

GIGA TRONICS INC  
Form 10-Q  
February 11, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**for the quarterly period ended December 29, 2007**

**TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT**  
**for the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission File No. 0-12719**  
**GIGA-TRONICS INCORPORATED**

(Exact name of small business issuer as specified in its charter)

California

94-2656341

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

4650 Norris Canyon Road, San Ramon, CA 94583

(Address of principal executive offices)

Issuer's telephone number: (925) 328-4650

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller reporting company)

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

Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common stock outstanding as of February 8, 2008: 4,814,021 shares

Transitional Small Business Disclosure Format (Check one) Yes  No

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Item 1

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands except share data)	December 29, 2007	March 31, 2007
<u>(Unaudited)</u>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,840	\$ 1,804
Trade accounts receivable, net	3,237	2,750
Inventories	5,253	5,841
Prepaid expenses	284	360
<b>Total current assets</b>	<b>10,614</b>	<b>10,755</b>
Property and equipment, net	348	324
Other assets	31	82
<b>Total assets</b>	<b>\$ 10,993</b>	<b>\$ 11,161</b>
<b>Liabilities and shareholders equity</b>		
Current liabilities		
Accounts payable	\$ 886	\$ 1,106
Accrued commissions	197	192
Accrued payroll and benefits	636	666
Accrued warranty	172	207
Customer advances	609	681
Other current liabilities	450	623
<b>Total current liabilities</b>	<b>2,950</b>	<b>3,475</b>
Deferred rent	182	293
<b>Total liabilities</b>	<b>3,132</b>	<b>3,768</b>
Shareholders equity		
Preferred stock of no par value; Authorized 1,000,000 shares; no shares issued and outstanding at December 29, 2007 and March 31, 2007		
Common stock of no par value; Authorized 40,000,000 shares; 4,814,021 shares at December 29, 2007 and 4,809,021 shares at March 31, 2007 issued and outstanding		
	13,322	13,165
Accumulated deficit	(5,461)	(5,772)
<b>Total shareholders equity</b>	<b>7,861</b>	<b>7,393</b>

<b>Total liabilities and shareholders equity</b>	\$	10,993	\$	11,161
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*See accompanying notes to unaudited condensed consolidated financial statements.*

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## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands except per share data)	Three Months Ended		Nine Months Ended	
	December 29, 2007	December 30, 2006	December 29, 2007	December 30, 2006
<u>(Unaudited)</u>				
<b>Net sales</b>	\$ 4,953	\$ 5,564	\$ 14,232	\$ 12,884
Cost of sales	2,904	3,170	8,158	7,434
<b>Gross profit</b>	2,049	2,394	6,074	5,450
Engineering	520	949	1,620	2,848
Selling, general and administrative	1,454	1,429	4,094	4,094
Restructuring			80	
Operating expenses	1,974	2,378	5,794	6,942
<b>Operating income (loss)</b>	75	16	280	(1,492)
Other expense	30		30	
Interest income, net	6	25	29	91
<b>Income (loss) from continuing operations before income taxes</b>	51	41	279	(1,401)
Provision for income taxes			2	1
<b>Income (loss) from continuing operations</b>	51	41	277	(1,402)
(Loss) income on discontinued operations, net of income taxes	(20)	17	34	30
<b>Net income (loss)</b>	\$ 31	\$ 58	\$ 311	\$ (1,372)
<b>Basic earnings (loss) per share:</b>				
From continuing operations	\$ 0.01	\$ 0.01	\$ 0.05	\$ (0.29)
On discontinued operations	(0.00)	0.00	0.01	0.00
Basic earnings (loss) per share	\$ 0.01	\$ 0.01	\$ 0.06	\$ (0.29)
<b>Diluted earnings (loss) per share:</b>				
From continuing operations	\$ 0.01	\$ 0.01	\$ 0.05	\$ (0.29)
On discontinued operations	(0.00)	0.00	0.01	0.00

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Diluted earnings (loss) per share	\$	0.01	\$	0.01	\$	0.06	\$	(0.29)
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**Shares used in per share calculation:**

Basic	4,814	4,809	4,811	4,809
Diluted	4,913	4,884	4,884	4,809

*See accompanying notes to unaudited condensed consolidated financial statements.*

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended	
	December 29, 2007	December 30, 2006
<b><u>(Unaudited)</u></b>		
<b>Cash flows used in operations:</b>		
Net income (loss)	\$ 311	\$ (1,372)
Adjustments to reconcile net income (loss) to net cash used in operations:		
Depreciation and amortization	95	175
Loss on sale of fixed asset	2	
Share based compensation	147	119
Deferred rent	(111)	(71)
Changes in operating assets and liabilities	(297)	557
<b>Net cash provided by (used) in operations</b>	<b>147</b>	<b>(592)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of equipment		2
Purchases of property and equipment	(121)	(176)
<b>Net cash used in investing activities</b>	<b>(121)</b>	<b>(174)</b>
<b>Cash flows from financing activities:</b>		
Issuance of common stock	10	
<b>Increase (decrease) in cash and cash equivalents</b>	<b>36</b>	<b>(766)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,804</b>	<b>3,412</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,840</b>	<b>\$ 2,646</b>

*Supplementary disclosure of cash flow information (in thousands):*

Cash paid for income taxes was \$2 for the nine month period ended December 29, 2007. Cash paid for income taxes was \$1 for the nine month period ended December 30, 2006.

*See accompanying notes to unaudited condensed consolidated financial statements.*



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**GIGA-TRONICS INCORPORATED**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Basis of Presentation**

The condensed consolidated financial statements included herein have been prepared by Giga-tronics Incorporated (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission. The consolidated results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments (consisting of only normal recurring accruals) necessary to make the consolidated results of operations for the interim periods a fair statement of such operations. For further information, refer to the consolidated financial statements and footnotes thereto, included in the Annual Report on Form 10-KSB, filed with the Securities and Exchange Commission for the year ended March 31, 2007.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

**(2) Discontinued Operations**

In the first quarter of fiscal 2004, Giga-tronics discontinued the operations at its Dymatix Division due to the substantial losses incurred over the previous two years. In the fourth quarter of fiscal 2004, Giga-tronics consummated the sale of its Dymatix Division and recognized a gain of \$53,000 in connection with the sale. The sales price was \$300,000. The Company received a \$50,000 cash payment from the buyer and a \$250,000 note receivable with \$50,000 due in May 2004 and quarterly installments of \$25,000 due beginning in July 2004. The Company agreed to reschedule the payment due in May 2004 to August 2004 and, to date, has not received payments due. The note is secured by collateral and in management's opinion the value of this collateral deteriorated during fiscal 2005. Accordingly, the Company considers the note receivable to be impaired and has recorded a provision for loss of \$250,000 through discontinued operations in the 2005 fiscal year. During the nine month period ended December 29, 2007, the Company recorded \$34,000 as income on discontinued operations due to the receipt of a payment of \$18,000 on previously reserved receivables, a payment of \$41,000 from the sale of a previously written off asset, and an adjustment of \$25,000 to the sub-lease accrual.

**(3) Revenue Recognition**

The Company records revenue in accordance with Staff Accounting Bulletin (SAB) No. 101 and No. 104, *Revenue Recognition in Financial Statements*. As such, revenue is recorded when there is evidence of an arrangement, delivery has occurred, the price is fixed and determinable, and collectability is reasonably assured. This occurs when products are shipped, unless the arrangement involves acceptance terms. If the arrangement involves acceptance terms, the Company defers revenue until it receives product acceptance.

The Company provides for estimated costs that may be incurred for product warranties at the time of shipment. The Company's warranty policy generally provides four years for its 2400/2500 family of Microwave Synthesizers and one or three years for all other products. The estimated cost of warranty coverage is based on the Company's actual historical experience with its current products or similar products.

**Table of Contents****(4) Inventories**

Inventory is comprised of the following at December 29, 2007 and March 31, 2007:

(In thousands)	Inventory	
	December 29, 2007	March 31, 2007
Raw materials	\$ 2,966	\$ 3,163
Work-in-progress	1,632	2,128
Finished goods	277	209
Demonstration inventory	378	341
Total inventory	\$ 5,253	\$ 5,841

**(5) Earnings (Loss) Per Share**

Basic earnings (loss) per share (EPS) is calculated by dividing net income or loss by the weighted average common shares outstanding during the period. Diluted earnings (loss) per share reflects the net incremental shares that would be issued if dilutive outstanding stock options were exercised, using the treasury stock method. In the case of a net loss, it is assumed that no incremental shares would be issued because they would be antidilutive. In addition, certain options are considered antidilutive because the options exercise price was above the average market price during the period. The shares used in per share computations are as follows:

(In thousands except per share data)	Three Months Ended		Nine Months Ended	
	December 29, 2007	December 30, 2006	December 29, 2007	December 30, 2006
Net income (loss)	\$ 31	\$ 58	\$ 311	\$ (1,372)
Weighted average:				
Common shares outstanding	4,814	4,809	4,811	4,809
Potential common shares	99	75	73	
Common shares assuming dilution	4,913	4,884	4,884	4,809
Net income (loss) per share of common stock	0.01	0.01	0.06	(0.29)
Net income (loss) per share of common stock assuming dilution	0.01	0.01	0.06	(0.29)
Stock options not included in computation	393	478	393	776

The number of stock options not included in the computation of diluted EPS for the three and nine month period ended December 29, 2007 reflects stock options where the exercise prices were greater than the average market price of the common shares and are, therefore, antidilutive. The number of stock options not included in the computation of diluted EPS for the three month period ended December 30, 2006 reflects stock options where the exercise prices were greater than the average market price of the common shares and are, therefore, antidilutive. The number of stock options not included in the computation of diluted EPS for the nine month period ended December 30, 2006 is a result of the Company's loss from continuing operations and, therefore, the options are antidilutive. The weighted average

exercise price of excluded options was \$2.45 and \$2.45 as of December 29, 2007 and December 30, 2006 respectively.

**(6) Stock Based Compensation**

The Company established a 2005 Equity Incentive Plan, which provided for the granting of options for up to 700,000 shares of Common Stock. Effective March 26, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share Based Payment* ( SFAS 123(R) ), using the modified prospective application transition method, which requires recognizing expense for options granted prior to the adoption date equal to the fair value of the unvested amounts over their remaining vesting period, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 *Accounting for Stock Based Compensation*, and compensation cost for all share based payments granted subsequent to January 1, 2006, based on the grant date fair values estimated in accordance with the provisions of SFAS 123(R). There were 152,000 option grants made in the three and nine month periods ended December 29, 2007. There were 120,000 and 448,900 option grants made in the three and nine month periods ended December 30, 2006, respectively.

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SFAS 123(R) requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as a cash flow from financing in the statement of cash flows. These excess tax benefits were not significant for the Company, for each of the three and nine month periods ended December 29, 2007 and December 30, 2006.

In calculating compensation related to stock option grants, the fair value of each stock option is estimated on the date of grant using the Black-Scholes Merton option-pricing model and the following weighted average assumptions:

	Three Months Ended December 30, 2006
Dividend yield	None
Expected volatility	88.06%
Risk-free interest rate	5.09%
Expected term (years)	5

The computation of expected volatility used in the Black-Scholes Merton option-pricing model is based on the historical volatility of our share price. The expected term is estimated based on a review of historical employee exercise behavior with respect to option grants. The risk-free interest rate is based on the U.S. Treasury rates with terms based on the expected term of the option on the date of grant.

As of December 29, 2007, there was \$472,000 of total unrecognized compensation cost related to nonvested options granted under the plans. That cost is expected to be recognized over a weighted average period of 1.68 years. There were 27,500 options that vested during the three month period ended December 29, 2007. The total fair value of options vested during the three month period ended December 29, 2007 was \$45,000. No options were vested during the three month period ended December 30, 2006. There were 101,000 and 19,500 options that vested during the nine month period ended December 29, 2007 and December 30, 2006, respectively. The total fair value of options vested during the nine month period ended December 29, 2007 and December 30, 2006 was \$123,000 and \$30,000, respectively. Cash received from the exercise of stock options for the nine month period ended December 29, 2007 was \$10,000. No cash was received from stock option exercises for the three and nine month periods ended December 30, 2006.

**(7) Significant Customers and Industry Segment Information**

The Company has four reportable segments: Instrument Division, ASCOR, Microsource and Corporate. The Instrument Division produces a broad line of test and measurement equipment used in the development, test and maintenance of wireless communications products and systems, flight navigational equipment, electronic defense systems and automatic testing systems. ASCOR designs, manufactures, and markets a line of switching devices that link together many specific purpose instruments that comprise automatic test systems. Microsource develops and manufactures a broad line of YIG (Yttrium, Iron, Garnet) tuned oscillators, filters and microwave synthesizers, which are used in a wide variety of microwave instruments and devices. Corporate handles the financing needs of each segment and lends funds to each segment as required; the loans are eliminated in consolidation.

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Information on reportable segments is as follows:

(In thousands)	Three Months Ended			
	December 29, 2007		December 30, 2006	
	<u>Net Sales</u>	<u>Pre-tax Income (loss)</u>	<u>Net Sales</u>	<u>Pre-tax Income (loss)</u>
Instrument Division	\$2,306	\$ (366)	\$2,734	\$ (407)
ASCOR	1,693	453	1,260	23
Microsource	954	(14)	1,570	6
Corporate		(22)		419
Total	\$4,953	\$ 51	\$5,564	\$ 41

(In thousands)	Nine Months Ended			
	December 29, 2007		December 30, 2006	
	<u>Net Sales</u>	<u>Pre-tax Income (loss)</u>	<u>Net Sales</u>	<u>Pre-tax Income (loss)</u>
Instrument Division	\$ 6,760	\$ (1,029)	\$ 6,110	\$ (1,717)
ASCOR	4,249	1,147	2,747	(386)
Microsource	3,223	215	4,027	(371)
Corporate		(54)		1,073
Total	\$ 14,232	\$ 279	\$ 12,884	\$ (1,401)

**(8) Warranty Obligations**

The following provides a reconciliation of changes in the Company's warranty reserve. The Company provides no other guarantees.

(In thousands)	Three Months Ended		Nine Months Ended	
	December		December	
	29, 2007	December 30, 2006	29, 2007	December 30, 2006
Balance at beginning of period	\$ 181	\$ 190	\$ 207	\$ 250
Provision, net	10	36	86	52
Warranty costs incurred	(19)	(30)	(121)	(106)
Balance at end of period	\$ 172	\$ 196	\$ 172	\$ 196

**(9) Restructuring**

In an effort to improve results and make optimal use of its resources, Giga-tronics decided to integrate all ASCOR and Instrument Division engineering and manufacturing activities at the San Ramon, California facility. The Microsource subsidiary, located in Santa Rosa, California, remains strictly a manufacturing operation, with all product development work being performed in San Ramon. The impact on operations for the nine month period ended December 29, 2007 was a one-time restructuring charge of \$80,000 in severance costs.

**(10) Income Taxes**

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Interpretation No. 48, (FIN 48) *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and

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measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company has adopted FIN 48 as of April 1, 2007.

The Company previously recognized income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*.

The provisions of FIN 48 have been applied to all tax positions of the Company as of April 1, 2007. There was no cumulative effect of applying the provisions of FIN 48 and there was no material effect on the Company's provision for income taxes for the three or nine months ended December 29, 2007. The Company recognizes interest accrued related to unrecognized tax benefits and accruals for penalties in income tax expense.

**(11) Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurement* (FAS 157). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company has not determined the effect that the adoption of FAS 157 will have on its consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an Amendment of FASB Statement No. 115 ( FAS 159 ). The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This standard permits entities to choose to measure many financial assets and liabilities and certain other items at fair value at specified election dates. The Company will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied on an instrument-by-instrument basis with several exceptions, such as those investments accounted for by the equity method, and once elected, the option is irrevocable unless a new election date occurs. The fair value option can be applied only to entire instruments and not to portions thereof. The provisions of FAS 159 are effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Management did not elect to early adopt FAS 159 and has not yet completed its evaluation of the impact that FAS 159 may have on the Company's financial position, results of operations or cash flows.

In December 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No 141 (revised 2007), *Business Combinations* ( SFAS No 141R ). SFAS No 141R among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No 141R is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited.

— 10.5%(3)9,568,566 8,865,047Total Investments — 99.6%(3)\$90,424,935\$83,981,940

- (1) Control investments are generally defined under the Investment Company Act of 1940 as companies in which at least 25% of the voting securities are owned; see Note 8 to the financial statements for further disclosure.
- (2) Restricted securities have been fair valued in accordance with procedures approved by the Board of Directors and have a total fair value of \$80,443,529, which represents 95.4% of net assets applicable to common stockholders; see Note 7 to the financial statements for further disclosure.
- (3) Calculated as a percentage of net assets applicable to common stockholders.
- (4) Affiliated investments are generally defined under the Investment Company Act of 1940 as companies in which at least 5% of the voting securities are owned. Affiliated investments in which at least 25% of the voting securities are owned are generally defined as control investments as described in footnote 1; see Note 8 to the financial statements for further disclosure.
- (5) Currently non-income producing.
- (6) In July 2008, LONESTAR Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P. (PVR). LONESTAR has no continuing operations, but currently holds certain rights to receive future payments from PVR relative to the sale. LSMP GP, LP indirectly owns the general partner of LONESTAR Midstream Partners, LP. See Note 9 to the financial statements for additional information.
- (7) Publicly-traded company.

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(8) Units are held in an escrow account to satisfy any potential claims from the purchaser of Millennium Midstream Partners, L.P. The escrow agreement terminates April 1, 2010. See Note 9 to the financial statements for additional information.

See accompanying Notes to Financial Statements.



## Tortoise Capital Resources Corporation

## STATEMENTS OF OPERATIONS (Unaudited)

	For the three months ended May 31, 2010	For the three months ended May 31, 2009	For the six months ended May 31, 2010	For the six months ended May 31, 2009
<b>Investment Income</b>				
Distributions from investments				
Control investments	\$ 478,380	\$ 579,215	\$ 1,034,259	\$ 1,158,430
Affiliated investments	224,999	836,038	1,081,891	1,665,376
Non-affiliated investments	144,020	465,272	220,005	1,776,490
Total distributions from investments	847,399	1,880,525	2,336,155	4,600,296
Less return of capital on distributions	(656,759)	(2,864,138)	(1,655,399)	(4,717,386)
Net distributions from investments	190,640	(983,613)	680,756	(117,090)
Interest income from control investments	189,622	202,400	381,053	403,998
Dividends from money market mutual funds	233	420	450	1,145
Fee income	8,688	15,000	19,080	30,000
Total Investment Income	389,183	(765,793)	1,081,339	318,053
<b>Operating Expenses</b>				
Base management fees	309,704	338,186	619,626	730,955
Professional fees	153,693	145,017	238,855	274,109
Directors' fees	33,271	22,080	59,432	43,737
Reports to stockholders	16,174	15,408	31,877	30,481
Administrator fees	14,456	15,782	28,916	34,111
Fund accounting fees	7,039	8,735	14,011	16,740
Registration fees	6,496	7,891	12,851	15,610
Stock transfer agent fees	3,462	3,403	6,592	6,584
Franchise tax expense	4,958	—	7,530	—
Custodian fees and expenses	2,755	4,673	4,330	7,760
Other expenses	12,754	13,025	25,232	24,464
Total Operating Expenses	564,762	574,200	1,049,252	1,184,551
Interest expense	—	256,842	45,619	427,958
Total Expenses	564,762	831,042	1,094,871	1,612,509
Less expense reimbursement by Adviser	(51,617)	(56,365)	(103,271)	(121,826)
Net Expenses	513,145	774,677	991,600	1,490,683
Net Investment Income, before Income Taxes	(123,962)	(1,540,470)	89,739	(1,172,630)
Deferred tax benefit (expense)	(967)	8,283	(33,661)	(92,900)
Net Investment Income (Loss)	(124,929)	(1,532,187)	56,078	(1,265,530)

## Tortoise Capital Resources Corporation

STATEMENTS OF OPERATIONS (Unaudited)  
(Continued)

	For the three months ended May 31, 2010	For the three months ended May 31, 2009	For the six months ended May 31, 2010	For the six months ended May 31, 2009
<b>Realized and Unrealized Gain (Loss) on Investments</b>				
Net realized gain on control investments	\$ 585,000	\$ —	\$ 2,163,001	\$ —
Net realized loss on affiliated investments	(9,607,112)	—	(9,624,557)	(173,145)
Net realized loss on non-affiliated investments	(1,239,501)	(7,335,157)	(1,211,889)	(7,661,830)
Net realized loss, before income taxes	(10,261,613)	(7,335,157)	(8,673,445)	(7,834,975)
Deferred tax benefit (expense)	1,540,708	(758,204)	1,297,737	(620,717)
Net realized loss on investments	(8,720,905)	(8,093,361)	(7,375,708)	(8,455,692)
Net unrealized appreciation (depreciation) of control investments	(765,835)	3,029,773	769,622	3,157,483
Net unrealized appreciation (depreciation) of affiliated investments	9,841,655	3,374,165	11,049,729	(4,903,883)
Net unrealized appreciation (depreciation) of non-affiliated investments	(5,525,233)	9,978,917	(5,327,459)	5,195,197
Net unrealized appreciation, before income taxes	3,550,587	16,382,855	6,491,892	3,448,797
Deferred tax benefit (expense)	(1,985,123)	(3,284,590)	(2,435,109)	273,227
Net unrealized appreciation of investments	1,565,464	13,098,265	4,056,783	3,722,024
Net Realized and Unrealized Gain (Loss) on Investments	(7,155,441)	5,004,904	(3,318,925)	(4,733,668)
Net Increase (Decrease) in Net Assets Applicable to Common Stockholders Resulting from Operations	\$ (7,280,370)	\$ 3,472,717	\$ (3,262,847)	\$ (5,999,198)
Net Increase (Decrease) in Net Assets Applicable to Common Stockholders Resulting from Operations Per Common Share:				
Basic and Diluted	\$ (0.80)	\$ 0.39	\$ (0.36)	\$ (0.67)
Weighted Average Shares of Common Stock Outstanding:				
Basic and Diluted	9,099,037	9,000,174	9,088,679	8,981,369

See accompanying Notes to Financial Statements.

## Tortoise Capital Resources Corporation

## STATEMENTS OF CHANGES IN NET ASSETS

	For the six months ended May 31, 2010 (Unaudited)	For the six months ended May 31, 2009 (Unaudited)	Year ended November 30, 2009
<b>Operations</b>			
Net investment income (loss)	\$ 56,078	\$ (1,265,530)	\$ (760,149)
Net realized loss on investments	(7,375,708)	(8,455,692)	(20,405,876)
Net unrealized appreciation of investments	4,056,783	3,722,024	21,177,019
Net increase (decrease) in net assets applicable to common stockholders resulting from operations	(3,262,847)	(5,999,198)	10,994
<b>Distributions to Common Stockholders</b>			
Return of capital	(2,090,055)	(3,231,540)	(5,582,473)
Total distributions to common stockholders	(2,090,055)	(3,231,540)	(5,582,473)
<b>Capital Stock Transactions</b>			
Issuance of 20,947, 39,755 and 115,943 common shares from reinvestment of distributions to stockholders, respectively	144,744	231,375	642,764
Net increase in net assets, applicable to common stockholders, from capital stock transactions	144,744	231,375	642,764
Total decrease in net assets applicable to common stockholders	(5,208,158)	(8,999,363)	(4,928,715)
<b>Net Assets</b>			
Beginning of period	84,296,585	89,225,300	89,225,300
End of period	\$ 79,088,427	\$ 80,225,937	\$ 84,296,585
Accumulated net investment loss, net of income taxes, at the end of period	\$ (3,248,338)	\$ (3,809,797)	\$ (3,304,416)

See accompanying Notes to Financial Statements.

## Tortoise Capital Resources Corporation

## STATEMENT OF CASH FLOWS (Unaudited)

	For the six months ended May 31, 2010	For the six months ended May 31, 2009
<b>Cash Flows From Operating Activities</b>		
Distributions received from investments	\$ 2,336,155	\$ 4,543,782
Interest and dividend income received	381,501	482,355
Fee income received	11,080	—
Purchases of long-term investments	(7,488,354)	(3,121,895)
Proceeds from sales of long-term investments	12,170,347	8,695,305
Purchases of short-term investments, net	(680,966)	(3,817,696)
Interest expense paid	(66,703)	(400,070)
Operating expenses paid	(1,027,656)	(1,083,662)
Net cash provided by operating activities	5,635,404	5,298,119
<b>Cash Flows from Financing Activities</b>		
Advances from revolving line of credit	—	900,000
Repayments on revolving line of credit	(4,600,000)	(4,300,000)
Distributions paid to common stockholders	(1,035,404)	(1,829,919)
Net cash used in financing activities	(5,635,404)	(5,229,919)
Net change in cash	—	68,200
Cash — beginning of period	—	—
Cash — end of period	\$ —	\$ 68,200
<b>Reconciliation of net decrease in net assets applicable to common stockholders resulting from operations to net cash provided by operating activities</b>		
Net decrease in net assets applicable to common stockholders resulting from operations	\$ (3,262,847)	\$ (5,999,198)
Adjustments to reconcile net decrease in net assets applicable to common stockholders resulting from operations to net cash provided by operating activities:		
Purchases of long-term investments	(7,488,354)	(3,178,408)
Return of capital on distributions received	1,655,399	4,717,386
Proceeds from sales of long-term investments	12,195,324	8,695,305
Purchases of short-term investments, net	(680,966)	(3,817,696)
Deferred income taxes, net	1,171,033	440,390
Realized gain on investments	8,673,445	7,834,975
Net unrealized appreciation of investments	(6,491,892)	(3,448,797)
Changes in operating assets and liabilities:		
(Increase) decrease in interest, dividend and distribution receivable	(2)	77,211
Decrease in income tax receivable	—	212,054
Increase in prepaid expenses and other assets	(82,127)	(50,149)
Increase (decrease) in base management fees payable to Adviser, net of expense reimbursement	8,869	(162,804)
Decrease in accrued expenses and other liabilities	(62,478)	(22,150)
Total adjustments	8,898,251	11,297,317
Net cash provided by operating activities	\$ 5,635,404	\$ 5,298,119
<b>Non-Cash Financing Activities</b>		
Reinvestment of distributions by common stockholders in additional common shares	\$ 144,744	\$ 231,375

See accompanying Notes to Financial Statements.

## Tortoise Capital Resources Corporation

## FINANCIAL HIGHLIGHTS

	For the six months ended May 31, 2010 (Unaudited)	For the six months ended May 31, 2009 (Unaudited)	Year ended November 30, 2009
<b>Per Common Share Data(1)</b>			
Net Asset Value, beginning of period	\$ 9.29	\$ 9.96	\$ 9.96
Income (loss) from Investment Operations:			
Net investment income (loss)(2)	0.01	(0.14)	(0.08)
Net realized and unrealized gain (loss) on investments(2)	(0.38)	(0.55)	0.03
Total decrease from investment operations	(0.37)	(0.69)	(0.05)
Less Distributions to Common Stockholders:			
Return of capital	(0.23)	(0.36)	(0.62)
Total distributions to common stockholders	(0.23)	(0.36)	(0.62)
Net Asset Value, end of period	\$ 8.69	\$ 8.91	\$ 9.29
Per common share market value, end of period	\$ 5.80	\$ 4.45	\$ 6.23
Total Investment Return, based on net asset value(3)	(3.00)%	(4.39)%	4.19%
Total Investment Return, based on market value(4)	(3.46)%	(8.71)%	33.57%
<b>Supplemental Data and Ratios</b>			
Net assets applicable to common stockholders, end of period (000's)	\$ 79,088	\$ 80,226	\$ 84,297
Ratio of expenses (including current and deferred income tax expense (benefit)) to average net assets(5)(6)	5.03%	4.42%	3.48%
Ratio of expenses (excluding current and deferred income tax expense (benefit)) to average net assets(5)(7)	2.31%	3.41%	3.18%
Ratio of net investment income (loss) to average net assets before current and deferred income tax expense (benefit)(5)(7)	0.21%	(2.68)%	(1.03)%
Ratio of net investment income (loss) to average net assets after current and deferred income tax expense (benefit)(5)(6)	(2.51)%	(3.69)%	(1.33)%
Portfolio turnover rate(5)	19.31%	6.64%	7.43%
Short-term borrowings, end of period (000's)	—	\$ 18,800	\$ 4,600
Asset coverage, per \$1,000 of short-term borrowings(8)	—	\$ 5,267	\$ 19,325
Asset coverage ratio of short-term borrowings(8)	—	527%	1,933%

(1) Information presented relates to a share of common stock outstanding for the entire period.

(2) The per common share data for the year ended November 30, 2009 does not reflect the change in estimate of investment income and return of capital, as described in Note 2D.

(3) Not annualized. Total investment return is calculated assuming a purchase of common stock at the net asset value per share as of the beginning of the period, reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan and a sale at net asset value at the end of the period.

(4) Not annualized. Total investment return is calculated assuming a purchase of common stock at the market value at the beginning of the period, reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan and a sale at the current market price on the last day of the period (excluding brokerage commissions).

(5) Annualized for periods less than one full year.

(6) For the six months ended May 31, 2010, the Company accrued \$1,171,033 in deferred income tax expense, net. For the six months ended May 31, 2009, the Company accrued \$440,390 in deferred income tax expense, net. For the year ended November 30, 2009, the Company accrued \$254,356 in deferred income tax expense, net.

(7) The ratio excludes the impact of current and deferred income taxes.

(8) Represents value of total assets less all liabilities and indebtedness not represented by short-term borrowings at the end of the period divided by short-term borrowings outstanding at the end of the period.

See accompanying Notes to Financial Statements.

Tortoise Capital Resources Corporation

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

May 31, 2010

1. Organization

Tortoise Capital Resources Corporation (the “Company”) was organized as a Maryland corporation on September 8, 2005, and is a non-diversified closed-end management investment company focused on the U.S. energy infrastructure sector. The Company invests primarily in privately held and micro-cap public companies operating in the midstream and downstream segments, and to a lesser extent the upstream and coal/aggregates segments, of the energy infrastructure sector. The Company is regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). The Company does not report results of operations internally on an operating segment basis. The Company is externally managed by Tortoise Capital Advisors, L.L.C. (the “Adviser”), an investment adviser specializing in the energy sector. The Company’s shares are listed on the New York Stock Exchange under the symbol “TTO.”

2. Significant Accounting Policies

A. Use of Estimates — The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, recognition of distribution income and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

B. Investment Valuation — The Company invests primarily in illiquid securities including debt and equity securities of privately-held companies. These investments generally are subject to restrictions on resale, have no established trading market and are fair valued on a quarterly basis. Because of the inherent uncertainty of valuation, the fair values of such investments, which are determined in accordance with procedures approved by the Company’s Board of Directors, may differ materially from the values that would have been used had a ready market existed for the investments. The Company’s Board of Directors may consider other methods of valuing investments as appropriate and in conformity with U.S. generally accepted accounting principles.

The Company determines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has determined the principal market, or the market in which the Company exits its private portfolio investments with the greatest volume and level of activity, to be the private secondary market. Typically, private companies are bought and sold based on multiples of EBITDA, cash flows, net income, revenues, or in limited cases, book value.

For private company investments, value is often realized through a liquidity event of the entire company. Therefore, the value of the company as a whole (enterprise value) at the reporting date often provides the best evidence of the value of the investment and is the initial step for valuing the Company’s privately issued securities. For any one company, enterprise value may best be expressed as a range of fair values, from which a single estimate of fair value will be derived. In determining the enterprise value of a portfolio company, the Company prepares an analysis consisting of traditional valuation methodologies including market and income approaches. The Company considers some or all of the traditional valuation methods based on the individual circumstances of the portfolio company in order to derive its estimate of enterprise value.

The fair value of investments in private portfolio companies is determined based on various factors, including enterprise value, observable market transactions, such as recent offers to purchase a company, recent transactions involving the purchase or sale of the equity securities of the company, or other liquidation events. The determined equity values will generally be discounted when the Company has a minority position, is subject to restrictions on resale, has specific concerns about the receptivity of the capital markets to a specific company at a certain time, or other comparable factors exist.

For equity and equity-related securities that are freely tradable and listed on a securities exchange or over-the-counter market, the Company fair values those securities at their last sale price on that exchange or over-the-counter market on the valuation date. If the security is listed on more than one exchange, the Company will use the price from the exchange that it considers to be the principal exchange on which the security is traded. Securities listed on the NASDAQ will be valued at the NASDAQ Official Closing Price, which may not necessarily represent the last sale price. If there has been no sale on such exchange or over-the-counter market on such day, the security will be valued at the mean between the last bid price and last ask price on such day.

An equity security of a publicly traded company acquired in a private placement transaction without registration is subject to restrictions on resale that can affect the security’s liquidity and fair value. Such securities that are convertible into or otherwise

will become freely tradable will be valued based on the market value of the freely tradable security less an applicable discount. Generally, the discount will initially be equal to the discount at which the Company purchased the securities. To the extent that such securities are convertible or otherwise become freely tradable within a time frame that may be reasonably determined, an amortization schedule may be used to determine the discount.

The Board of Directors undertakes a multi-step valuation process each quarter in connection with determining the fair value of private investments. An independent valuation firm has been engaged by the Board of Directors to provide independent, third-party valuation consulting services based on procedures that the Board of Directors has identified and may ask them to perform from time to time on all or a selection of private investments as determined by the Board of Directors. The multi-step valuation process is specific to the level of assurance that the Board of Directors requests from the independent valuation firm. For positive assurance, the process is as follows:

- The independent valuation firm prepares the preliminary valuations and the supporting analysis. At May 31, 2010, the independent valuation firm performed positive assurance valuation procedures on five portfolio companies comprising approximately 99.6 percent of the total fair value of restricted investments;
- The investment professionals of the Adviser review the preliminary valuations and supporting analyses, and consider and assess, as appropriate, any changes that may be required to the preliminary valuations;
- The Investment Committee of the Adviser reviews the preliminary valuations and supporting analyses, and considers and assesses, as appropriate, any changes that may be required to the preliminary valuations;
- The Board of Directors assesses the valuations and ultimately determines the fair value of each investment in the Company's portfolio in good faith.

C. Interest and Fee Income — Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. When investing in instruments with an original issue discount or payment-in-kind interest (in which case the Company chooses payment-in-kind in lieu of cash), the Company will accrue interest income during the life of the investment, even though the Company will not necessarily be receiving cash as the interest is accrued. Fee income will include fees, if any, for due diligence, structuring, commitment and facility fees, transaction services, consulting services and management services rendered to portfolio companies and other third parties. Commitment and facility fees generally are recognized as income over the life of the underlying loan, whereas due diligence, structuring, transaction service, consulting and management service fees generally are recognized as income when services are rendered. For the three and six months ended May 31, 2010, the Company received \$8,688 and \$19,080 in fee income, respectively. For the three and six months ended May 31, 2009, the Company received \$15,000 and \$30,000 in fee income, respectively.

D. Security Transactions and Investment Income — Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis. Distributions received from the Company's investments in limited partnerships and limited liability companies generally are comprised of ordinary income, capital gains and return of capital. The Company records investment income, capital gains and return of capital based on estimates made at the time such distributions are received. Such estimates are based on information available from each company and/or other industry sources. These estimates may subsequently be revised based on information received from the entities after their tax reporting periods are concluded, as the actual character of these distributions is not known until after the fiscal year end of the Company.

For the period from December 1, 2009 through May 31, 2010, the Company estimated the allocation of investment income and return of capital for the distributions received from its portfolio companies within the Statement of Operations. For this period, the Company has estimated approximately 29 percent as investment income and approximately 71 percent as return of capital.

E. Distributions to Stockholders — The amount of any quarterly distributions will be determined by the Board of Directors. Distributions to stockholders are recorded on the ex-dividend date. If the Company has outstanding leverage, it may not declare or pay distributions to its common stockholders if it does not meet asset coverage ratios required under the 1940 Act. The character of distributions made during the year may differ from their ultimate characterization for federal income tax purposes. For the year ended November 30, 2009 and the period ended May 31, 2010, the Company's distributions for book purposes were comprised of 100 percent return of capital. For the year ended November 30, 2009, the Company's distributions for tax purposes were comprised of 100 percent return of capital. The tax character of distributions paid to common stockholders in the current year will be determined subsequent to November 30, 2010.

F. Federal and State Income Taxation — The Company, as a corporation, is obligated to pay federal and state income tax on its taxable income. Currently, the highest regular marginal federal income tax rate for a corporation is 35 percent; however, the Company anticipates a marginal effective tax rate of 34 percent due to expectations of the level of taxable income relative to the federal graduated tax rates, including the tax rate anticipated when temporary differences reverse. The Company may be subject





to a 20 percent federal alternative minimum tax on its federal alternative minimum taxable income to the extent that its alternative minimum tax exceeds its regular federal income tax.

The Company invests its assets primarily in limited partnerships or limited liability companies which are treated as partnerships for federal and state income tax purposes. As a limited partner, the Company reports its allocable share of taxable income in computing its own taxable income. The Company's tax expense or benefit is included in the Statement of Operations based on the component of income or gains (losses) to which such expense or benefit relates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is recognized, if based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized.

G. Organization Expenses and Offering Costs — The Company was responsible for paying all organization expenses, which were expensed as incurred. Offering costs related to the issuance of common stock are charged to additional paid-in capital when the stock is issued.

H. Indemnifications — Under the Company's organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Company. In addition, in the normal course of business, the Company may enter into contracts that provide general indemnification to other parties. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred, and may not occur. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

#### I. Recent Accounting Pronouncement

##### Standard on Fair Value Measurement

On January 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, Improving Disclosures about Fair Value Measurements, which amends FASB Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, and requires additional disclosures regarding fair value measurements. Specifically, the amendment requires reporting entities to disclose (i) the input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements, for Level 2 or Level 3 positions, (ii) transfers between all levels (including Level 1 and Level 2) on a gross basis (i.e. transfers out must be disclosed separately from transfers in) as well as the reason(s) for the transfer, and (iii) purchases, sales, issuances, and settlements on a gross basis in the Level 3 rollforward rather than as one net number. The effective date of the amendment is for interim and annual periods beginning after December 15, 2009; however, the requirement to provide the Level 3 activity for purchases, sales, issuances, and settlements on a gross basis will be effective for interim and annual periods beginning after December 15, 2010. The Company has adopted the disclosures required by this amendment, which did not have a material impact on the financial statements.

#### 3. Concentration of Risk

The Company invests primarily in privately-held and micro-cap public companies focused on the midstream and downstream segments, and to a lesser extent the upstream segment and coal/aggregates segments, of the U.S. energy infrastructure sector. The Company may, for defensive purposes, temporarily invest all or a significant portion of its assets in investment grade securities, short-term debt securities and cash or cash equivalents. To the extent the Company uses this strategy it may not achieve its investment objective.

#### 4. Agreements

For the period from December 1, 2008 through September 14, 2009, the Company had an Investment Advisory Agreement with Tortoise Capital Advisors, L.L.C. On September 15, 2009, the Company entered into a new Investment Advisory Agreement with the Adviser as a result of a change in control of the Adviser and the previous Investment Advisory Agreement with the Adviser automatically terminated. The terms of the new Investment Advisory Agreement are substantially identical to the terms of the previous Investment Advisory Agreement, except for the effective and termination dates, and simply continue the relationship between the Company and the Adviser.

Under the terms of the Investment Advisory Agreement, the Adviser is paid a fee consisting of a base management fee and an incentive fee. The base management fee is 0.375 percent (1.5 percent annualized) of the Company's average monthly Managed Assets, calculated and paid quarterly in arrears within thirty days of the end of each fiscal quarter. The term "Managed Assets" as used in the calculation of the management fee means total assets (including any assets purchased with or attributable to borrowed funds but excluding any net deferred tax asset) minus accrued liabilities other than (1) net deferred tax liabilities, (2) debt entered into for the purpose of leverage and (3) the aggregate liquidation preference of any outstanding preferred shares. The base management fee for any partial quarter is appropriately prorated.

On November 30, 2007, the Company entered into an Expense Reimbursement and Partial Fee Waiver Agreement with the Adviser. Under the terms of the agreement, the Adviser reimbursed the Company for certain expenses incurred beginning September 1, 2007 and ending December 31, 2008 in an amount equal to an annual rate of 0.25 percent of the Company's average monthly Managed Assets. On November 11, 2008, the Company entered into an Expense Reimbursement Agreement with the Adviser, for which the Adviser reimbursed the Company for certain expenses incurred beginning January 1, 2009 and ending December 31, 2009 in an amount equal to an annual rate of 0.25 percent of the Company's average monthly Managed Assets. On February 17, 2010, the Company entered into an Expense Reimbursement Agreement with the Adviser under which the Adviser will reimburse the Company for certain expenses incurred beginning January 1, 2010 and ending December 31, 2010 in an amount equal to an annual rate of 0.25 percent of the Company's average monthly Managed Assets. During the three and six months ended May 31, 2010, the Adviser reimbursed the Company \$51,617 and \$103,271, respectively. During the three and six months ended May 31, 2009, the Adviser reimbursed the Company \$56,365 and \$121,826, respectively.

The incentive fee consists of two parts. The first part, the investment income fee, is equal to 15 percent of the excess, if any, of the Company's Net Investment Income for the fiscal quarter over a quarterly hurdle rate equal to 2 percent (8 percent annualized), and multiplied, in either case, by the Company's average monthly Net Assets for the quarter. "Net Assets" means the Managed Assets less deferred taxes, debt entered into for the purposes of leverage and the aggregate liquidation preference of any outstanding preferred shares. "Net Investment Income" means interest income (including accrued interest that we have not yet received in cash), dividend and distribution income from equity investments (but excluding that portion of cash distributions that are treated as a return of capital), and any other income (including any fees such as commitment, origination, syndication, structuring, diligence, monitoring, and consulting fees or other fees that the Company is entitled to receive from portfolio companies) accrued during the fiscal quarter, minus the Company's operating expenses for such quarter (including the base management fee, expense reimbursements payable pursuant to the Investment Advisory Agreement, any interest expense, any accrued income taxes related to net investment income, and distributions paid on issued and outstanding preferred stock, if any, but excluding the incentive fee payable). Net Investment Income also includes, in the case of investments with a deferred interest or income feature (such as original issue discount, debt or equity instruments with a payment-in-kind feature, and zero coupon securities), accrued income that the Company has not yet received in cash. Net Investment Income does not include any realized capital gains, realized capital losses, or unrealized capital appreciation or depreciation. The investment income fee is calculated and payable quarterly in arrears within thirty (30) days of the end of each fiscal quarter. The investment income fee calculation is adjusted appropriately on the basis of the number of calendar days in the first fiscal quarter the fee accrues or the fiscal quarter during which the Agreement is in effect in the event of termination of the Agreement during any fiscal quarter. During the three and six months ended May 31, 2010 and May 31, 2009, the Company accrued no investment income fees.

The second part of the incentive fee payable to the Adviser, the capital gain incentive fee, is equal to: (A) 15 percent of (i) the Company's net realized capital gains (realized capital gains less realized capital losses) on a cumulative basis from inception to the end of each fiscal year, less (ii) any unrealized capital depreciation at the end of such fiscal year, less (B) the aggregate amount of all capital gain fees paid to the Adviser in prior fiscal years. The capital gain incentive fee is calculated and payable annually within thirty (30) days of the end of each fiscal year. In the event the Investment Advisory Agreement is terminated, the capital gain incentive fee calculation shall be undertaken as of, and any resulting capital gain incentive fee shall be paid within thirty (30) days of the date of termination. The Adviser may, from time to time, waive or defer all or any part of the compensation described in the Investment Advisory Agreement.

The calculation of the capital gain incentive fee does not include any capital gains that result from that portion of any scheduled periodic distributions made possible by the normally recurring cash flow from the operations of portfolio companies ("Expected Distributions") that are characterized by the Company as return of capital for U.S. generally accepted accounting principles purposes. In that regard, any such return of capital will not be treated as a decrease in the cost basis of an investment for purposes of calculating the capital gain incentive fee. This does not apply to any portion of any distribution from a portfolio company that is not an Expected Distribution. Realized capital gains on a security will be calculated as the excess of the net amount realized from the sale or other disposition of such security over the adjusted cost basis for the security. Realized capital losses on a security will be calculated as the amount by which the net amount realized from the sale or other disposition of such security is less than the adjusted cost basis of such security. Unrealized capital depreciation on a security will be calculated as the amount by which the Company's adjusted cost basis of such security exceeds the fair value of such security at the end of a fiscal year.

The payable for capital gain incentive fees is a result of the increase or decrease in the fair value of investments and realized gains or losses from investments. For the three and six months ended May 31, 2010 and May 31, 2009, the Company accrued no capital gain incentive fees. Pursuant to the Investment Advisory Agreement, the capital gain incentive fee is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due. No capital gain incentive fees have been paid since the commencement of operations.

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The Company has engaged U.S. Bancorp Fund Services, LLC to serve as the Company's fund accounting services provider. The Company pays the provider a monthly fee computed at an annual rate of \$24,000 on the first \$50,000,000 of the Company's Net Assets, 0.0125 percent on the next \$200,000,000 of Net Assets, 0.0075 percent on the next \$250,000,000 of Net Assets and 0.0025 percent on the balance of the Company's Net Assets.

The Adviser has been engaged as the Company's administrator. The Company pays the administrator a fee equal to an annual rate of 0.07 percent of aggregate average daily Managed Assets up to and including \$150,000,000, 0.06 percent of aggregate average daily Managed Assets on the next \$100,000,000, 0.05 percent of aggregate average daily Managed Assets on the next \$250,000,000, and 0.02 percent on the balance. This fee is calculated and accrued daily and paid quarterly in arrears.

Computershare Trust Company, N.A. serves as the Company's transfer agent, dividend paying agent, and agent for the automatic dividend reinvestment plan.

U.S. Bank, N.A. serves as the Company's custodian. The Company pays the custodian a monthly fee computed at an annual rate of 0.004 percent of the Company's portfolio assets, subject to a minimum annual fee of \$4,800, plus portfolio transaction fees.

### 5. Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting and tax purposes. Components of the Company's deferred tax assets and liabilities as of May 31, 2010 and November 30, 2009 are as follows:

	May 31, 2010	November 30, 2009
<b>Deferred tax assets:</b>		
Organization costs	\$ (23,344)	\$ (24,456)
Net unrealized loss on investment securities	—	(2,416,767)
Basis addition of investments in partnerships	(111,901)	—
Capital loss carryforwards	(4,993,762)	(6,084,585)
Net operating loss carryforwards	(4,136,416)	(5,112,040)
AMT and State of Kansas credit	(5,039)	(5,039)
Valuation allowance	4,993,762	3,038,089
	(4,276,700)	(10,604,798)
<b>Deferred tax liabilities:</b>		
Basis reduction of investment in partnerships	—	5,175,407
Net unrealized gain on investment securities	18,342	—
<b>Total net deferred tax asset</b>	<b>\$ (4,258,358)</b>	<b>\$ (5,429,391)</b>

At May 31, 2010, the Company has recorded a valuation allowance in the amount of \$4,993,762 for a portion of its deferred tax asset which it does not believe will, more likely than not, be realized. The Company estimates, based on existence of sufficient evidence, primarily regarding the amount and timing of distributions to be received from portfolio companies, the ability to realize the remainder of its deferred tax assets. Any adjustments to such estimates will be made in the period such determination is made. The Company's policy is to record interest and penalties on uncertain tax positions as part of tax expense. As of May 31, 2010, the Company had no uncertain tax positions and no interest or penalties were accrued. All tax years since inception remain open to examination by federal and state tax authorities.

Total income tax expense (benefit) differs from the amount computed by applying the federal statutory income tax rate of 34 percent to net investment income (loss) and realized and unrealized gains (losses) on investments before taxes as follows:

	For the three months ended May 31, 2010	For the three months ended May 31, 2009
Application of statutory income tax rate	\$ (2,323,896)	\$ 2,552,458
State income taxes, net of federal taxes	(239,908)	208,701
Change in deferred tax valuation allowance	3,009,186	1,273,352
<b>Total income tax expense</b>	<b>\$ 445,382</b>	<b>\$ 4,034,511</b>
	For the six months ended	For the six months ended

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	May 31, 2010	May 31, 2009
Application of statutory income tax rate	\$ (711,217)	\$ (1,889,994)
State income taxes, net of federal taxes	(73,423)	(154,535)
Change in deferred tax valuation allowance	1,955,673	2,484,919
Total income tax expense	\$ 1,171,033	\$ 440,390

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The provision for income taxes is computed by applying the federal statutory rate plus a blended state income tax rate. The components of income tax include the following for the periods presented:

	For the three months ended May 31, 2010	For the three months ended May 31, 2009
<b>Deferred tax expense</b>		
Federal	\$ 403,706	\$ 3,729,564
State	41,676	304,947
<b>Total deferred expense</b>	<b>\$ 445,382</b>	<b>\$ 4,034,511</b>

  

	For the six months ended May 31, 2010	For the six months ended May 31, 2009
<b>Deferred tax expense</b>		
Federal	\$ 1,061,453	\$ 407,103
State	109,580	33,287
<b>Total deferred expense</b>	<b>\$ 1,171,033</b>	<b>\$ 440,390</b>

The deferred income tax expense for the three month and six month periods ended May 31, 2010 and May 31, 2009 includes the impact of the change in valuation allowance for such respective periods.

As of November 30, 2009, the Company had a net operating loss for federal income tax purposes of approximately \$14,025,000. The net operating loss may be carried forward for 20 years. If not utilized, this net operating loss will expire as follows: \$3,911,000, \$3,369,000 and \$6,745,000 in the years 2027, 2028 and 2029, respectively. As of November 30, 2009, the Company had a capital loss carryforward of approximately \$16,000,000 which may be carried forward for 5 years. If not utilized, this capital loss will expire in the year ending November 30, 2014. The amount of the deferred tax asset for these items at May 31, 2010 also includes amounts for the period from December 1, 2009 through May 31, 2010. For corporations, capital losses can only be used to offset capital gains and cannot be used to offset ordinary income. As of November 30, 2009, an alternative minimum tax credit of \$3,109 was available, which may be credited in the future against regular income tax. This credit may be carried forward indefinitely.

The aggregate cost of securities for federal income tax purposes and securities with unrealized appreciation and depreciation, were as follows:

	May 31, 2010	November 30, 2009
<b>Aggregate cost for federal income tax purposes</b>	<b>\$ 76,368,409</b>	<b>\$ 76,627,528</b>
Gross unrealized appreciation	13,007,666	15,304,091
Gross unrealized depreciation	(13,257,091)	(7,949,679)
<b>Net unrealized appreciation</b>	<b>\$ (249,425)</b>	<b>\$ 7,354,412</b>

### 6. Fair Value of Financial Instruments

Various inputs are used in determining the fair value of the Company's investments. These inputs are summarized in the three broad levels listed below:

- Level 1 — quoted prices in active markets for identical investments
- Level 2 — other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.)
- Level 3 — significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

#### Valuation Techniques

In general, and where applicable, the Company uses readily available market quotations based upon the last updated sales price from the principal market to determine fair value. This pricing methodology applies to the Company's Level 1 investments.

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An equity security of a publicly traded company acquired in a private placement transaction without registration under the Securities Act of 1933, as amended (the "1933 Act"), is subject to restrictions on resale that can affect the security's fair value. If such a security is convertible into publicly-traded common shares, the security generally will be valued at the common share market price adjusted by a percentage discount due to the restrictions. This pricing methodology applies to the Company's Level 2 investments.

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For private company investments, value is often realized through a liquidity event of the entire company. Therefore, the value of the company as a whole (enterprise value) at the reporting date often provides the best evidence of the value of the investment and is the initial step for valuing the Company's privately issued securities. For any one company, enterprise value may best be expressed as a range of fair values, from which a single estimate of fair value will be derived. In determining the enterprise value of a portfolio company, the Company prepares an analysis consisting of traditional valuation methodologies including market and income approaches. The Company considers some or all of the traditional valuation methods based on the individual circumstances of the portfolio company in order to derive its estimate of enterprise value. This pricing methodology applies to the Company's Level 3 investments.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following tables provide the fair value measurements of applicable Company assets and liabilities by level within the fair value hierarchy as of May 31, 2010 and November 30, 2009. These assets are measured on a recurring basis.

May 31, 2010

Description	Fair Value at			
	May 31, 2010	Level 1	Level 2	Level 3
Equity Investments	\$ 68,639,172	\$ 15,015,932	\$ —	\$ 53,623,240
Debt Investments	5,300,000	—	—	5,300,000
Short-Term Investments	2,179,812	2,179,812	—	—
Total Investments	\$ 76,118,984	\$ 17,195,744	\$ —	\$ 58,923,240

November 30, 2009

Description	Fair Value at			
	November 30, 2009	Level 1	Level 2	Level 3
Equity Investments	\$ 73,683,094	\$ 2,039,565	\$ 3,297,009	\$ 68,346,520
Debt Investments	8,800,000	—	—	8,800,000
Short-Term Investments	1,498,846	1,498,846	—	—
Total Investments	\$ 83,981,940	\$ 3,538,411	\$ 3,297,009	\$ 77,146,520

The changes for all Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs for the six months ended May 31, 2010 and May 31, 2009, are as follows:

	Six months ended	
	May 31, 2010	May 31, 2009
Fair value beginning balance	\$ 77,146,520	\$ 85,728,339
Total realized and unrealized losses included in net decrease in net assets applicable to common stockholders	(6,745,767)	(4,465,681)
Purchases	750,000	571,513
Sales	(10,696,822)	—
Return of capital adjustments impacting cost basis of securities	(1,530,691)	(3,727,780)
Fair value ending balance	\$ 58,923,240	\$ 78,106,391
The amount of total gains (losses) for the period included in net increase (decrease) in net assets applicable to common stockholders attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date	\$ (2,959,357)	\$ (4,119,392)

During the six months ended May 31, 2010, \$3,406,158 of equity investments were transferred from Level 2 to Level 1. These securities became eligible for resale pursuant to Rule 144 under the 1933 Act and, therefore, were valued at the common share market price for its counterpart using readily available market quotations from the principal market.

### 7. Restricted Securities

Certain of the Company's investments are restricted and are valued as determined in accordance with procedures established by the Board of Directors and more fully described in Note 2. The following tables show the equity interest, number of units or principal amount, the acquisition date(s), acquisition cost (excluding return of capital adjustments), fair value, fair value per unit of such securities and fair value as percent of net assets applicable to common stockholders as of May 31, 2010 and November 30, 2009.





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May 31, 2010

Investment Security		Equity Interest, Units or Principal Amount	Acquisition Date(s)	Acquisition Cost	Fair Value	Fair Value Per Unit	Fair Value as Percent of Net Assets
High Sierra Energy, LP	Common Units	1,042,685	11/2/06- 11/15/08	\$ 24,828,836	\$ 19,331,372	\$ 18.54	24.4%
High Sierra Energy GP, LLC	Equity Interest	2.37%	11/2/06- 5/1/07	2,015,969	530,457	N/A	0.7
International Resource Partners LP	Class A Units	500,000	6/12/07	10,000,000	12,275,000	24.55	15.5
LONESTAR Midstream Partners, LP(1)	Class A Units	1,327,900	7/27/07- 4/2/08	2,149,269	195,000	0.15	0.2
LSMP GP, LP(1)	GP LP Units	180	7/27/07- 4/2/08	120,046	35,000	194.44	0.1
Mowood, LLC(1)	Equity Interest	100%	6/5/06- 8/4/08	1,000,000	5,117,346	N/A	6.5
	Subordinated Debt	\$ 5,300,000	6/5/06- 2/22/10	5,300,000	5,300,000	N/A	6.7
VantaCore Partners LP	Common Units	933,430	5/21/07- 8/4/08	18,270,449	15,933,650	17.07	20.1
	Incentive Distribution Rights	988	5/21/07- 8/4/08	143,936	205,415	207.91	0.3
				\$ 63,828,505	\$ 58,923,240		74.5%

(1) See Note 9 — Investment Transactions for additional information.

November 30, 2009

Investment Security		Equity Interest, Units or Principal Amount	Acquisition Date(s)	Acquisition Cost	Fair Value	Fair Value Per Unit	Fair Value as Percent of Net Assets
Abraxas Petroleum Corporation	Unregistered Common Units	1,946,376	10/5/09	\$ 2,895,234	\$ 3,297,009	\$ 1.69	3.9%
Eagle Rock Energy Partners, L.P.(1)	Unregistered Common Units	54,474	10/1/08	749,018	253,559	4.65	0.3
High Sierra Energy, LP	Common Units	1,042,685	11/2/06- 11/15/08	24,828,836	24,461,390	23.46	29.0
High Sierra Energy GP, LLC	Equity Interest	2.37%	11/2/06- 5/1/07	2,015,969	1,776,068	N/A	2.1
International Resource Partners LP	Class A Units	500,000	6/12/07	10,000,000	9,984,402	19.97	11.8
LONESTAR Midstream Partners, LP(2)	Class A Units	1,327,900	7/27/07- 4/2/08	2,952,626	1,102,000	0.83	1.3
LSMP GP, LP(2)	GP LP Units	180	7/27/07- 4/2/08	138,521	124,000	688.89	0.2
Mowood, LLC	Equity Interest	99.5%	6/5/06- 8/4/08	5,000,000	8,253,910	N/A	9.8
	Subordinated Debt	\$ 8,800,000	6/5/06- 12/8/08	8,800,000	8,800,000	N/A	10.4
Quest Midstream Partners, L.P.	Common Units	1,180,946	12/22/06- 11/1/07	22,200,001	5,987,055	4.92	7.1
VantaCore Partners LP	Common Units	933,430	5/21/07- 8/4/08	18,270,449	16,256,482	17.42	19.3
	Incentive Distribution Rights	988	5/21/07- 8/4/08	143,936	147,654	149.45	0.2
				\$ 97,994,590	\$ 80,443,529		95.4%

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- (1) Units are held in an escrow account to satisfy any potential claims from the purchaser of Millennium Midstream Partners, L.P. The escrow agreement terminates April 1, 2010. See Note 9 — Investment Transactions for additional information.
- (2) See Note 9 — Investment Transactions for additional information.

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### 8. Investments in Affiliates and Control Entities

Investments representing 5 percent or more of the outstanding voting securities of a portfolio company result in that company being considered an affiliated company, as defined in the 1940 Act. Investments representing 25 percent or more of the outstanding voting securities of a portfolio company result in that company being considered a control company, as defined in the 1940 Act. The aggregate fair value of all securities of affiliates and controlled entities held by the Company as of May 31, 2010 amounted to \$58,392,783, representing 73.8 percent of net assets applicable to common stockholders. The aggregate fair value of all securities of affiliates and controlled entities held by the Company as of November 30, 2009 amounted to \$75,116,893, representing 89.1 percent of net assets applicable to common stockholders. A summary of affiliated transactions for each company which is or was an affiliate or controlled entity at May 31, 2010 or during the six months then ended and at November 30, 2009 or during the year then ended is as follows:

May 31, 2010

	Units/ Equity Interest/ Principal Balance	Gross Additions	Gross Reductions	Realized Gain (Loss)	Gross Distributions or Interest Received	Units/ Equity Interest/ Principal Balance	Fair Value
	11/30/09					5/31/10	5/31/10
High Sierra Energy, LP(1)	1,042,685	\$	\$	\$	\$ 656,892	1,042,685	\$ 19,331,372
International Resource Partners LP	500,000				425,000	500,000	12,275,000
LONESTAR Midstream Partners, LP(1)(2)	1,327,900		(787,133)	(16,224)		1,327,900	195,000
LSMP GP, LP(1)(2)	180		(17,254)	(1,221)		180	35,000
Mowood, LLC Subordinated Debt(2)	\$ 8,800,000	750,000	(4,250,000)		381,053	\$ 5,300,000	5,300,000
Mowood, LLC Equity Interest(2)	99.5%		(5,335,000)	2,163,001	147,500	100%	5,117,346
Quest Midstream Partners, L.P.	1,216,881		(9,915,452)	(9,607,112)			
VantaCore Partners LP Common Units	933,430				886,758	933,430	15,933,650
VantaCore Partners LP Incentive Distribution Rights(2)	988					988	205,415
		\$ 750,000	\$ (20,304,839)	\$ (7,461,556)	\$ 2,497,203		\$ 58,392,783

(1) Currently non-income producing.

(2) See Note 9 — Investment Transactions for additional information.

November 30, 2009

	Units/ Equity Interest/ Principal Balance	Gross Additions	Gross Reductions	Realized Gain (Loss)	Gross Distributions or Interest Received	Units/ Equity Interest/ Principal Balance	Fair Value
	11/30/08					11/30/09	11/30/09
High Sierra Energy, LP	1,042,685	\$	\$	\$	\$ 2,579,159	1,042,685	\$ 24,461,390
International Resource Partners LP	500,000				800,000	500,000	9,984,402
LONESTAR Midstream Partners, LP(1)(2)	1,327,900		(1,128,428)	(363,932)		1,327,900	1,102,000
LSMP GP, LP(1)(2)	180		(55,353)	25,360		180	124,000
Mowood, LLC Subordinated Debt	\$ 7,050,000	1,750,000			807,848	\$ 8,800,000	8,800,000
Mowood, LLC Promissory Notes	\$ 1,235,000		(1,235,000)				
Mowood, LLC Equity Interest	99.6%				450,000	99.5%	8,253,910
Quest Midstream Partners, L.P.(2)	1,180,946					1,216,881	5,987,055
VantaCore Partners LP Common Units	933,430				1,820,189	933,430	16,256,482
VantaCore Partners LP Incentive Distribution Rights(2)	988					988	147,654
		\$ 1,750,000	\$ (2,418,781)	\$ (338,572)	\$ 6,457,196		\$ 75,116,893

(1) See Note 9 — Investment Transactions for additional information.

(2) Currently non-income producing. Additional units held at 11/30/09 resulted from paid-in-kind distribution to private investors in October 2009.

### 9. Investment Transactions

For the six months ended May 31, 2010, the Company purchased (at cost) securities in the amount of \$7,488,354 and sold securities (at proceeds) in the amount of \$12,195,324 (excluding short-term debt securities). For the six months ended May 31, 2009, the Company purchased (at cost) securities in the amount of \$3,178,408 and sold securities (at proceeds) in the amount of \$8,695,305 (excluding short-term debt securities).

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On February 9, 2010, Mowood, LLC (“Mowood”) closed the sale of its wholly owned subsidiary, Timberline Energy, LLC (“Timberline”), to Landfill Energy Systems, LLC. Timberline is an owner and developer of projects that convert landfill gas to energy. Mowood continues its ownership and operation of Omega Pipeline Company, LLC (“Omega”), a local distribution company which serves the natural gas and propane needs of Fort Leonard Wood and other customers in south central Missouri.

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The Company received initial proceeds from the sale of \$9,000,000, which were used to pay off the outstanding balance on its credit facility and to fund an additional investment of \$750,000 in Omega to facilitate growth. The Company used the remaining proceeds to invest according to its stated investment policies, which included investments in publicly-traded securities. In May 2010, the Company received additional capital gain proceeds of \$585,000 from Mowood as a result of a contingent payment from the sale of Timberline. The Company may receive additional contingent and escrow payments from the Timberline sale currently expected to total approximately \$1.6 million.

On July 17, 2008, LONESTAR Midstream Partners LP (“LONESTAR”) closed a transaction with Penn Virginia Resource Partners, L.P. (NYSE: PVR) for the sale of its gas gathering and transportation assets. LONESTAR distributed substantially all of the initial sales proceeds to its limited partners but did not redeem partnership interests. The Company received a distribution of \$10,476,511 in cash, 468,001 newly issued unregistered common units of PVR, and 59,503 unregistered common units of Penn Virginia GP Holdings, L.P. (NYSE: PVG). On February 3, 2009, the Company received a distribution of 37,305 freely tradable common units of PVR and 4,743 freely tradable common units of PVG. On July 17, 2009, the Company received an additional distribution of 37,304 freely tradable common units of PVR and 4,744 freely tradable common units of PVG. On December 31, 2009, the Company received a cash distribution from LONESTAR of \$804,387. For purposes of the capital gain incentive fee, the realized gain totals \$1,756,189. Pursuant to the Investment Advisory Agreement, the capital gain incentive fee is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due. No capital gain incentive fees have been paid since the commencement of operations. There are also two future contingent payments due from LONESTAR which are based on the achievement of specific revenue targets by or before June 30, 2013. No payments are due if these revenue targets are not achieved. If received, the Company’s expected portion would total approximately \$9,638,829, payable in cash or common units of PVR (at PVR’s election). The fair value of the LONESTAR and LSMP GP, LP units, which totals \$230,000 as of May 31, 2010, is based on unobservable inputs related to the potential receipt of these future payments relative to the sales transaction.

On October 1, 2008, Millennium sold its partnership interests to Eagle Rock Energy Partners, L.P. (“EROC”) for approximately \$181,000,000 in cash and approximately four million EROC unregistered common units. In exchange for its Millennium partnership interests, the Company received \$13,687,081 in cash and 373,224 EROC unregistered common units with an aggregate basis of \$5,044,980 for a total implied value at closing of approximately \$18,732,061. In addition, 253,113 EROC unregistered common units were placed in escrow for 18 months from the date of the transaction. During this 18 month period, various claims were made against the escrow fund, resulting in the disbursement of 88,778 common units back to EROC. In August 2009, the Company received an escrow release of 118,311 freely tradable EROC common units, and on April 1, 2010, the escrow termination date, the Company received the final balance of freely tradable EROC common units in the escrow account of 46,024 units. On May 31, 2010, the Company recorded a receivable and a corresponding realized gain in the amount of \$24,977, representing the amount due from EROC related to insurance proceeds it received from previous hurricane damage claims for the North Terrebone plant. For purposes of the capital gain incentive fee, the realized gain totals \$3,516,639, which excludes that portion of the fee that would be due as a result of cash distributions which were characterized as return of capital. Pursuant to the Investment Advisory Agreement, the capital gain incentive fee is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due. No capital gain incentive fees have been paid since the commencement of operations.

### 10. Credit Facility

On December 1, 2008, the Company had a \$50,000,000 committed credit facility with U.S. Bank, N.A., who served as a lender, agent and lead arranger. The revolving credit facility had a variable annual interest rate equal to the one-month LIBOR plus 1.75 percent and a non-usage fee equal to an annual rate of 0.375 percent of the difference between the total credit facility commitment and the average outstanding balance at the end of each day for the preceding fiscal quarter. The credit facility contained a covenant precluding the Company from incurring additional debt.

On March 20, 2009, the Company entered into a 90-day extension of its amended credit facility. Terms of the extension provided for a secured revolving credit facility of up to \$25,000,000. Effective June 20, 2009, the Company entered into a 60-day extension of its amended credit facility. The terms of the extension provided for a secured revolving credit facility of up to \$11,700,000. The credit agreement, as extended, had a termination date of August 20, 2009. Terms of these extensions required the Company to apply 100 percent of the proceeds from any private investment liquidation and 50 percent of the proceeds from the sale of any publicly traded portfolio assets to the outstanding balance of the facility. In addition, each prepayment of principal of the loans under the amended credit facility would permanently reduce the maximum amount of the loans under the amended credit agreement to an amount equal to the outstanding principal balance of the loans under the amended credit agreement immediately following the prepayment. During these extensions, outstanding loan balances accrued interest at a variable rate equal to the greater of (i) one-month LIBOR plus 3.00 percent, and (ii) 5.50 percent.

On August 20, 2009, the Company entered into a six-month extension of its amended credit facility through February 20, 2010. Terms of the extension provided for a secured revolving facility of up to \$5,000,000. The amended credit facility required the

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Company to apply 100 percent of the proceeds from the sale of any investment to the outstanding balance of the facility. In addition, each prepayment of principal of the loans under the amended credit facility permanently reduced the maximum amount of the loans under the amended credit agreement to an amount equal to the outstanding principal balance of the loans under the amended credit agreement immediately following the prepayment. During this extension, outstanding loan balances accrued interest at a variable rate equal to the greater of (i) one-month LIBOR plus 3.00 percent, and (ii) 5.50 percent.

On February 10, 2010, the Company paid off the remaining balance under the credit facility with proceeds from the sale of investments and the credit facility was terminated.

For the six months ended May 31, 2010, the average principal balance and interest rate for the period during which the credit facility was utilized were \$4,205,634 and 5.50 percent, respectively.

### 11. Common Stock

The Company has 100,000,000 shares authorized and 9,099,037 shares outstanding at May 31, 2010.

Shares at November 30, 2009	9,078,090
Shares issued through reinvestment of distributions	20,947
Shares at May 31, 2010	9,099,037

### 12. Warrants

At May 31, 2010 and November 30, 2009, the Company had 945,594 warrants issued and outstanding. The warrants became exercisable on February 7, 2007 (the closing date of the Company's initial public offering of common shares), subject to a lockup period with respect to the underlying common shares. Each warrant entitles the holder to purchase one common share at the exercise price of \$15.00 per common share. Warrants were issued as separate instruments from the common shares and are permitted to be transferred independently from the common shares. The warrants have no voting rights and the common shares underlying the unexercised warrants will have no voting rights until such common shares are received upon exercise of the warrants. All warrants will expire on February 6, 2013.

### 13. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	For the three months ended May 31, 2010	For the three months ended May 31, 2009	For the six months ended May 31, 2010	For the six months ended May 31, 2009
Net increase (decrease) in net assets applicable to common stockholders resulting from operations	\$ (7,280,373)	\$ 3,472,717	\$ (3,262,847)	\$ (5,999,198)
Basic weighted average shares	9,099,037	9,000,174	9,088,679	8,981,369
Average warrants outstanding(1)	—	—	—	—
Diluted weighted average shares	9,099,037	9,000,174	9,088,679	8,981,369
Basic and diluted net increase (decrease) in net assets applicable to common stockholders resulting from operations per common share	\$ (0.80)	\$ 0.39	\$ (0.36)	\$ (0.67)

(1) Warrants to purchase shares of common stock at \$15.00 per share were outstanding during the periods reflected in the table above, but were not included in the computation of diluted earnings per share because the warrants' exercise price was greater than the average market value of the common shares and, therefore, the effect would be anti-dilutive.

### 14. Subsequent Events

The Company has performed an evaluation of subsequent events through the date the financial statements were issued and has determined that no additional items require recognition or disclosure.

On June 1, 2010, the Company paid a distribution in the amount of \$0.10 per common share, for a total of \$909,904. Of this total, the dividend reinvestment amounted to \$97,724.

ADDITIONAL INFORMATION (Unaudited)

Director and Officer Compensation

The Company does not compensate any of its directors who are “interested persons” (as defined in Section 2 (a) (19) of the 1940 Act) or any of its officers. For the six months ended May 31, 2010, the aggregate compensation paid by the Company to the independent directors was \$57,000. The Company did not pay any special compensation to any of its directors or officers.

Forward-Looking Statements

This report contains “forward-looking statements.” By their nature, all forward-looking statements involve risk and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements.

Certifications

The Company’s Chief Executive Officer submitted to the New York Stock Exchange the annual CEO certification as required by Section 303A.12(a) of the NYSE Listed Company Manual.

The Company has filed with the SEC the certification of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act.

Proxy Voting Policies

A description of the policies and procedures that the Company uses to determine how to vote proxies relating to portfolio securities owned by the Company is available to stockholders (i) without charge, upon request by calling the Company at (913) 981-1020 or toll-free at (866) 362-9331 and on the Company’s Web site at [www.tortoiseadvisors.com/tto.cfm](http://www.tortoiseadvisors.com/tto.cfm); and (ii) on the SEC’s Web site at [www.sec.gov](http://www.sec.gov).

Privacy Policy

The Company is committed to maintaining the privacy of its stockholders and safeguarding their non-public personal information. The following information is provided to help you understand what personal information the Company collects, how the Company protects that information and why, in certain cases, the Company may share information with select other parties.

Generally, the Company does not receive any non-public personal information relating to its stockholders, although certain non-public personal information of its stockholders may become available to the Company. The Company does not disclose any non-public personal information about its stockholders or a former stockholder to anyone, except as required by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent).

The Company restricts access to non-public personal information about its stockholders to employees of its Adviser with a legitimate business need for the information. The Company maintains physical, electronic and procedural safeguards designed to protect the non-public personal information of its stockholders.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements contained herein, other than historical facts, may constitute "forward-looking statements." These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "potential," "likely" or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any anticipated results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. For a discussion of factors that could cause our actual results to differ from forward-looking statements contained herein, please see the discussion under the heading "Risk Factors" in Part I, Item 1A. of our most recent Annual Report filed on Form 10-K.

We may experience fluctuations in our operating results due to a number of factors, including the return on our equity investments, the interest rates payable on our debt investments, the default rates on such investments, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

Overview

We have elected to be regulated as a business development company ("BDC") and we are classified as a non-diversified closed-end management investment company under the Investment Company Act of 1940. As a BDC, we are subject to numerous regulations and restrictions. Unlike most investment companies, we are, and intend to continue to be, taxed as a general business corporation under the Internal Revenue Code of 1986.

We seek to invest in companies operating in the U.S. energy infrastructure sector, primarily in privately-held and micro-cap public companies focused on the midstream and downstream segments, and to a lesser extent the upstream, and coal/aggregates segments. Companies in the midstream segment of the energy infrastructure sector engage in the business of transporting, processing or storing natural gas, natural gas liquids, crude oil, refined petroleum products and renewable energy resources. Companies in the downstream segment of the energy infrastructure sector engage in distributing or marketing such commodities, and companies in the upstream segment of the energy infrastructure sector engage in exploring, developing, managing or producing such commodities. The energy infrastructure sector also includes producers and processors of coal and aggregates, two business segments that also are eligible for master limited partnership ("MLP") status. We seek to invest in companies in the energy infrastructure sector that generally produce stable cash flows as a result of their fee-based revenues and proactive hedging programs which help to limit direct commodity price risk.

Performance Review and Investment Outlook

Our second quarter resulted in a decrease in both our net asset value and our stock price. Our net asset value as of May 31, 2010 was \$8.69 per share, as compared to \$9.60 per share at February 28, 2010, a decrease of approximately 9 percent. The decline in net asset value is largely attributable to a decrease in the fair value of our largest holding, High Sierra Energy, LP (High Sierra), as a result of the developments discussed below, as well as a significant decline in the market value of PostRock Energy Corporation (NASDAQ: PSTR), for which we received a substantial number of shares in exchange for our Quest Midstream units upon closing of the merger in March. Total investment return, based on our net asset value and assuming reinvestment of distributions, was -3.00 percent for the quarter ending May 31, 2010. We issued a press release on May 12, 2010 announcing our second quarter distribution of \$0.10 per share, compared to our prior quarter distribution of \$0.13 per share, and discussed unfavorable developments within our portfolio. Subsequently, our stock price declined, closing on May 31, 2010 at \$5.80 per share, compared to \$6.85 per share as of February 28, 2010. Our total investment return, based on market value and assuming reinvestment of distributions, was -3.46 percent for the three months ended May 31, 2010.

As previously reported, High Sierra was unable to declare a cash distribution this quarter as a result of a credit agreement covenant default with its bank. High Sierra's results from operations were sufficient to support a distribution at or above the minimum quarterly distribution (MQD) level of \$0.45 per share; however, High Sierra was unable to receive a waiver from its bank to allow a cash distribution in light of the technical default. High Sierra distributed \$0.63 per common unit last quarter. The distribution suspension decreased our distributable cash flow by approximately \$0.07 per share. High Sierra is engaged in continuing discussions with its lenders and expects to be successful in reaching a long-term solution. If High Sierra resumes cash distributions at the MQD level, we could maintain our \$0.10 - \$0.11 per share quarterly distribution, absent any additional adjustments. High Sierra reported year-to-date operating results through April 2010 significantly below budget. The fair value of High Sierra, inclusive of our interest in the general partner, declined by approximately \$5.8 million this quarter.



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PostRock Energy Corp (NASDAQ: PSTR), the new corporation formed for the purpose of wholly owning all three Quest entities, announced on March 5, 2010 that shareholders of Quest Resource Corporation (QRCP) and Quest Energy Partners, L.P. (QELP) and unitholders of Quest Midstream Partners approved the merger. We received 490,769 freely tradable common units of PostRock in exchange for our 1,216,881 common units of Quest Midstream. PostRock began trading on the NASDAQ on March 8, 2010, opening at \$19.00 per unit and closing at \$16.36 per unit. Subsequently, the stock price declined significantly. We held 460,300 common units of PostRock as of May 31, 2010 at a fair value of \$4.83 per unit, the NASDAQ closing price on that date.

In May, we received additional capital gain proceeds of \$585,000 from Mowood, LLC as a result of a contingent payment from the February sale of its Timberline Energy subsidiary. We elected to include the capital gain proceeds from Mowood in our distribution over the next two quarters, enabling us to distribute \$0.10 per share this quarter. We may receive additional contingent and escrow payments from the Timberline sale currently expected to total approximately \$1.6 million. Mowood's subsidiary, Omega Pipeline, continues to perform at budget and provides a 14 percent yield-to-original cost on both our debt and equity investments. The fair value of Mowood is essentially flat this quarter as compared to last quarter.

The fair value of International Resource Partners LP (IRP) increased by approximately \$1.8 million this quarter. The strong met coal market and IRP's improved production and cost controls have yielded year-to-date performance significantly above budget. IRP also announced a quarterly distribution increase from \$0.40 per unit to \$0.45 per unit.

As of May 31, 2010, the value of our investment portfolio (excluding short-term investments) was \$73.9 million, including equity investments of \$68.6 million and debt investments of \$5.3 million. Our portfolio is diversified among approximately 49 percent midstream and downstream investments, 13 percent upstream, and 38 percent in aggregates and coal. The weighted average yield (to cost) on our investment portfolio (excluding short-term investments) as of May 31, 2010 was 5.1 percent. A summary of our investments follows:

Name of Portfolio	Nature of its	Securities	Amount	Fair Value	Current Yield on Amount
Company (Segment)	Principal Business	Held by Us	Invested (in millions)	Value (in millions)(1)	Invested(2)
Abraxas Petroleum Corporation (Upstream)(3)	Acquisition, development, exploration, and production of oil and gas principally in the Rocky Mountain, Mid-Continent, Permian Basin, and Gulf Coast regions of the United States	Common Units	\$ 2.9	\$ 5.1	0.0%
Energy Transfer Partners, L.P. (Midstream)	Owens and operates natural gas gathering and transportation pipelines, with natural gas treating and processing assets located in Texas, Oklahoma, and Louisiana	Common Units	1.2	1.1	7.4
Enterprise Products Partners, L.P. (Midstream)	Owens and operates natural gas, natural gas liquids and petroleum pipelines and storage facilities as well as natural gas processing facilities	Common Units	1.1	1.1	6.7
EV Energy Partners, L.P. (Upstream)	Acquirer, producer and developer of oil and gas properties in the Appalachian Basin, the Monroe field in Louisiana, Michigan, the Austin Chalk, South Central Texas, the Permian Basin, the San Juan Basin and the Mid-continent area	Common Units	2.7	2.3	8.8
High Sierra Energy, LP (Midstream)(3)	Marketing, processing, storage and transportation of hydrocarbons and processing and disposal of oilfield produced water with operations primarily in Colorado, Wyoming, Oklahoma, Florida and Mississippi	Common Units	24.8	19.3	0.0

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High Sierra Energy GP, LLC (Midstream)(3)(4)	General Partner of High Sierra Energy, LP	Equity Interest	2.0	0.5	0.0
International Resource Partners LP (Coal)	Operator of both metallurgical and steam coal mines and related assets in Central Appalachia and eastern Kentucky	Class A Units	10.0	12.3	9.0

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Name of Portfolio	Nature of its	Securities	Amount Invested	Fair Value	Current Yield on Amount
Company (Segment)	Principal Business	Held by Us	(in millions)	(in millions)(1)	Invested(2)
Kinder Morgan Management, LLC (Midstream)	Owns and operates natural gas, refined product and crude oil transportation and storage assets as well as enhanced oil recovery	Common Units	\$ 1.1	\$ 1.1	7.5%
LONESTAR Midstream Partners, LP (Midstream)(5)	LONESTAR Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P (PVR) in July 2008. LONESTAR has no continuing operations, but currently holds rights to receive future payments from PVR relative to the sale	Class A Units	2.2	0.2	N/A
LSMP GP, LP (Midstream)(5)	Indirectly owns General Partner of LONESTAR Midstream Partners, LP	GP LP Units	0.1	0.1	N/A
Mowood, LLC (Midstream/Downstream)(6)	Natural gas distribution and gas marketing in central Missouri	Equity interest	1.0	5.1	14.0
		Subordinated Debt	5.3	5.3	14.0
ONEOK Partners, L.P. (Midstream)	Owns and operates natural gas gathering, processing, storage and transportation assets in the Mid-Continent region as well as natural gas liquids systems connecting NGL supply in Mid-Continent, Gulf Coast and Rocky Mountain Region.	Common Units	1.1	1.0	7.2
PostRock Energy Corporation (Upstream)(3)	Vertically integrated energy company involved in the acquisition, development, exploration, production and transportation of natural gas	Common Units	8.8	2.2	0.0
VantaCore Partners LP (Aggregates)	Acquirer and operator of aggregate companies, with quarry and asphalt operations in Clarksville, Tennessee and sand and gravel operations located near Baton Rouge, Louisiana	Common Units and Incentive Distribution Rights	18.4	16.1	9.6
Williams Partners, L.P. (Midstream)	Owns and operates interstate natural gas pipelines as well as natural gas and NGL storage and processing	Common Units	1.1	1.1	6.7
			\$ 83.8	\$ 73.9	

(1) Fair value as of May 31, 2010.

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- (2) The current yield has been calculated by annualizing the most recent distribution during the period and dividing by the amount invested in the underlying security. Actual distributions to us are based on each company's available cash flow and are subject to change.
- (3) Currently non-income producing.
- (4) Includes original purchase of 3 percent equity interest, sale of 0.6274 percent equity interest in July 2007 and subsequent capital calls.
- (5) LONESTAR Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P in July 2008. LONESTAR has no continuing operations, but currently holds rights to receive future payments from PVR relative to the sale. The cost basis and the fair value of the LONESTAR and LSMP GP, LP units as of May 31, 2010 are related to the potential receipt of those future payments. Since this investment is not deemed to be "active", the yield is not meaningful and we have excluded it from our weighted average yield to cost on investments as described below in Results of Operations.
- (6) Current yield on our equity interest represents an equity distribution on our invested capital. We expect that, pending cash availability, such equity distributions will recur on a quarterly basis at or above such yield.

### Portfolio Company Monitoring

Our Adviser monitors each portfolio company to determine progress relative to meeting the company's business plan and to assess the company's strategic and tactical courses of action. This monitoring may be accomplished by attendance at Board of Directors meetings, ad hoc communications with company management, the review of periodic operating and financial reports, an analysis of relevant reserve information and capital expenditure plans, and periodic consultations with engineers, geologists, and other experts. The performance of each private portfolio company is also periodically compared to performance of similarly sized companies with comparable assets and businesses to assess performance relative to peers. Our Adviser's monitoring activities are expected to provide it with information that will enable us to monitor compliance with existing covenants, to enhance our ability to

make qualified valuation decisions, and to assist our evaluation of the nature of the risks involved in each individual investment. In addition, these monitoring activities should enable our Adviser to diagnose and manage the common risk factors held by our total portfolio, such as sector concentration, exposure to a single financial sponsor, or sensitivity to a particular geography.

As part of the monitoring process, our Adviser continually assesses the risk profile of each of our private investments. We intend to disclose, as appropriate, those risk factors that we deem most relevant in assessing the risk of any particular investment. Such factors may include, but are not limited to, the investment's current cash distribution status, compliance with loan covenants, operating and financial performance, changes in the regulatory environment or other factors that we believe are useful in determining overall investment risk.

#### High Sierra Energy, LP ("High Sierra")

High Sierra is a holding company with diversified midstream energy assets focused on the transportation, storage and marketing of hydrocarbons. The company's businesses include a natural gas liquids logistics, transportation and marketing business operating throughout the lower 48 states, a natural gas storage facility in Mississippi, an ethanol terminal in Nevada, crude oil and natural gas liquids trucking businesses in Kansas and Colorado, crude oil gathering, transportation and marketing services, primarily focused in the Mid-Continent, Western and Gulf Coast regions, water treatment, transportation and disposal businesses serving oil and gas producers in Wyoming and Oklahoma, and two asphalt processing, packaging and distribution terminals in Florida. We hold board of directors' observation rights for High Sierra.

High Sierra was unable to declare a cash distribution this quarter as a result of a credit agreement covenant default with its bank. High Sierra's results from operations were sufficient to support a distribution at or above the minimum quarterly distribution (MQD) level of \$0.45 per share; however, the company was unable to receive a waiver from its bank to allow a cash distribution in light of the technical default. High Sierra distributed \$0.63 per common unit last quarter. High Sierra is engaged in continuing discussions with its lenders and expects to be successful in reaching a long-term solution. High Sierra reported year-to-date operating results through April 2010 significantly below budget, primarily from its business units Centennial Energy (natural gas liquids marketing) and Monroe Gas Storage (underground natural gas storage). Additionally, due to unfavorable commodity prices for natural gas, wet weather conditions and increased competition in the water disposal and related water truck transportation business in Oklahoma, High Sierra is essentially shutting down operations at National Coal County, an Oklahoma based water transportation and disposal service company acquired in 2007, resulting in a significant goodwill impairment charge.

#### International Resource Partners LP ("IRP")

IRP's surface and underground coal mine operations in southern West Virginia are comprised of metallurgical and steam coal reserves, a coal washing and preparation plant, rail load-out facilities and a sales and marketing subsidiary. In addition, IRP owns and leases assets in eastern Kentucky with capacity for seven surface and three underground mines. We hold board of director's observation rights for IRP.

IRP announced a quarterly distribution increase from \$0.40 per unit to \$0.45 per unit effective this quarter. IRP reported year-to-date operating results through April 2010 well in excess of its budget. Due to the significant improvement in operations during the first four months of 2010, management revised upward its forecast for 2010. However, the Massey Upper Big Branch Mine explosion may result in increased regulatory scrutiny by the state and federal enforcement agencies which could have a negative impact on IRP and the entire industry over the long run.

#### Mowood, LLC ("Mowood")

Mowood is the holding company of Omega Pipeline, LLC ("Omega"). We hold 100 percent of the equity interests in Mowood and currently hold a seat on its board of directors.

Omega is a natural gas local distribution company located on the Fort Leonard Wood military installation in south central Missouri. Omega serves the natural gas and propane needs of Fort Leonard Wood and other customers in the surrounding area. Omega was slightly behind budget through April 2010 but is expected to be at or above budget in the following months as construction and growth projects at the Fort make contributions to profitability.

In February 2010, Mowood sold its wholly owned subsidiary, Timberline Energy, LLC, to Landfill Energy Systems, LLC. In May, we received additional capital gain proceeds of \$585,000 from Mowood, LLC as a result of a contingent payment from the sale of Timberline Energy. We may receive additional contingent and escrow payments from the Timberline sale currently expected to total approximately \$1.6 million.

#### VantaCore Partners LP ("VantaCore")

VantaCore was formed to acquire companies in the aggregate industry and currently owns a quarry and asphalt plant in Clarksville, Tennessee and sand and gravel operations located near Baton Rouge, Louisiana. We hold a seat on VantaCore's board of directors.

VantaCore maintained its quarterly cash distribution of \$0.475 per unit, the minimum quarterly distribution, in May 2010. In April 2010, VantaCore completed its capital raise of approximately \$100 million with a large institutional investor. The additional capital



is expected to be used to take advantage of growth opportunities for the company. The company experienced some flooding at its Clarksville, Tennessee quarry in May but is now back up and running. VantaCore reported year-to-date EBITDA through April 2010 slightly below budget. The Southern Aggregates property in Louisiana continues to fall short of budget but the company is optimistic that recent signs of improvement in the building industry in the area, along with cost cutting measures imposed by management, will help improve their performance.

#### Results of Operations

##### Comparison of the Three and Six Months Ended May 31, 2010 and May 31, 2009

**Investment Income:** Investment income totaled \$389,180 and \$1,081,339 for the three and six months ended May 31, 2010, respectively. This represents an increase of \$1,154,973 and \$763,286, respectively, as compared to the three and six months ended May 31, 2009. The increase in investment income is primarily due to a decrease in the total distributions from investments, offset by a decrease in the amount of such distributions characterized as return of capital. The weighted average yield to cost on our investment portfolio (excluding short-term investments) as of May 31, 2010 was 5.1 percent, as compared to 6.2 percent at May 31, 2009. The decrease in the weighted average yield to cost is primarily related to the sale of higher yielding securities to pay down outstanding leverage and the suspension of distributions from High Sierra.

**Net Expenses:** Net expenses totaled \$513,145 and \$991,600 for the three and six months ended May 31, 2010, respectively. This represents a decrease of \$261,532 and \$499,083, respectively, as compared to the three and six months ended May 31, 2009. The decrease is primarily related to a reduction in base management fees payable to the Adviser and a decrease in interest expense resulting from the elimination of our outstanding leverage.

**Distributable Cash Flow:** Our portfolio generates cash flow to us from which we pay distributions to stockholders. When our Board of Directors determines the amount of any distribution we expect to pay our stockholders, it reviews distributable cash flow ("DCF"). DCF is distributions received from investments less our total expenses. The total distributions received from our investments include the amount received by us as cash distributions from equity investments, paid-in-kind distributions, and dividend and interest payments. Total expenses include current or anticipated operating expenses, leverage costs and current income taxes on our operating income. Total expenses do not include deferred income taxes or accrued capital gain incentive fees. We do not include in distributable cash flow the value of distributions received from portfolio companies which are paid in stock as a result of credit constraints, market dislocation or other similar issues.

We disclose DCF in order to provide supplemental information regarding our results of operations and to enhance our investors' overall understanding of our core financial performance and our prospects for the future. We believe that our investors benefit from seeing the results of DCF in addition to GAAP information. This non-GAAP information facilitates management's comparison of current results with historical results of operations and with those of our peers. This information is not in accordance with, or an alternative to, GAAP and may not be comparable to similarly titled measures reported by other companies.

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The following table represents DCF for the three and six months ended May 31, 2010 as compared to the three and six months ended May 31, 2009:

	For the three months ended May 31, 2010	For the three months ended May 31, 2009	For the six months ended May 31, 2010	For the six months ended May 31, 2009
<b>Distributable Cash Flow</b>				
<b>Total from Investments</b>				
Distributions from investments	\$ 847,399	\$ 1,852,148	\$ 2,336,155	\$ 4,543,782
Distributions paid in stock	20,972	—	20,972	—
Interest income from investments	189,622	202,400	381,053	403,998
Dividends from money market mutual funds	233	420	450	1,145
Other income	8,688	15,000	19,080	30,000
<b>Total from Investments</b>	<b>1,066,914</b>	<b>2,069,968</b>	<b>2,757,710</b>	<b>4,978,925</b>
<b>Operating Expenses Before Leverage Costs</b>				
Advisory fees (net of expense reimbursement by Adviser)	258,087	281,821	516,355	609,129
Other operating expenses	216,177	236,014	390,745	453,596
<b>Total Operating Expenses, before Leverage Costs</b>	<b>474,264</b>	<b>517,835</b>	<b>907,100</b>	<b>1,062,725</b>
<b>Distributable cash flow before leverage costs</b>	<b>592,650</b>	<b>1,552,133</b>	<b>1,850,610</b>	<b>3,916,200</b>
<b>Leverage Costs</b>				
Distributable Cash Flow	\$ 592,650	\$ 1,295,291	\$ 1,804,991	\$ 3,488,242
Capital gain proceeds	292,500	—	292,500	—
<b>Cash Available for Distribution</b>	<b>\$ 885,150</b>	<b>\$ 1,295,291</b>	<b>\$ 2,097,491</b>	<b>\$ 3,488,242</b>
<b>Distributions paid on common stock</b>	<b>\$ 909,904</b>	<b>\$ 1,170,247</b>	<b>\$ 2,090,055</b>	<b>\$ 3,231,540</b>
<b>Payout percentage for period(1)</b>	<b>103%</b>	<b>90%</b>	<b>100%</b>	<b>93%</b>
<b>DCF/GAAP Reconciliation</b>				
Distributable Cash Flow	\$ 592,650	\$ 1,295,291	\$ 1,804,991	\$ 3,488,242
<b>Adjustments to reconcile to Net Investment Income (Loss), before Income Taxes:</b>				
Distributions paid in stock(2)	(20,972)	28,377	(20,972)	56,514
Return of capital on distributions received from equity investments	(656,759)	(2,864,138)	(1,655,399)	(4,717,386)
Non-recurring professional fees	(38,881)	—	(38,881)	—
<b>Net Investment Income (Loss), before Income Taxes</b>	<b>\$ (123,962)</b>	<b>\$ (1,540,470)</b>	<b>\$ 89,739</b>	<b>\$ (1,172,630)</b>

(1) Distributions paid as a percentage of Cash Available for Distribution.

(2) Distributions paid in stock for three and six months ended May 31, 2010 were paid as part of normal operations and are included in DCF. Distributions paid in stock for the three and six months ended May 31, 2009 were paid in stock as a result of credit constraints and therefore were not included in DCF.

Distributions: The following table sets forth distributions for the three and six months ended May 31, 2010 as compared to the three and six months ended May 31, 2009.

Record Date	Payment Date	Amount
May 21, 2010	June 1, 2010	\$ 0.10
February 19, 2010	March 1, 2010	\$ 0.13
May 22, 2009	June 1, 2009	\$ 0.13
February 23, 2009	March 2, 2009	\$ 0.23

Net Investment Income (Loss): Net investment income (loss) after deferred taxes for the three and six months ended May 31, 2010 was \$(124,929) and \$56,078, respectively, as compared to \$(1,532,187) and \$(1,265,530) for the three and six months ended May 31, 2009, respectively. The variance in net investment income is primarily related to an increase in investment income and decreases in net expenses during the current fiscal periods as described above.





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**Net Realized and Unrealized Gain (Loss):** We had net unrealized appreciation (after deferred taxes) of \$1,565,464 and \$4,056,783 for the three and six months ended May 31, 2010, respectively, as compared to \$13,098,265 and \$3,722,024 for the three and six months ended May 31, 2009. We had net realized losses (after deferred taxes) for the three and six months ended May 31, 2010 of \$8,720,905 and \$7,375,708, respectively, as compared to net realized losses (after deferred taxes) for the three and six months ended May 31, 2009 of \$8,093,361 and \$8,455,692, respectively. Net realized losses for the three and six months ended May 31, 2010 were generally attributed to a realized loss that was recognized on our Quest Midstream units when they were exchanged in the merger, as well as realized losses attributable to PostRock shares which were received in the merger and sold prior to May 31, 2010.

### Liquidity and Capital Resources

We may raise additional capital to support our future growth through equity offerings, rights offerings, and issuances of senior securities to the extent permitted by the 1940 Act and subject to market conditions. We generally may not issue additional common shares at a price below our net asset value (net of any sales load (underwriting discount)) without first obtaining approval of our stockholders and Board of Directors.

### Contractual Obligations

We do not have any significant contractual payment obligations as of May 31, 2010.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

### Borrowings

For the six months ended May 31, 2010, the average principal balance and interest rate for the period during which the credit facility was utilized were \$4,205,634 and 5.50 percent, respectively. We used proceeds from the sale of portfolio investments to pay off and terminate the credit facility on February 10, 2010.

### Recent Developments

On June 1, 2010, the Company paid a distribution in the amount of \$0.10 per common share, for a total of \$909,904. Of this total, the dividend reinvestment amounted to \$97,724.

### Critical Accounting Policies

The financial statements included in this report are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex or subjective judgments. While our critical accounting policies are discussed below, Note 2 in the Notes to Financial Statements included in this report provides more detailed disclosure of all of our significant accounting policies.

### Valuation of Portfolio Investments

We invest primarily in illiquid securities including debt and equity securities of privately-held companies. These investments generally are subject to restrictions on resale, have no established trading market and are fair valued on a quarterly basis. Because of the inherent uncertainty of valuation, the fair values of such investments, which are determined in accordance with procedures approved by our Board of Directors, may differ materially from the values that would have been used had a ready market existed for the investments.

### Securities Transactions and Investment Income Recognition

Securities transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis. Distributions received from our equity investments generally are comprised of ordinary income, capital gains and return of capital from the portfolio company. We record investment income and returns of capital based on estimates made at the time such distributions are received. Such estimates are based on information available from each portfolio company and/or other industry sources. These estimates may subsequently be revised based on information received from the portfolio companies after their tax reporting periods are concluded, as the actual character of these distributions are not known until after our fiscal year end.

### Federal and State Income Taxation

We, as a corporation, are obligated to pay federal and state income tax on our taxable income. Our tax expense or benefit is included in the Statement of Operations based on the component of income or gains (losses) to which such expense or benefit relates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our business activities contain elements of market risk. We consider fluctuations in the value of our equity securities and the cost of capital under our credit facility to be our principal market risk.

We carry our investments at fair value, as determined by our Board of Directors. The fair value of securities is determined using readily available market quotations from the principal market if available. The fair value of securities that are not publicly traded or whose market price is not readily available is determined in good faith by our Board of Directors. Because there are no readily available market quotations for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have readily available market quotations, the fair value of our investments may differ significantly from the fair values that would have been used had a ready market quotation existed for such investments, and these differences could be material.

As of May 31, 2010, the fair value of our investment portfolio (excluding short-term investments) totaled \$73,939,172. We estimate that the impact of a 10 percent increase or decrease in the fair value of these investments, net of capital gain incentive fees and related deferred taxes, would increase or decrease net assets applicable to common stockholders by approximately \$4,620,459.

Debt investments in our portfolio may be based on floating or fixed rates. Loans bearing a floating interest rate are usually based on LIBOR and, in most cases, a spread consisting of additional basis points. The interest rates for these debt instruments typically have one to six-month durations and reset at the current market interest rates. As of May 31, 2010, we had no floating rate debt investments outstanding.

We consider the management of risk essential to conducting our businesses. Accordingly, our risk management systems and procedures are designed to identify and analyze our risks, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report as required by paragraph (b) of Rule 13a-15 or 15d-15 of the Securities Exchange Act of 1934. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that 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 disclosure.

There have been no changes in our internal control over financial reporting (identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Securities Exchange Act of 1934) during the fiscal quarter ended May 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently subject to any material legal proceeding, nor, to our knowledge, is any material legal proceeding threatened against us.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended November 30, 2009, which could materially affect our business, financial condition or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not sell any securities during the three months ended May 31, 2010 that were not registered under the Securities Act of 1933.

We did not repurchase any of our common shares during the three months ended May 31, 2010.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit	Description
31.1	Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is filed herewith.
31.2	Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is filed herewith.
32.1	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is furnished herewith.

All other exhibits for which provision is made in the applicable regulations of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and therefore have been omitted.

SIGNATURE

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.

TORTOISE CAPITAL RESOURCES CORPORATION

Date: July 8, 2010

By:

/s/ Terry Matlack  
Terry Matlack  
Chief Financial Officer  
(Principal Financial Officer)