                      | \$ 122           |
| 2022                                | 503              |
| 2023                                | 514              |
| Thereafter                          | 214              |
| Total future minimum lease payments | 1,353            |
| Less: imputed interest              | (109)            |
| Present value of lease liabilities  | \$ 1,244         |

### **(7) Sale of Common Stock**

On November 8, 2019, the Company completed an underwritten public offering of 699,333 shares of its common stock at \$3.75 per share. The net proceeds from the offering after deducting underwriting discounts and commissions and offering expenses were approximately \$2.1 million. The Company's use of the net proceeds was for general corporate purposes, which included the repayment of debt. In connection with the offering, the Company granted the underwriter a warrant to purchase 20,980 shares of common stock at the price of \$4.50 per share. The warrant is immediately exercisable and has a five-year term.

In addition, on November 8, 2019, the Company completed a private exchange offer in which it issued an aggregate of 896,636 shares of common stock in exchange for 88,600 shares of its Series E preferred shares and the dividends thereon. As a result, 9,200 shares of Series E preferred stock with an aggregate liquidation preference of \$345,000 remained outstanding as of December 26, 2020 and March 28, 2020.

On March 11, 2020, the Company entered into Securities Purchase Agreements with two private investors for the sale of a total of 146,668 common shares at the price of \$3.75 per share, for aggregate gross proceeds of \$550,004. Net proceeds to the Company after fees and expenses of this private placement were \$510,000.

### **(8) Reverse Stock Split**

On December 12, 2019, the Company amended its Articles of Incorporation to implement a 1-for-15 reverse split of its common stock.

The reverse stock split reduced the number of shares of common stock outstanding from 37,154,730 to 2,476,982 shares on December 12, 2019. The number of authorized shares of the Company's common stock was reduced in the same proportion to 13,333,333 shares of common stock.

As a result of the reverse stock split, each of the Company's holders of common stock received one share of common stock for every 15 shares of common stock held immediately prior to the reverse stock split. No fractional shares were issued in connection with the reverse stock split and cash was paid in lieu of any fractional shares. The reverse stock split also reduced the number of shares of common stock issuable upon the conversion of the Company's outstanding shares of preferred stock and the exercise of its outstanding stock options and warrants in proportion to the ratio of the reverse stock split and caused a proportionate increase in the conversion and exercise prices of such preferred stock, stock options and warrants.

All share and per share amounts included in the financial statements have been adjusted to reflect the effect of the reverse stock split.

## **(9) Shareholder Rights Plan**

On October 12, 2020, the Company adopted a shareholder rights plan by entering into a Rights Agreement with American Stock Transfer & Trust Company, LLC (the "Rights Plan"). The Rights Plan is designed to ensure that all of the Company's shareholders would receive fair treatment in any takeover of the Company. The Company implemented the Rights Plan by issuing one purchase right (a "Right") for each share of common stock outstanding on the record date of October 22, 2020.

The Rights Agreement provides that in the event any person becomes the beneficial owner of 15% or more of the outstanding common shares, each Right (other than any Rights held by the 15% shareholder) will be exercisable, on and after the close of business on the tenth business day following such event, for the purchase of a number of shares of common stock (or equivalent securities, such as one-hundredths of the Company's Series A Junior Participating Preferred Shares) equal to the exercise price (initially \$15.00) divided by 25% of the then current fair market value of the common stock. The Rights Plan further provides that if, on or after the occurrence of such event, the Company is merged into any other corporation or 50% or more of the Company's assets or earning power are sold, each Right (other than any Rights held by the 15% shareholder) will be exercisable to purchase a similar number of securities of the acquiring corporation.

The Rights expire on October 22, 2025 (unless previously triggered) and are subject to redemption by the Board of Directors at \$0.001 per Right at any time prior to the first date upon which they become exercisable to purchase common shares.

## **(10) Income Per Share**

Basic net income per share (EPS) is calculated by dividing net income by the weighted average common shares outstanding during the period. Diluted EPS reflects the net incremental shares that would be issued if unvested restricted shares became vested and 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 assumed proceeds from exercise price, related tax benefits and average future compensation was greater than the weighted average number of options outstanding multiplied by the average market price during the period.

Shares included in the diluted EPS calculation for the three-month and nine-month periods ended December 26, 2020 are as follows:

|  | <b>Three Month<br/>Period Ended<br/>December 26,<br/>2020</b> | <b>Nine Month<br/>Period Ended<br/>December 26,<br/>2020</b> |
|--|---|--|
| <b>(In thousands except per share data)</b>    |   |  |
| Net income attributable to common shareholders | \$ 830  | \$ 425   |
| Weighted average basic shares outstanding      | 2,549   | 2,549  |
| Effect of dilutive securities                  | 384   | 384  |
| <b>Weighted-average dilutive shares</b>        | <b>2,933</b>  | <b>2,933</b>   |
| Basic earnings per share                       | \$ 0.33   | \$ 0.17  |
| Diluted earnings per share                     | \$ 0.28   | \$ 0.14  |

Shares excluded from the diluted EPS calculation because they would be anti-dilutive are as follows:

|   | <b>Three Month<br/>Period Ended<br/>December 28,<br/>2019</b> | <b>Nine Month<br/>Period Ended<br/>December 28,<br/>2019</b> |
|---|---|--|
| <b>(In thousands)</b>   |   |  |
| Common shares issuable upon exercise of stock options                 | 250   | 250  |
| Restricted stock awards   | 10  | 10   |
| Common shares issuable upon conversion of convertible preferred stock | 61  | 61   |
| Common shares issuable upon exercise of warrants                      | 169   | 169  |

The stock options, restricted stock, convertible preferred stocks and warrants are not included in the computation of diluted EPS for the three-month and nine-month periods ended December 28, 2019 because the Company reported a net loss and, therefore, the effect of these instruments would be anti-dilutive.

## **(11) Share-based Compensation and Employee Benefits Plans**

On September 17, 2020, the Company amended its 2018 Equity Incentive Plan to increase the number of shares issuable under the plan by 250,000 shares to 416,667 shares of common stock upon the exercise of options, stock awards and grants. As of September 26, 2020, there were 268,493 shares of common stock available for issuance of additional awards under the 2018 Equity Incentive Plan. No further awards will be issued under the Company's 2005 Equity Incentive Plan or its 2000 Stock Option Plan, though all awards under the 2005 Equity Incentive Plan that are outstanding continue to be governed by the terms, conditions and procedures set forth in the plan and any applicable award agreement.

Outstanding options generally vest over a period determined by the Company's board of directors, and must be exercised while the grantee is employed by the Company (or while providing services under a service arrangement in the case of non-employees) or within a certain period after termination of employment or service arrangement in the case of non-employees. All outstanding options have a ten-year life from the date of grant. Holders of options may be granted stock appreciation rights (SARs), which entitle them to surrender outstanding awards for a cash distribution under certain changes in ownership of the Company, as defined in the equity incentive plan. As of December 26, 2020, no SARs have been granted under any equity incentive plan. The Company records compensation cost associated with share-based compensation equivalent to the estimated fair value of the awards over the requisite service period.

### **Stock Options**

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 Month Periods Ended |                   | Nine Month Periods Ended |                   |
|-------------------------|---------------------------|-------------------|--------------------------|-------------------|
|                         | December 28, 2020         | December 29, 2019 | December 28, 2020        | December 29, 2019 |
| Expected volatility     | —                         | —                 | 168.81%                  | 101.97%           |
| Risk-free interest rate | —                         | —                 | 0.39%                    | 2.25%             |
| Expected term (years)   | —                         | —                 | 8.36                     | 8.36              |

The computation of expected volatility used in the Black-Scholes-Merton option-pricing model is based on the historical volatility of the Company's 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 maturity similar to the expected term of the option on the date of grant.

A summary of the changes in stock options outstanding for the nine-month period ended December 26, 2020 and the fiscal year ended March 28, 2020 is as follows:

|   | Shares   | Weighted Average Exercise Price per share | Weighted Average Remaining Contractual Terms (Years) | Aggregate Intrinsic Value |
|---|----------|---|--|---------------------------|
| Outstanding at March 30, 2019                       | 182,366  | \$ 6.15                                   | 8.4  | \$ —                      |
| Granted   | 73,880   | 4.98                                      | 9.2  | —                         |
| Forfeited / Expired                                 | (15,488) | 5.13                                      | —  | —                         |
| Outstanding at March 28, 2020                       | 240,758  | \$ 5.86                                   | 7.9  | \$ —                      |
| Granted   | 10,000   | 3.85                                      | 9.6  | —                         |
| Outstanding at December 26, 2020                    | 250,758  | \$ 5.78                                   | 7.2  | \$ —                      |
| Exercisable at December 26, 2020                    | 139,904  | \$ 6.55                                   | 6.4  | \$ —                      |
| At December 26, 2020 expected to vest in the future | 110,854  | \$ 4.80                                   | 8.2  | \$ —                      |

As of December 26, 2020, there was \$307,000 of total unrecognized compensation cost related to non-vested options. That cost is expected to be recognized over a weighted average period of 2.15 years. There were 12,675 options and 13,240 options that vested during the quarters ended December 26, 2020 and December 28, 2019, respectively. The total grant date fair value of options vested during the quarters ended December 26, 2020 and December 28, 2019 was \$53,400 and \$61,000 respectively. There were 52,662 and 47,700 options that vested during the nine-month periods ended December 26, 2020 and December 28, 2019, respectively. The total grant date fair value of options vested during the nine-month periods ended December 26, 2020 and December 28, 2019 was \$222,000 and \$185,000, respectively. No shares were exercised during the three and nine-month periods ended December 26, 2020 and December 28, 2019. Share based compensation cost recognized in operating results for the three-month periods ended December 26, 2020 and December 28, 2019 totaled \$55,000 and \$56,000, respectively. Share based compensation cost recognized in operating results for the nine-month periods ended December 26, 2020 and December 28, 2019 totaled \$182,000 and \$159,000, respectively.

#### Restricted Stock

The Company granted no restricted stock awards during the third quarter and first nine months of fiscal 2021. Restricted stock awards are considered fixed awards as the number of shares and fair value at the grant date are amortized over the requisite service period net of estimated forfeitures. As of December 26, 2020, there was \$8,000 of total unrecognized compensation cost related to non-vested restricted stock awards. That cost is expected to be recognized over a weighted average period of 0.25 years and will be adjusted for subsequent changes in estimated forfeitures. Compensation cost recognized for the restricted and unrestricted stock awards during the third quarter and first nine months of fiscal of 2021 was \$7,900 and \$23,000, respectively. Compensation cost recognized for the restricted and unrestricted stock awards during the third quarter and first nine months of fiscal of 2020 was \$9,600 and \$70,000, respectively.

A summary of the changes in non-vested restricted stock awards outstanding for the nine-month period ended December 26, 2020 and the fiscal year ended March 28, 2020 is as follows:

|                                 | Shares   | Weighted<br>Average Fair<br>Value per share |
|---------------------------------|----------|---|
| Non-Vested at March 30, 2019    | 22,343   | \$ 8.40                                     |
| Granted                         | 10,000   | 3.97  |
| Vested                          | (21,009) | 8.25  |
| Forfeited or cancelled          | (1,334)  | 12.00                                       |
| Non-Vested at March 28, 2020    | 10,000   | \$ 3.97                                     |
| Non-Vested at December 26, 2020 | 10,000   | \$ 3.97                                     |

#### **(12) Significant Customer and Industry Segment Information**

Microsource's primary business is the design of custom microwave products and the production of microwave components using chip and wire assembly methods. Microsource offers a line of tunable, synthesized Band Reject Filters for solving interference problems in RADAR/EW applications. Electronic attack systems onboard high-performance fighter jets often require RADAR filters to block electromagnetic interference generated by other onboard electronic systems, particularly the aircraft's main RADAR. Our high-speed, tunable notch filters can quickly block interference from both continuous wave and wide bandwidth emissions. Using proprietary driver and phase lock technology, our filters offer tuning speeds that are up to ten times faster than traditional filter designs. We custom design these filters specifically for each application.

Our Giga-tronics Division designs, manufactures, and markets a family of functional test systems for the RADAR and Electronic Warfare (RADAR/EW) segment of the defense electronics market. Our RADAR/EW test systems are used to evaluate and improve the performance of RADAR systems and EW counter measures, such as jammers. Giga-tronics Division customers include major defense prime contractors, the armed services (primarily in the United States) and research institutes. Currently, 100% of the company's operating expenses are recorded to the Giga-tronics division.

The tables below present information for the two reportable segments:

| (In thousands)        | Three Month Period Ended |                 |                   | Three Month Period Ended |                 |                   |
|-----------------------|--------------------------|-----------------|-------------------|--------------------------|-----------------|-------------------|
|                       | Dec. 26, 2020            |                 |                   | Dec. 28, 2019            |                 |                   |
|                       | Assets                   | Net Sales       | Net Income (Loss) | Assets                   | Net Sales       | Net Income (Loss) |
| Giga-tronics Division | \$ 6,229                 | \$ 1,559        | \$ (161)          | \$ 6,231                 | \$ 176          | \$ (1,058)        |
| Microsource           | 2,438                    | 2,525           | 994               | 2,952                    | 2,456           | 902               |
| <b>Total</b>          | <b>\$ 8,667</b>          | <b>\$ 4,084</b> | <b>\$ 833</b>     | <b>\$ 9,183</b>          | <b>\$ 2,632</b> | <b>\$ (156)</b>   |

| (In thousands)        | Nine Month Period Ended |                  |                   | Nine Month Period Ended |                 |                   |
|-----------------------|-------------------------|------------------|-------------------|-------------------------|-----------------|-------------------|
|                       | Dec. 26, 2020           |                  |                   | Dec. 28, 2019           |                 |                   |
|                       | Assets                  | Net Sales        | Net Income (Loss) | Assets                  | Net Sales       | Net Income (Loss) |
| Giga-tronics Division | \$ 6,229                | \$ 3,490         | \$ (2,121)        | \$ 6,231                | \$ 2,465        | \$ (2,511)        |
| Microsource           | 2,438                   | 6,834            | 2,556             | 2,952                   | 6,700           | 2,487             |
| <b>Total</b>          | <b>\$ 8,667</b>         | <b>\$ 10,324</b> | <b>\$ 435</b>     | <b>\$ 9,183</b>         | <b>\$ 9,165</b> | <b>\$ (24)</b>    |

During the third quarter of fiscal 2021, three customers accounted for approximately 95% of the Company's consolidated revenues. One of the customers accounted for 54% of the Company's consolidated revenue and was included in the Microsource segment. A second customer accounted for 25% of the Company's consolidated revenue and was included in the Microsource segment. A third customer accounted for 16% of the Company's consolidated revenue and was included in the Giga-tronics Division. During the third quarter of fiscal 2020, two customers accounted for approximately 77% of the Company's consolidated revenues. One of the customers accounted for 45% of the Company's consolidated revenue and was included in the Microsource segment. A second customer accounted for 32% of the Company's consolidated revenue and was included in the Microsource segment.

During the first nine months of fiscal 2021, three customers accounted for approximately 89% of the Company's consolidated revenues. One of the customers accounted for 55% of the Company's consolidated revenues and was primarily included in the Microsource segment. A second and third customer accounted for a total of 34% of the Company's consolidated revenue and were included in the Microsource segment and the Giga-tronics Division. During the first nine months of fiscal 2020, three customers accounted for approximately 89% of the Company's consolidated revenues. One of the customers accounted for 45% of the Company's consolidated revenues and was primarily included in the Microsource segment. A second and third customer accounted for a total of 44% of the Company's consolidated revenue and were included in the Microsource segment and the Giga-tronics Division.

### **(13) Income Taxes**

The Company accounts for income taxes using the asset and liability method as codified in Topic 740. Under this 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 carry-forwards.

The Company recorded \$2,000 in income tax expense for the nine months ended December 26, 2020 and December 28, 2019. The effective tax rate for the nine months ended December 26, 2020 and December 28, 2019 was 0% each year, primarily due to a valuation allowance recorded against the net deferred tax asset balance.

As of December 26, 2020, the Company had recorded \$132,000 for unrecognized tax benefits related to uncertain tax positions. The unrecognized tax benefit is netted against the non-current deferred tax asset on the Consolidated Balance Sheet. The Company does not expect the liability for unrecognized tax benefits to change materially within the next 12 months.

#### **(14) Warranty Obligations**

The Company records a provision in cost of sales for estimated warranty obligations at the date products are sold. Adjustments are made as new information becomes available. The following provides a reconciliation of changes in the Company's warranty reserve. The Company provides no other guarantees for product sales.

| <b>(In thousands)</b>          | <b>Three Month Periods Ended</b> |                              | <b>Nine Month Periods Ended</b> |                              |
|--------------------------------|----------------------------------|------------------------------|---------------------------------|------------------------------|
|                                | <b>December 26,<br/>2020</b>     | <b>December 28,<br/>2019</b> | <b>December 26,<br/>2020</b>    | <b>December 28,<br/>2019</b> |
| Balance at beginning of period | \$ 44                            | \$ 92                        | \$ 34                           | \$ 103                       |
| Provision, net                 | 6                                | (36)                         | 16                              | (41)                         |
| Warranty costs incurred        | —                                | (5)                          | —                               | (11)                         |
| Balance at end of period       | \$ 50                            | \$ 51                        | \$ 50                           | \$ 51                        |

#### **(15) Preferred Stock and Warrants**

##### **Series E Senior Convertible Voting Perpetual Preferred Stock**

On March 26, 2018, the Company entered into a Securities Purchase Agreement for the sale of 42,800 shares of a newly designated series of 6.0% Series E Senior Convertible Voting Perpetual Preferred Stock ("Series E Shares") to approximately 15 private investors. The sale was completed and the Series E Shares were issued on March 28, 2018.

Each Series E share is convertible into 6.67 shares of the Company's common stock. Holders of Series E Shares are entitled to receive, when, as and if declared by the Company's Board of Directors, cumulative preferential dividends, payable semiannual in cash at a rate per annum equal to 6.0% of the initial purchase price of \$25.00 per share or in-kind (at the Company's election) through the issuance of shares of the Company's common stock, based on the 10 day volume weighted average price of the common stock. The deemed dividend is reflected on the face of the income statement as an increase in net loss or a decrease in net income to arrive at net income (loss) attributable to common shareholders.

The purchase price for each Series E Share was \$25.00. Gross proceeds received by the Company were approximately \$1.095 million (the "Placement"). Net proceeds to the Company after fees and expenses of the Placement were approximately \$1.0 million. Placement agent fees incurred in connection with the transaction were 5% of gross proceeds or approximately \$57,000 in cash, plus warrants to purchase 5% of the number of common shares into which the Series E shares can be converted (14,867 shares) at an exercise price of \$3.75 per share.

During the 2019 fiscal year, the Company issued and sold an additional 57,200 Series E Shares for the price of \$25.00 per share, resulting in gross proceeds of \$1,405,000. Net proceeds from sales of Series E Shares during the 2019 fiscal year were approximately \$1.2 million after fees and expenses of approximately \$212,000. Placement agent fees incurred in connection with the transaction were 5% of gross proceeds or approximately \$56,875 in cash, plus warrants to purchase 5% of the number of common shares into which the Series E shares can be converted (6.67 shares) at an exercise price of \$3.75 per share.

For the nine months ended December 26, 2020, no additional Series E shares were issued.

##### **Series E Exchange**

The Company completed a private exchange offer on November 7, 2019, issuing an aggregate of 896,636 shares of common stock in exchange for 88,600 shares of Series E Preferred Stock and the dividends accrued thereon. The shares of common stock issued in the exchange were issued in reliance on the exemption from registration set forth in Section 3(a)(9) of the Securities Act of 1933, though other exemptions may be available.

##### **Preferred Stock**

The table below presents information about the Company's preferred stock as of December 26, 2020 and March 28, 2020:

|  | Shares<br>Designated | Shares<br>Issued  | Shares<br>Outstanding | Liquidation<br>Preference<br>(in thousands) |
|--|----------------------|-------------------|-----------------------|---|
| Series B   | 10,000.00            | 9,997.00          | 9,245.13              | \$ 2,136                                    |
| Series C   | 3,500.00             | 3,424.65          | 3,424.65              | 500   |
| Series D   | 6,000.00             | 5,111.86          | 5,111.86              | 731   |
| Series E   | 100,000.00           | 100,000.00        | 9,200.00              | 345   |
| <b>Total at December 26, 2020 and March 28, 2020</b> | <b>119,500.00</b>    | <b>118,533.51</b> | <b>26,981.64</b>      | <b>\$ 3,712</b>                             |

**(16) COVID-19 (Coronavirus)**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (“COVID-19”) and in March 2020 classified the outbreak as a pandemic. In March 2020, the President of the United States and the Governor of California declared a state of emergency, based on the rapid increase in COVID-19 cases including in California. In response to the COVID-19 pandemic, the Company has implemented a number of measures intended to ensure the safety of personnel and the continuity of operations. Following California’s initial mandated shut down in March 2020, the Company was designated as an essential business and most of its manufacturing activities have largely returned to pre-pandemic levels though it continues to implement and follow the protective measures described above and includes most of its non-production personnel working remotely.

The COVID-19 pandemic has caused significant disruptions to the global, national, and local economy. The overall economic and other impacts of the COVID-19 pandemic in the areas in which the Company and its customers and suppliers operates is not known and cannot be predicted at this time. Delays in access to customer sites has caused disruptions in our business. While the circumstances relating to the COVID-19 pandemic and governmental responses are expected to be temporary, there is still uncertainty about the duration and the total economic impact. If this situation is prolonged, the pandemic could cause additional delays and could have a short- or long-term adverse impact, possibly material, on the Company’s future financial condition, liquidity, and results of operations.

**(17) Subsequent Events**

None.

## **ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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-K for the fiscal year ended March 28, 2020 Part I, under the heading "Risk Factors", and Part II, under the heading "Management's Discussion and Analysis of Financial Conditions and Results of Operations".

### **Overview and Refocusing of Giga-tronics**

We manufacture specialized electronics equipment for use in both military test and airborne operational applications. Our operations consist of two business segments, those of our wholly owned subsidiary, Microsource, and those of our Giga-tronics Division.

#### ***Microsource***

Microsource's primary business is the design of custom microwave products and the production of microwave components using chip and wire assembly methods. Microsource offers a line of tunable, synthesized Band Reject Filters for solving interference problems in RADAR/EW applications. Electronic attack systems onboard high-performance fighter jets often require RADAR filters to block electromagnetic interference generated by other onboard electronic systems, particularly the aircraft's main RADAR. Our high-speed, tunable notch filters can quickly block interference from both continuous wave and wide bandwidth emissions. Using proprietary driver and phase lock technology, our filters offer tuning speeds that are up to ten times faster than traditional filter designs. We custom design these filters specifically for each application.

Microsource's revenues have grown over time as prime contractors have been upgrading the RADAR systems of an increasing variety of aircraft. Initially Microsource supplied filters for one fighter jet, the F/A-18E. During our 2014 fiscal year, the prime contractor added a second aircraft, the F-15. Additionally, during our 2017 fiscal year, a second prime contractor began to upgrade a third aircraft, the F-16. As a result, Microsource's revenue was \$8.2 million for our fiscal year ended March 28, 2020 as we delivered filters for approximately 100 aircrafts. We believe there are over 3,000 potential domestic and foreign F-15, F-16 and F-18 aircraft that have not been upgraded. Microsource is a sole-source supplier of filters for these three fighter jets and we expect that the business will continue to be a significant source of our future revenue.

#### ***Giga-tronics Division***

Our Giga-tronics Division designs, manufactures, and markets a family of functional test systems for the RADAR and Electronic Warfare (RADAR/EW) segment of the defense electronics market. Our RADAR/EW test systems are used to evaluate and improve the performance of RADAR systems and EW counter measures, such as jammers. Giga-tronics Division customers include major defense prime contractors, the armed services (primarily in the United States) and research institutes.

Our goal is to become a leading supplier of test solutions for evaluating defense RADAR and EW systems. The same digital technology that has revolutionized commercial communications, consumer and automotive electronics is now being applied to advanced RADAR and EW systems. This shift in technology limits the effectiveness of traditional test solutions that are unable to actively interact with the RADAR and EW systems being tested. In contrast to traditional test systems, we specifically architected the Giga-tronics testing platform like a RADAR to offer sophisticated control and real-time behavior that supports active interaction with the devices under test. To our knowledge, no other RADAR/EW test system offers real time responses and closed loop behavior in the same manner as our technology.

We believe our RADAR/EW test solution offers several competitive advantages:

1. Our RADAR/EW solution was designed specifically for generating realistic RADAR signals for testing purposes.
2. Our RADAR/EW solution was architected to offer real-time, dynamic, closed-loop behavior that can interact with the devices under test for fully evaluating and improving RADAR and EW performance.
3. Our RADAR/EW solution features digital processing hardware and firmware, creating a test solution that may be customized with relative ease compared to traditional test systems.
4. Our RADAR/EW solution is scalable, allowing us to build test systems with multiple channels that scale well both in terms of size and costs compared to traditional systems.

## Significant Orders

Both Microsource and the Giga-tronics Division have historically received a limited number of large customer orders periodically. The timing of orders is sporadic and difficult to predict, and any achievement of associated milestones, can cause significant differences in orders received, backlog, sales, deferred revenue, inventory, and cash flow when comparing one fiscal period to another. Below is a review of certain previously received significant orders:

### *Microsource*

In February 2018, Microsource received a \$1.6 million YIG RADAR filter order from one of our customers. The Company recognized \$1.3 million of revenue in fiscal 2019 and recognized the remainder of revenue in fiscal 2020 and fiscal 2021.

In November 2018, Microsource received a \$4.5 million YIG RADAR filter order from one of our customers. The Company recognized revenue in fiscal 2019 and 2020 of \$1.1 million and \$3.0 million, respectively, and recognized the remaining revenue in fiscal year 2021.

In June 2019, Microsource received two orders totaling \$3.7 million from Lockheed Martin and Raytheon. The Company recognized revenue of \$2.4 million in fiscal 2020 with respect to these orders and expects to recognize the remainder of the revenue in fiscal 2021.

In September 2019, Microsource received a YIG RADAR filter order totaling \$2.7 million from one of our customers. The Company recognized \$0.8 million in revenue associated with this order in fiscal 2020 and expects to recognize the remainder of the revenue through fiscal 2023.

In October 2019, Microsource received a YIG RADAR filter order totaling \$2.9 million from one of our customers. The Company recognized \$610,000 in revenue associated with this order in fiscal 2020 and \$2.2 million in revenue in the first three quarters of fiscal 2021 and expects to recognize the remainder in the fourth quarter of fiscal 2021.

In September 2020, Microsource received a \$4.96 million YIG RADAR filter order from one of our customers. The Company recognized \$2.4 million in revenue associated with this order in the first three quarters of fiscal 2021 and expects to recognize the remainder of the revenue through fiscal 2022.

In October 2020, Microsource received a \$480,000 order from Raytheon. The Company recognized \$63,000 in revenue associated with this order in the third quarter of fiscal 2021 and expects to recognize the remainder of the revenue through fiscal 2023.

### *Giga-tronics Division*

In February 2019, the Giga-tronics Division received a \$4.0 million order from the United States Navy for our customized Real-Time Threat Emulation System (TEmS) solution, which is specifically tailored for their application. The order is comprised of two TEmS units of equal value along with approximately \$671,000 of engineering services to support and upgrade currently installed systems. The Company fulfilled the first TEmS unit order in the March 2019 quarter, the Company's fourth quarter of fiscal 2019. The second TEmS unit order was fulfilled during the June 2019 quarter, the Company's first quarter of fiscal 2020. Approximately \$550,000 of the engineering services were completed in fiscal 2020 with the remainder expected to be completed in fiscal 2021.

In March 2020, the Giga-tronics Division received a \$1.5 million order from the United States Navy for mission critical upgrade kits to existing fielded Radar Threat Generation Systems. Approximately \$752,000 was recognized as revenue in fiscal 2020 and approximately \$708,000 was recognized as revenue in the first quarter of fiscal 2021.

In August 2020, the Giga-tronics Division received a \$720,000 order in direct support of the United States Navy and the United States Air Force to provide a Test Range Threat Emitter Generation capability for the operational testing of advanced Electronic Warfare (EW) weapons systems and aircrew training on fourth and fifth generation fighter aircrafts. The Company recognized the entire revenue from this order in the second quarter of fiscal 2021.

In November 2020, the Giga-tronics Division received two orders totaling \$1.5 million for RADAR/EW test systems. The Company recognized the entire revenue from these orders in the third quarter of fiscal 2021.

## Critical Accounting Policies

Please refer to the section of the Company's Annual Report on Form 10-K for the year ended March 28, 2020 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" for a discussion of our critical accounting policies. During the nine months ended December 26, 2020, there were no material changes to these policies other than as disclosed in Note 1 Organization and Significant Accounting Policies to our condensed consolidated financial statements included with this Quarterly Report on Form 10-Q.

In preparing the consolidated financial statements, management is required to make estimates based on the information available that affect the reported amounts of assets and liabilities as of the balance sheet dates and revenues and expenses for the reporting periods. While we believe that these accounting policies and estimates are based on sound measurement criteria, actual future events can and often do result in outcomes that can be materially different from these estimates and forecasts.

## Results of Operations

New orders received by reportable segment are as follows:

### NEW ORDERS BY REPORTABLE SEGMENT

| (Dollars in thousands) | Three Month Periods Ended |                      |       | % change |
|------------------------|---------------------------|----------------------|-------|----------|
|                        | December 26,<br>2020      | December 28,<br>2019 |       |          |
| Giga-tronics Division  | \$ 1,615                  | \$ 79                | 1944% |          |
| Microsource            | 506                       | 2,923                | (83%) |          |
| Total                  | \$ 2,121                  | \$ 3,002             | (29%) |          |

| (Dollars in thousands) | Nine Month Periods Ended |                      |       | % change |
|------------------------|--------------------------|----------------------|-------|----------|
|                        | December 26,<br>2020     | December 28,<br>2019 |       |          |
| Giga-tronics Division  | \$ 2,713                 | \$ 390               | 596%  |          |
| Microsource            | 5,649                    | 9,658                | (42%) |          |
| Total                  | \$ 8,362                 | \$ 10,048            | (17%) |          |

New orders received in the third quarter of fiscal 2021 decreased to \$2.1 million from \$3.0 million during the third quarter of fiscal 2020. The Giga-tronics Division received orders totaling \$1.6 million for RADAR/EW test systems during the third quarter of fiscal 2021 compared to only \$0.1 million in orders during the comparable prior year period. Our Microsource segment experienced a \$2.4 million decrease in RADAR filter orders in the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 due to lower RADAR filter orders received in fiscal 2021. The timing of receipt of RADAR/EW test product orders and large RADAR filter contracts varies significantly from period to period.

New orders received in the first nine months of fiscal 2021 decreased to \$8.4 million from the \$10.3 million received in the first nine months of fiscal 2020. The Giga-tronics Division orders received during the first nine months of fiscal 2021 increased by \$2.3 million over the comparable prior year period which was primarily due to the \$720,000 order in direct support of the US Navy and the US Air Force received in August 2020 as well as two orders totaling \$1.5 million for RADAR/EW test systems received in November 2020. The decrease in Microsource business unit orders during the first nine months of fiscal 2021 was attributable to the receipt of fewer RADAR filters orders compared to the same period during fiscal 2020. The timing of receipt of RADAR/EW test systems orders and RADAR filter contracts varies significantly from period to period.

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

### BACKLOG

| (Dollars in thousands)                       | December 26,<br>2020 |       | December 28,<br>2019 |       | % change |
|--|----------------------|-------|----------------------|-------|----------|
|  |                      |       |                      |       |          |
| Backlog of unfilled orders at end of period: |                      |       |                      |       |          |
| Giga-tronics Division                        | \$                   | 122   | \$                   | 167   | (27%)    |
| Microsource                                  |                      | 4,669 |                      | 7,404 | (37%)    |
| Total  | \$                   | 4,791 | \$                   | 7,571 | (37%)    |

Backlog at the end of the third quarter of fiscal 2021 decreased by 37% compared to the prior year period-end. The Giga-tronics Division backlog at December 26, 2020 was \$122,000, a decrease of \$45,000 from the comparable prior year date which was primarily due to services rendered during fiscal 2021 pursuant to a U.S. Navy engineering service agreement which reduces backlog. Microsource backlog at the end of the third quarter of fiscal 2021 decreased by \$2.7 million or 37% from the comparable prior year period-end which was primarily the result of lower RADAR filter orders received during fiscal 2021.

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

#### ALLOCATION OF NET SALES

| (Dollars in thousands) | Three Month Periods Ended |                   | % change |
|------------------------|---------------------------|-------------------|----------|
|                        | December 26, 2020         | December 28, 2019 |          |
| Giga-tronics Division  | \$ 1,559                  | \$ 176            | 786%     |
| Microsource            | 2,525                     | 2,456             | 3%       |
| Total                  | \$ 4,084                  | \$ 2,632          | 55%      |

| (Dollars in thousands) | Nine Month Periods Ended |                   | % change |
|------------------------|--------------------------|-------------------|----------|
|                        | December 26, 2020        | December 28, 2019 |          |
| Giga-tronics Division  | \$ 3,490                 | \$ 2,465          | 42%      |
| Microsource            | 6,834                    | 6,700             | 2%       |
| Total                  | \$ 10,324                | \$ 9,165          | 13%      |

Fiscal 2021 third quarter net sales were \$4.1 million, a 55% increase compared to \$2.6 million for the third quarter of fiscal 2020. The Giga-tronics Division net sales for the fiscal quarter ended December 26, 2020 were \$1.6 million, an increase of \$1.4 million from the comparable prior year quarter due to orders received in direct support of the US Navy and the US Army. The Microsource RADAR filter sales remained relatively flat for the third quarter fiscal 2021 versus the comparable prior year period.

Net sales of the Giga-tronics Division for the first nine months of fiscal 2021 were \$3.5 million, a 42% increase as compared to the first nine months of fiscal 2020 which was attributable to the orders received from the U.S. Navy, US Air Force and US Army. Net sales for the Microsource segment during the first nine months of fiscal 2021 over the comparable prior year period remained relatively flat.

Gross profit was as follows for the periods shown:

#### GROSS PROFIT

| (Dollars in thousands) | Three Month Periods Ended |                   | % change |
|------------------------|---------------------------|-------------------|----------|
|                        | December 26, 2020         | December 28, 2019 |          |
| Gross Profit           | \$ 1,557                  | \$ 1,098          | 42%      |

| (Dollars in thousands) | Nine Month Periods Ended |                   | % change |
|------------------------|--------------------------|-------------------|----------|
|                        | December 26, 2020        | December 28, 2019 |          |
| Gross Profit           | \$ 4,111                 | \$ 3,877          | 6%       |

Gross profit increased in the third quarter and first nine months of fiscal 2021 over the comparable periods of fiscal 2020 primarily due to the increased sales in both periods of fiscal 2021.

Operating expenses were as follows for the periods shown:

#### OPERATING EXPENSES

| (Dollars in thousands)              | Three Month Periods Ended |                   | % change |
|-------------------------------------|---------------------------|-------------------|----------|
|                                     | December 26, 2020         | December 28, 2019 |          |
| Engineering                         | \$ 557                    | \$ 393            | 42%      |
| Selling, general and administrative | 937                       | 819               | 14%      |
| Total                               | \$ 1,494                  | \$ 1,212          | 23%      |

| (Dollars in thousands)              | Nine Month Periods Ended |                   | % change |
|-------------------------------------|--------------------------|-------------------|----------|
|                                     | December 26, 2020        | December 28, 2019 |          |
| Engineering                         | \$ 1,548                 | \$ 1,097          | 41%      |
| Selling, general and administrative | 2,832                    | 2,617             | 8%       |
| Total                               | \$ 4,380                 | \$ 3,714          | 18%      |

Operating expenses increased 23% or \$282,000 in the third quarter of fiscal 2021 over fiscal 2020. Engineering expenses increased 42%, primarily due to an increase in development efforts for the EW/RADAR test products in both the Dublin and New Hampshire facilities. Selling, general and administrative expenses increased by 14% primarily due to personnel related expenses as well as an increase in legal expenses for general corporate matters.

Operating expenses increased 18% or \$666,000 in the first nine months of fiscal 2021 over fiscal 2020. Engineering expenses increased 41% and selling, general and administrative expenses increased by 8%. The increase in engineering expenses was due to increases in both headcount and personnel related expenses as well as an increase in additional R&D expenditures in connection with the development efforts of EW/RADAR test products in both the Dublin and New Hampshire facilities. Selling, general and administrative expenses increased in part due to increased personnel expenditures as well as an increase in legal expenditures in connection with adopting the Company's Rights Agreement adopted on October 12, 2020, the documentation of the sale and transfer of preferred and common shares among shareholders and other corporate matters.

#### Interest Expense and Other

Net interest expense in the third quarter of fiscal 2021 was \$21,000, a decrease of \$21,000 or 50% over the third quarter of fiscal 2020. Interest expense decreased primarily due to lower interest on the PFG loan as the Company began making monthly principal payments beginning May 1, 2019, resulting in a loan balance of \$273,000 at December 26, 2020.

Other income in the third quarter and first nine months of fiscal 2021 included a gain on extinguishment of the PPP loan of \$786,000 of principal and \$5,000 of interest.

Net interest expense in the first nine months of fiscal 2021 was \$85,000, a decrease of \$100,000 or 54% over the first nine months of fiscal 2020. Interest expense decreased primarily due to less accretion of loan discount and lower interest on the PFG loan as the Company began making monthly principal payments beginning May 1, 2019.

#### Net Income (Loss) attributable to Common Shareholders

Net income attributable to common shareholders for the third quarter of fiscal 2021 was \$830,000, compared to net loss attributable to common shareholders of \$1.4 million recorded in the third quarter of fiscal 2020. The decrease in net loss attributable to common shareholders during the third quarter of fiscal 2021 was primarily due to higher net sales partially offset by an increase in operating expenses in the third quarter of fiscal 2021 over the comparable prior year period. Net income attributable to common shareholders for the first nine months of fiscal 2021 was \$435,000, compared to net loss attributable to common shareholders of \$1.4 million recorded in the first nine months of fiscal 2020.

The third quarter and first nine months of fiscal 2020 included a conversion of preferred stock into common stock that resulted in the issuance of additional securities and other consideration to induce the conversion. This deemed dividend is reflected on the face of the statement of operations as an increase in net loss to arrive at net loss attributable to common shareholders.

#### Financial Condition and Liquidity

|                           | Periods Ended        |                   |
|---------------------------|----------------------|-------------------|
|                           | December 26,<br>2020 | March 28,<br>2020 |
| Cash and cash equivalents | \$ 1,348             | \$ 657            |
| Total current assets      | \$ 7,089             | \$ 7,059          |
| Total current liabilities | \$ 2,903             | \$ 3,372          |
| Working capital           | \$ 4,186             | \$ 3,687          |
| Current ratio             | 2.44                 | 2.09              |

As of December 26, 2020, the Company had \$1,348,000 in cash and cash equivalents, compared to \$657,000 as of March 28, 2020. The Company had working capital of \$4.2 million at December 26, 2020 compared to \$3.7 million at March 28, 2020. The current ratio (current assets divided by current liabilities) at December 26, 2020 was 2.44 compared to 2.09 at March 28, 2020. The increase in working capital was due primarily to the cash received from the PPP loan that was subsequently forgiven during the first nine months of fiscal 2021.

## Cash Flows

A summary of our net cash provided by (used in) operating activities, investing activities, and financing activities from our condensed consolidated statements of cash flows is as follows:

|   | Nine Months Ended    |                      |
|---|----------------------|----------------------|
|   | December 26,<br>2020 | December 28,<br>2019 |
| Net cash (used in) provided by operating activities | \$ 1,333             | \$ (1,055)           |
| Net cash (used in) provided by investing activities | (64)                 | (123)                |
| Net cash provided by (used in) financing activities | (578)                | 1,544                |

### Cash Flows from Operating Activities

Cash provided by operating activities during the nine months ended December 26, 2020 was \$1.3 million and was primarily attributable to net income of \$435,000 as well as changes in our working capital accounts of \$1.4 million and non-cash charges of \$116,000 for depreciation and amortization and \$205,000 for share-based compensation, which was partially offset by the \$786,000 extinguishment of the PPP Loan.

Cash used by operating activities during the nine months ended December 28, 2019 was \$1.1 million. Net cash used in operating activities during this period was primarily attributable to changes in our working capital accounts, partially offset by non-cash charges of \$140,000 for depreciation and amortization and \$229,000 for share-based compensation.

We expect that cash flows from operating activities will fluctuate in future periods due to a number of factors including our operating results, amounts of non-cash charges, and the timing of our billings, collections, and disbursements.

### Cash Flows from Investing Activities

Cash used in investing activities for the nine-month period ended December 26, 2020 was \$64,000, primarily due to purchases of equipment for manufacturing and engineering.

Cash used in investing activities for the nine-month period ended December 28, 2019 was \$123,000, primarily due to purchases of equipment for manufacturing and engineering.

### Cash Flows from Financing Activities

Net cash used in financing activities for the nine-month period ended December 26, 2020 was \$578,000, primarily due to \$2.2 million of loan repayments associated with the PFG loan and financed receivables and \$317,000 of capital lease payments partially offset by \$1.9 million proceeds from financed receivables and the forgiveness of the PPP loan which is reflected as a non-cash reconciling item to net income.

Net cash provided by financing activities for the nine-month period ended December 28, 2019 was \$1.5 million, primarily due to proceeds from the exercise of warrants of \$211,000, proceeds from borrowings net of issuance costs of \$1.1 million and net proceeds of \$2.1 million from the Company's issuance of common stock, partially offset by \$1.5 million of loan repayments on borrowings and \$282,000 of capital lease payments.

### Non-GAAP Financial Measures

A non-GAAP financial measure is generally defined by the SEC as a numerical measure of a company's historical or future performance, financial position or cash flows that includes or excludes amounts from the most directly comparable measure under GAAP. Non-GAAP financial measures should be viewed in addition to, and not as an alternative to, our reported results prepared in accordance with GAAP. Users of this financial information should consider the types of events and transactions that are excluded from these measures.

We measure our operating performance in part based on EBITDA which is a non-GAAP financial measure that is commonly used but is not a recognized accounting term under GAAP. We use EBITDA to monitor and facilitate internal evaluation of the performance of our business operations, to facilitate external comparison of our business results to those of others in our industry, and to plan and evaluate operating budgets. We believe that our measure of EBITDA provides useful information to the public regarding our operating performance and ability to service debt and fund capital expenditures and may help our investors understand and compare our results to other companies that have different financing, capital and tax structures. EBITDA should not be considered in isolation or as a substitute for, but instead as a supplemental to, income from operations, net income, cash flows from operating activities, or other income or cash flow data prepared in accordance with GAAP.

We define EBITDA as earnings before income taxes, net interest expense, net other income, or expense, share based compensation and depreciation and amortization expense. In the following reconciliation, we provide amounts as reflected in our accompanying condensed consolidated financial statements unless otherwise noted.

The reconciliation of our net income (loss) to EBITDA is as follows (in thousands):

|  | Three Months Ended   |                      | Nine Months Ended    |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | December 26,<br>2020 | December 28,<br>2019 | December 26,<br>2020 | December 28,<br>2019 |
| <b>Net income (loss)</b>                                     | \$ 833               | \$ (156)             | \$ 435               | \$ (24)              |
| Cumulative and deemed dividends on Series E shares           | (3)                  | (1,258)              | (10)                 | (1,336)              |
| <b>Net income (loss) attributable to common shareholders</b> | <b>\$ 830</b>        | <b>\$ (1,414)</b>    | <b>\$ 425</b>        | <b>\$ (1,360)</b>    |
| Adjustments:   |                      |                      |                      |                      |
| Depreciation and amortization                                | 35                   | 44                   | 116                  | 140                  |
| Amortization of demo equipment                               | 26                   | 32                   | 78                   | 98                   |
| Share-based compensation                                     | 63                   | 67                   | 205                  | 229                  |
| Interest, tax, and dividends                                 | 24                   | 1,299                | 97                   | 1,523                |
| <b>EBITDA</b>  | <b>\$ 978</b>        | <b>\$ 28</b>         | <b>\$ 921</b>        | <b>\$ 630</b>        |

### **ITEM 3 – 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 4 - 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 December 26, 2020, which is the end of the fiscal quarter 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 are effective to provide reasonable assurances that (i) 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, and (ii) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

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.

## **II - OTHER INFORMATION**

### **ITEM 1 - LEGAL PROCEEDINGS**

As of December 26, 2020, the Company has no material pending legal proceedings. From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business.

### **ITEM 1A - RISK FACTORS**

There has been no material change in the risk factors disclosed in the registrant's Annual Report on Form 10-K for the fiscal year ended March 28, 2020.

### **ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

### **ITEM 3 - DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4 - MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5 - OTHER INFORMATION**

None.

### **ITEM 6 - EXHIBITS**

|           |  |
|-----------|--|
| 31.1      | <a href="#"><u>Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act.</u></a> |
| 31.2      | <a href="#"><u>Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act.</u></a> |
| 32.1      | <a href="#"><u>Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act.</u></a> |
| 32.1      | <a href="#"><u>Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act.</u></a> |
| 101.INS** | XBRL Instance  |
| 101.SCH** | XBRL Taxonomy Extension Schema   |
| 101.CAL** | XBRL Taxonomy Extension Calculation  |
| 101.DEF** | XBRL Taxonomy Extension Definition   |
| 101.LAB** | XBRL Taxonomy Extension Labels   |
| 101.PRE** | XBRL Taxonomy Extension Presentation   |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GIGA-TRONICS INCORPORATED

(Registrant)

By:

Date: February 4, 2021

/s/ John R. Regazzi

John R. Regazzi

Chief Executive Officer

(Principal Executive Officer)

Date: February 4, 2021

/s/ Lutz P. Henckels

Lutz P. Henckels

Executive Vice President, Chief Financial Officer, Chief Operating  
Officer and Director

(Principal Financial Officer)

Date: February 4, 2021

/s/ Traci K. Mitchell

Traci K. Mitchell

Corporate Controller

(Principal Accounting Officer)

**EXHIBIT 31.1**

**CERTIFICATIONS UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John R. Regazzi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Giga-tronics Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2021

/s/ John R. Regazzi  
John R. Regazzi  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATIONS UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lutz P. Henckels, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Giga-tronics Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2021

/s/ Lutz P. Henckels  
Lutz P. Henckels  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Giga-tronics Incorporated (the "Company") on Form 10-Q for the period ending December 26, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Regazzi, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 4, 2021

/s/ John R. Regazzi  
John R. Regazzi  
Chief Executive Officer  
(Principal Executive Officer)

In connection with the quarterly report of Giga-tronics Incorporated (the "Company") on Form 10-Q for the period ending December 26, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lutz P. Henckels, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 4, 2021

/s/ Lutz P. Henckels  
Lutz P. Henckels  
Chief Financial Officer  
(Principal Financial Officer)