June 13, 2018

Giga-tronics

Giga-tronics Reports Results for the Fourth Quarter and FY 2018

Company also Announces New Orders totaling $3.5M and Provides Revenue Guidance for First Quarter of Fiscal 2019 and Full Year Fiscal 2019

DUBLIN, Calif., June 13, 2018 (GLOBE NEWSWIRE) -- Giga-tronics Incorporated (OTCQB:GIGA) (the “Company”) reported today net revenue for the fourth fiscal quarter ended March 31, 2018 of $2.3 million, a 55% decrease as compared to $5.2 million for the fourth quarter of fiscal 2017. The net revenue includes revenue by Microsource Inc. (“Microsource”), a wholly owned subsidiary of the Company, and the Company’s Giga-tronics Division. The decrease in fourth quarter net revenue versus the prior year period was primarily due to $3.3 million in shipments to the United States Navy for the Company’s Real-Time Threat Emulation System, part of the Giga-tronics Division’s Advanced Signal Generator and Analyzer (“ASGA”) product line (formerly referred to as Hydra) that occurred in the fourth fiscal quarter of 2017, compared to no ASGA shipments during the fourth quarter of fiscal 2018.

Net revenue for the fiscal year ended March 31, 2018 was $9.8 million, a decrease of 40%, compared to $16.3 million for the fiscal year ended March 25, 2017. The majority of the $6.5 million revenue decrease in fiscal 2018 was attributable to the Giga-tronics Division, which experienced a $3.1 million or 58% decrease in ASGA product revenue due to longer than anticipated sales cycles, and a $2.2 million or 80% decrease in legacy product revenue due to the Company’s recent legacy product line divestitures. Microsource revenue decreased in fiscal 2018 by $1.2 million or 14% compared to fiscal 2017 due to lower scheduled YIG RADAR filter shipments in fiscal 2018 and the completion of certain related nonrecurring engineering services in fiscal 2017.

Net loss for the fourth quarter of fiscal 2018 was $449,000 compared to a net loss for the fourth quarter of fiscal 2017 of $473,000. On an earnings per share basis, net loss including a deemed dividend on Series E was $0.10 per fully diluted common share for the fourth quarter of fiscal 2018 compared to $0.05 per fully diluted common share for the fourth quarter of fiscal 2017. Net loss for the fiscal year ended March 31, 2018 was $3.1 million compared to a net loss of $1.5 million for the fiscal year ended March 25, 2017. On an earnings per share basis, net loss including a deemed dividend on Series E was $0.38 per fully diluted common share for fiscal year 2018 compared to $0.16 per fully diluted common share for fiscal year 2017. Despite a 55% decrease in revenue from the fourth quarter of fiscal 2017 to 2018, the slight reduction in net loss for the fourth quarter of fiscal 2018 versus the fourth quarter of fiscal 2017, reflects the Company’s progress to significantly improve the gross margin percentage and reduce operating expenses in 2018. The increase in net loss for fiscal year 2018 compared to fiscal year 2017 was primarily due to the decrease in net revenue as well as an increase of $256,000 in non-cash charges in 2018 associated with the amortization of capitalized software development costs and the impact of an $802,000 gain associated with the sale of the Switch product line in early fiscal 2017.

CEO John Regazzi stated, “While fiscal 2018 concludes another difficult year for Giga-tronics, it’s important to remember our original strategy. It was essential the Company exit the legacy businesses that had become commodity products with low margins and limited sales against much larger competitors. Management identified the EW & RADAR Test market as an underserved segment where Giga-tronics had core competencies to achieve product leadership and the ability to win against the incumbents. Since the beginning of fiscal 2013, the Company has invested more than $13M in R&D alone developing its disruptive ASGA test platform for the RADAR & EW test market based upon microwave integrated circuit capability.”

Mr. Regazzi added, “Although this has been a much harder road than anticipated, we have accomplished the original vision. We have divested the legacy businesses and are now a focused Company specializing in EW components and test solutions. The ASGA product platform has generated over $10M in cumulative revenue and our Microsource business continues to deliver consistent revenue and gross profits.”

Lutz Henckels, Executive Vice President and Interim Chief Financial Officer stated, “Clearly our financial results for the fourth quarter and fiscal year 2018 reflect the difficult transition the Company’s Giga-tronics Division has made from being a general purpose test & measurement company to instead focusing on being a leader in the RADAR/EW microwave test market. As such the Company has taken a variety of actions aimed at achieving profitability in fiscal year 2019. Actions taken include, among others, raising additional funding through a Series E preferred stock financing together with restructuring our $1.5 million loan agreement with PFG in March 2018; changing our senior management team in the areas of sales, operations, engineering, and finance; reducing our operating expenses and overall cost structure, including moving to a smaller, more efficient facility during fiscal 2018; restructuring and re-focusing our sales team towards selling our RADAR/EW product line as a complete RADAR/EW test solution, and developing a fiscal year 2019 operating plan that anticipates profitability in the current fiscal year.”

Mr. Henckels added, “Microsource continues to be a sole source provider of custom YIG RADAR filters used in several fighter jet aircraft platforms and produced the majority of our revenue for the last two fiscal years. The Microsource business segment is expected to grow to over $9.0 million in revenue in fiscal 2019 (compared to $7.1 million in fiscal year 2018) based in large part on its $11.2 million year-end backlog at March 31, 2018 and new orders received in February and May 2018 totaling $3.5 million, of which $1.6 million is included in our year end backlog. The RADAR/EW test business is currently projected to generate $5.0 million of revenue in fiscal 2019 which would result in total combined year on year revenue growth of approximately 50%. As a result, the Company’s revenue for the first quarter of fiscal 2019 will consist entirely of Microsource product revenue and is expected to be between $2.2 million to $2.5 million which also reflects the Company’s required adoption of ASU 2014-09 on April 1, 2018, the beginning of the Company’s fiscal year 2019.”

Giga-tronics will host a conference call today at 4:30 p.m. ET to discuss the fourth quarter results. To participate in the call, dial (888) 517-2470 or (630) 827-6818, and enter PIN Code 9550585#. The call will also be broadcast over the internet at www.gigatronics.com under "Investor Relations." The conference call discussion reflects management's views as of June

13, 2018.

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements in this press release, other than statements of historical facts, are forward-looking statements. Generally, forward- looking statements and information can be identified by the use of forward-looking terminology such as “expects” or “anticipates”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “should", “would” or occur. Forward-looking statements include those concerning future operating results, future orders, and future revenue, shippable backlog within a year, long term growth and margin, expected shipments, and customer acceptance of new products. Forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by the Company and its management, are inherently uncertain. Factors that may cause actual results to differ materially from current expectations include delays in customer orders for the ASGS and our ability to manufacture it; receipt or timing of future orders for other products, cancellations or deferrals of existing or future orders; our need for additional financing; results of pending or threatened litigation; uncertainty as to the Company’s ability to continue as a going concern, the Company’s ability to successfully implement its business plan, the Company’s need to modify its business plan as a result of these or other risks; the volatility in the market price of our common stock; and general market conditions. You should not place undue reliance on any forward-looking statements, which are made as of the date of this press release. The Company undertakes no obligation to update publicly any of these forward-looking statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements. For further discussion, see the Company’s most recent annual report on Form 10-K for the fiscal year ended March 25, 2017 Part I, under the heading "Risk Factors" and Part II, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" and those in other public files the Company may make with the SEC.

GIGA-TRONICS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share data)	**March 31, 2018**	**March 25, 2017**
Assets		
Current assets:		
Cash and cash-equivalents	$ 1,485	$ 1,421
Trade accounts receivable, net of allowance of $8 and $45, respectively	364	954
Inventories, net	5,487	4,811
Prepaid expenses and other current assets	87	452
Total current assets	7,423	7,638
Property and equipment, net	833	528
Other long-term assets	175	175
Capitalized software development costs	—	733

Total assets	$ 8,431	$ 9,074
Liabilities and shareholders' equity		
Current liabilities:		
Line of credit	$ 552	$ 582
Loan payable, net of discounts and issuance costs	1,447	—
Accounts payable	996	1,107
Accrued payroll and benefits	343	583
Deferred revenue	3,374	3,614
Deferred rent	58	—
Capital lease obligations	52	50
Deferred liability related to asset sale	40	375
Other current liabilities	947	707
Total current liabilities	7,809	7,018
Warrant liability, at estimated fair value	—	222
Long term deferred rent	429	—
Long term obligations - capital lease	62	114
Total liabilities	8,300	7,354
Shareholders' equity:		
Convertible preferred stock of no par value;		
Authorized - 1,000,000 shares		
Series A - designated 250,000 shares; no shares at March 31, 2018 and March 25, 2017 issued and outstanding	—	—
Series B, C, D - designated 19,500 shares; 18,533.31 shares at March 31, 2018 and March 25, 2017 issued and outstanding; (liquidation preference of $3,540 at March 31, 2018 and March 25, 2017)	2,911	2,911
Series E- designated 60,000 shares; 43,800 shares at March 31, 2018 issued and outstanding; (liquidation preference of $1,643 at March 31, 2018)	702	—
Common stock of no par value;		
Authorized - 40,000,000 shares; 10,312,653 shares at March 31, 2018 and 9,594,203 at March 25, 2017 issued and outstanding	25,200	24,390
Accumulated deficit	(28,682)	(25,581)
Total shareholders' equity	131	1,720
Total liabilities and shareholders' equity	$ 8,431	$ 9,074

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

	Three Month Periods Ended		Twelve Month Periods Ended	
(In thousands except per share data)	**March 31, 2018**	**March 25, 2017**	**March 31, 2018**	**March 25, 2017**

Net sales	$ 2,344	$ 5,230	$ 9,800	$ 16,267
Cost of sales	1,367	3,928	7,064	11,716
Gross profit	977	1,302	2,736	4,551
Operating expenses:				
Engineering	481	530	1,794	2,254
Selling, general and administrative	916	1,212	4,076	4,641
Total operating expenses	1,397	1,742	5,870	6,895
Operating loss	(420)	(440)	(3,134)	(2,344)
Gain/(loss) on adjustment of warrant liability to fair value	105	(5)	172	131
Gain on sale of product line	—	—	324	802
Interest expense:				
Interest expense, net	(134)	(28)	(461)	(111)
Interest expense from accretion of loan discount	—	—	-—	(22)
Total interest expense	(134)	(33)	(461)	(133)
Loss before income taxes	(449)	(473)	(3,099)	(1,544)
Provision for income taxes	—	—	2	2
Net Loss	$ (449)	$ (473)	$ (3,101)	$ (1,546)
Deemed Dividend on Series E shares	(557)	—	(557)	—
Net loss attributable to common shareholders	$ (1,006)	$ (473)	$ (3,658)	$ (1,546)
Loss per common share – basic	$ (0.10)	$ (0.05)	$ (0.38)	$ (0.16)
Loss per common share – diluted	$ (0.10)	$ (0.05)	$ (0.38)	$ (0.16)
Weighted average shares used in per share calculation:				
Basic	9,738	9,550	9,738	9,550
Diluted	9,738	9,550	9,738	9,550

RECONCILATION OF NET LOSS TO NON-GAAP NET LOSS

(Unaudited in thousands, except per share data)

	Three Month Periods Ended		Twelve Month Periods Ended	
	March 31, 2018	**March 25, 2017**	**March 25, 2018**	**March 25, 2017**
Net loss	$ (1,006)	$ (473)	$ (3,658)	$ (1,546)
Adjustments to reconcile net loss to non-GAAP net loss:				
Share based compensation expense	77	68	251	286
(Gain)/loss on adjustment of warrant liability to fair value	(105)	5	(172)	(131)
Gain on sale of product line	—	—	(324)	(802)
Accretion of loan discount	—	—	—	22
Non-GAAP net loss	$ (1,034)	$ (400)	$ (3,903)	$ (2,171)
Non-GAAP loss per common share-basic	$ (0.11)	$ (0.04)	$ (0.40)	$ (0.23)
Non-GAAP loss per common share-diluted	$ (0.11)	$ (0.04)	$ (0.40)	$ (0.23)
Shares used in the calculation of non-GAAP loss per share:				
Basic	9,738	9,550	9,738	9,550
Diluted	9,738	9,550	9,738	9,550

Contact: Lutz Henckels
CFO
lhenckels@gigatronics.com
(925) 328-4698

Giga-tronics
Solutions for Next Gen EW / Radar Test & Deployment

Source: Giga-tronics Incorporated