FIRST MARINER BANCORP
Form DEF 14A
April 30, 2010

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

First Mariner Bancorp

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Title of each class of securities to which transaction applies:
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(3) Filing Party:

(4) Date Filed:

FIRST MARINER BANCORP

1501 S. CLINTON STREET
BALTIMORE, MARYLAND 21224

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TIME AND DATE	7:30 a.m. on Tuesday, June 1, 2010
PLACE	CLARENCE "DU" BURNS ARENA 1301 South Ellwood Avenue Baltimore, Maryland 21224
ITEMS OF BUSINESS	(1) To elect four nominees for a term of three years and one nominee for a term of two years to serve on the Board of Directors and until their successors are duly elected and qualified; (2) The approval of an amendment to the Company's Articles of Incorporation to increase the authorized number of shares of common stock from 75,000,000 to 100,000,000; (3) The approval of an amendment to the Company's Articles of Incorporation to authorize a class of blank check preferred stock, consisting of 5,000,000 shares of preferred stock, $.05 per share; (4) The ratification of the appointment of Stegman & Company as the independent registered public accounting firm for the Company for the year ending December 31, 2010; (5) Other matters that may properly come before the meeting or any adjournment thereof.
RECORD DATE	In order to vote, you must have been a stockholder at the close of business on April 26, 2010.
PROXY VOTING	It is important that your shares be represented and voted at the meeting. You can vote your shares by completing and returning the enclosed proxy card sent to you. Voting instructions are printed on your proxy card and included in the accompanying proxy statement. Most holders will be able to vote by phone or Internet by following the instructions on their proxy form. If you need help in voting your shares or if you have any questions regarding the proposals, please call our Chief Financial Officer, Paul B. Susie at (443) 573-4821. You can revoke a proxy at any time before its exercise at the meeting by following the instructions in the proxy statement. A copy of the following proxy statement and the enclosed proxy card are also available on the Internet at *http://www.amstock.com/ProxyServices/ViewMaterial.asp?CoNumber=08777*.

BY ORDER OF THE BOARD OF DIRECTORS

EUGENE A. FRIEDMAN
Secretary

April 30, 2010

Important Notice Regarding the Availability of Proxy Materials
For the Stockholder Meeting to be Held on June 1, 2010:

The attached Proxy Statement, the attached form of Proxy, and First Mariner Bancorp's Annual Report to Stockholders (including its Annual Report on Form 10-K) are available at *www.1stmarinerbancorp.com*. From the "Investor Relations" drop down menu on this webpage, click on the "Documents" tab. Information on this website, other than this Proxy Statement, is not a part of this Proxy Statement.

FIRST MARINER BANCORP

1501 South Clinton Street
Baltimore, Maryland 21224
(410) 342-2600

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS

To Be Held on Tuesday, June 1, 2010 at 7:30 A.M.

SOLICITATION AND REVOCATION OF PROXIES

The enclosed proxy is solicited by the Board of Directors of First Mariner Bancorp (the "Company") for use at the Annual Meeting of Stockholders (the "Meeting") to be held on June 1, 2010 at CLARENCE "DU" BURNS ARENA, 1301 South Ellwood Avenue, Baltimore, Maryland 21224. The proxy is revocable at any time prior to or at the Meeting by voting at the Meeting or by timely and properly delivering prior to the Meeting a duly executed later-dated proxy. In addition to solicitation by mail, proxies may be solicited by officers, directors and employees of the Company who will not be specifically compensated for soliciting such proxies. The cost of soliciting proxies will be borne by the Company and may include reasonable out-of-pocket expenses in forwarding proxy materials to beneficial owners. Brokers and other persons will be reimbursed for their reasonable expenses in forwarding proxy materials to beneficial owners of the common stock of the Company registered in names of nominees. This proxy material is being sent to the Company's stockholders on or about April 30, 2010.

OUTSTANDING SHARES AND VOTING RIGHTS

Stockholders of record at the close of business on April 26, 2010 (the "Record Date") are entitled to notice of and to vote at the Meeting. As of the close of business on the Record Date, there were outstanding and entitled to vote 17,676,759 shares of common stock, $.05 par value ("Common Stock"), each of which is entitled to one vote.

The presence, in person or by proxy, of stockholders entitled to cast a majority of all votes entitled to be cast at the Meeting shall constitute a quorum. The affirmative vote of a majority of all shares voted at the Meeting is sufficient to carry motions presented with respect to Proposal One and Proposal Four described in this Proxy Statement. The withholding of a vote for a Director nominee will constitute a vote against that nominee. A broker non-vote with respect to the election of Directors will have no impact on the outcome of that vote. In voting on the amendments to the Company's Articles of Incorporation to increase the number of authorized shares and to authorize a class of blank check preferred stock, you may vote in favor of the proposals, vote against the proposals or abstain from voting. Approval of the amendments to increase the number of shares of authorized common stock and to authorize a class of blank check preferred stock require the affirmative vote of a majority of the votes eligible to be cast at the meeting. Abstentions and broker non-votes will have the effect of voting against these proposals to amend the Company's Articles of Incorporation. In counting votes on the proposal to ratify the selection of the independent registered public accounting firm, abstentions will have no effect on the outcome of that vote. A withheld vote, an abstention and a broker non-vote will all be counted for purposes of determining whether a quorum is present for the transaction of business. The Company designates individuals who will be present at the Meeting to serve as the Inspectors of Elections for purposes of tallying shares voted.

If you hold your shares in street name it is critical that you cast your vote if you want it to count in the election of Directors (Proposal 1 of this Proxy Statement). In the past, if you held your shares in street name and you did not indicate how you wanted your shares voted in the election of directors, your bank or broker was allowed to vote those shares on your behalf for this proposal as they felt appropriate.

Recent changes in regulation were made to take away the ability of your bank or broker to vote your uninstructed shares in the election of directors on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your bank or broker how to vote in the election of directors, no votes will be cast on your behalf. These are referred to as broker non-votes. If you are a stockholder of record and you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the annual meeting.

All properly executed proxies received pursuant to this solicitation will be voted as directed by the stockholders in their proxy cards. If no direction is given in your proxy card, your shares of Common Stock will be voted **FOR ALL NOMINEES** named in Proposal 1, **FOR** the proposal to amend the Company's Articles of Incorporation to increase the number of authorized shares, **FOR** the proposal to amend the Company's Articles of Incorporation to create a class of blank check preferred stock and **FOR** the proposal to ratify the appointment of the Company's independent registered public accounting firm for the fiscal year ended December 31, 2010, as described in Proposal 4. If other matters are properly presented at the Meeting, persons named as the proxies will have discretion to vote on those matters according to their best judgment.

STOCK OWNERSHIP

The following table sets forth, as of April 26, 2010, certain information as to the common stock beneficially owned by each of the Company's directors, and by all executive officers and directors of the Company as a group. Other than those persons listed below, the Company is not aware of any person or group that beneficially owned more than 5% of the common stock as of April 26, 2010.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership(2)	Percent of Shares of Common Stock Outstanding(3)
Edwin F. Hale, Sr.(4)	3,511,649	19.3%
Barry B. Bondroff(5)	64,842	
John Brown, III(6)	12,188	*
Robert Caret(7)	10,890	*
George H. Mantakos(8)	141,823	
John P. McDaniel(9)	195,912	1.1%
John J. Oliver, Jr.(10)	9,039	*
Patricia Schmoke, MD(11)	6,200	*
Hector Torres(12)	4,700	*
Michael R. Watson(13)	13,385	*
Anirban Basu(14)	8,150	*
Gregory A. Devou(15)	700	*
Mark A. Keidel(16)	88,877	
All directors and executive officers as a group (13 persons)(17)	4,068,355	22.1%

* Less than 1%.

(1) All executive officers and directors of the Company have the Company's address: 1501 S. Clinton Street, Baltimore, Maryland 21224.

(2) In accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner, for purposes of this table, of any shares of common stock if he has or shares voting or investment power with respect to such common stock or has a right to acquire beneficial ownership at any time within 60 days from April 26, 2010. As used herein, "voting power" is the power to vote or direct the voting of shares and "investment power" is the power to dispose or direct the disposition of shares. Unless otherwise

indicated, the beneficial owner has sole voting and investment power with respect to the listed shares.

(3) Based on 17,676,759 shares outstanding, plus the number of shares of Company common stock which such person or group of persons has the right to acquire within 60 days after April 26, 2010 by the exercise of stock options and warrants.

(4) Includes 11,664 shares in his Individual Retirement Account, options to purchase 235,000 shares and a warrant to purchase 325,203 shares at $1.15 per share. Mr. Hale has pledged 2,240,740 shares to secure indebtedness at other financial institutions.

(5) Includes 39,242 shares in his Individual Retirement Account, and 10,450 shares held jointly with his wife, and options to purchase 15,150 shares.

(6) Includes options to purchase 6,350 shares.

(7) Includes options to purchase 1,950 shares.

(8) Includes 34,900 shares held in his Individual Retirement Account, 11,650 held jointly with his wife, and options to purchase 72,500 shares.

(9) Includes options to purchase 1,900 shares.

(10) Includes options to purchase 7,150 shares.

(11) Includes options to purchase 6,100 shares.

(12) Includes options to purchase 4,100 shares.

(13) Includes 1,435 shares held jointly with his wife and options to purchase 11,850 shares.

(14) Includes options to purchase 500 shares.

(15) Includes options to purchase 600 shares.

(16) Includes options to purchase 45,000 shares.

(17) Includes options and warrants to purchase 733,353 shares.

Proposal One:
ELECTION OF DIRECTORS

The number of directors constituting the Board of Directors is currently set at 13. Directors are divided into three classes, as nearly equal in number as possible, with respect to the time for which the directors may hold office. Directors are generally elected to three-year terms, and one class of directors expires each year. In all cases, directors are elected until their successors are duly elected and qualify. At this year's meeting, the Board proposes the election of Messrs. Mantakos, Watson, Torres and Devou for three-year terms and the election of Mr. Keidel for a two-year term. Each of the current directors whose terms expire in 2010 are standing for re-election. Joseph A. Cicero retired from the Board on May 22, 2009. Mark A. Keidel was appointed to fill the vacancy created by Mr. Cicero's retirement, and, in accordance with the requirements of

Maryland law, must be re-elected at the June 1, 2010 annual meeting in order to continue to serve on the Board of Directors. The directors whose terms do not expire in 2010 will continue to serve as directors until the expiration of their respective terms in accordance with the Company's Articles of Incorporation and Bylaws. It is not contemplated that any of the nominees will become unavailable to serve, but if that should occur before the Meeting, proxies that do not withhold authority to vote for the nominees listed below will be voted for another nominee, or nominees, selected by the Board of Directors.

The Board of Directors of the Company recommends that stockholders vote ***FOR*** election of all nominees.

Information concerning the persons nominated for election and for those directors whose term of office will continue after the Meeting is set forth below.

NOMINEES FOR ELECTION

Term to expire in 2013, except for Mr. Keidel whose term will expire in 2012.

Name	Age	Director Since
George H. Mantakos	68	1994
Michael R. Watson	67	1998
Hector Torres	58	2003
Gregory A. Devou	58	2008
Mark A. Keidel	48	2009

George H. Mantakos is Executive Vice President of the Company, and the President of the Bank. Mr. Mantakos previously served as President of the Company and Chief Executive Officer of the Bank. Prior thereto, Mr. Mantakos was a founder and organizer of MarylandsBank, FSB, the predecessor of the Bank.

As a result of Mr. Mantakos' tenure with the Company and the Bank, he affords the Board the opportunity to utilize his deep knowledge of and insight into the institution, its market areas and operational risks.

Michael R. Watson is the President of the International Pilots Association. He was the former President of the American Pilots Association. Mr. Watson has served as a member of the Federal Reserve Board.

Mr. Watson has extensive management level experience both inside and outside of the financial services industry. Such management experience in regulated industries has exposed Mr. Watson to many of the issues facing public companies today, particularly regulated entities, making Mr. Watson a valued component of a well rounded board.

Hector Torres is President of the Prosaber Consulting, an Emergency Management Consulting Company. He was the former Executive Director of the Governor's Commission on Hispanic Affairs. He was formerly the Battalion Chief and Public Information Officer of the Baltimore City Fire Department.

Mr. Torres is an entrepreneur and is active in both the business and civic communities in the Baltimore area. Mr. Torres is one of the area's most visible minority leaders.

Gregory A. Devou is the Executive Vice President and Chief Marketing Officer for CareFirst Blue Cross BlueShield, a healthcare payor since 1996. Prior to that, Mr. Devou served for a year as CareFirst Senior Vice President for Corporate Marketing.

Mr. Devou brings significant business and management level experience from a setting outside of the financial services industry. In addition, through his local business experience, Mr. Devou has gained significant local marketing knowledge, adding additional value to the board.

Mark A. Keidel became President and Chief Operating Officer of the Company and Chief Operating Officer of the Bank in May 2009. He joined the Bank as Executive Vice President and Chief Financial Officer in 2000. Prior to that, he served as the Chief Financial Officer of Carroll County Bank and Mason-Dixon Bancshares, Inc. Mason-Dixon Banshares, Inc was a $1.2 billion multibank Holding Company headquartered in Westminster, MD that was acquired by BB and T Corporation in

1999. Mr. Keidel successfully passed the Certified Public Accountant examination in 1992 and graduated from the Bank Administration Institute Financial School.

As a result of Mr. Keidel's tenure with the Company and the Bank, he affords the Board the opportunity to utilize his deep knowledge of and insight into the institution, its market areas and operational risks. Mr. Keidel provides expertise with regard to tax, financial and accounting matters.

CONTINUING DIRECTORS

Term to Expire in 2011

Name	Age	Director Since
Edwin F. Hale, Sr.	63	1995
Barry B. Bondroff	61	1995
Patricia Schmoke, MD	56	1999
John Brown III	62	2002
Anirban Basu	41	2008

Edwin F. Hale, Sr. is Chairman and Chief Executive Officer of the Company and of the Bank. He is also the Chief Executive Officer of Hale Properties, LLC, a real estate development company, and the Chairman of the Baltimore Blast Corp., an indoor soccer franchise. Mr. Hale is the former Chairman of the Board and Chief Executive Officer of Baltimore Bancorp, which is now Wachovia Corporation.

Mr. Hale's extensive experience in the local banking and real estate industries and involvement in business and civic organizations in the communities in which the Bank serves affords the Board valuable insight regarding the business and operation of the Bank. Mr. Hale's knowledge of the Company's and the Bank's business and history, combined with his success and strategic vision, position him well to continue to serve as our Chairman and Chief Executive Officer.

Barry B. Bondroff became a partner in the certified public accounting firm of Gorfine, Schiller & Gardyn, P.A. on July 1, 2008. He was the former managing partner for the certified public accounting firm of Smart & Associates in Baltimore, MD. Prior to that, he was the managing officer of Grabush, Newman & Co., P.A., a certified public accounting firm, since 1982. Mr. Bondroff is a member of the American Institute of Certified Public Accountants, and is a former member of the Board of Directors of Baltimore Bancorp. Mr. Bondroff is a member of the Board of Directors of Medifast, Inc. (NYSE: MED).

Mr. Bondroff is a certified public accountant and has the financial background to qualify as an audit committee financial expert. Mr. Bondroff provides expertise with regard to tax, financial and accounting matters.

Patricia Schmoke, MD has been a practicing ophthalmologist since 1982. She is also the president of Metropolitan Eye Care Associates, providing eye care with Baltimore Medical System.

Dr. Schmoke's strong ties to the community, through her medical practice and involvement in civic and professional organizations, provides the Board with valuable insight regarding the local business and consumer environment.

John Brown III is President of M.B.K. Enterprises, Inc. (R. J. Bentley's Restaurant) and managing partner of the College Park Professional Office Building, LLC. Mr. Brown is also the former Chairman of the Maryland Stadium Authority.

As President of M.B.K. Enterprises, Inc. and managing partner of the College Park Professional Office Building, LLC, Mr. Brown provides the Board with essential business and finance experience, as well as, valuable leadership capability.

Anirban Basu is the founder, Chairman and CEO of Sage Policy Group, Inc., an economic and policy consulting firm in Baltimore, Maryland since 2004. He has a Bachelor of Science Degree from Georgetown University, and Master's Degrees from Harvard University and The University of Maryland as well as a J.D. from the University of Maryland School of Law.

As an entrepreneur and as Chairman and CEO of Sage Policy Group, Inc., Mr. Basu brings significant business and management level experience from a setting outside of the financial services industry. In addition, through his business and education experience, Mr. Basu has gained significant technological knowledge, adding additional value to the board.

Term to Expire in 2012

Name	Age	Director Since
John J. Oliver, Jr.	65	1997
John P. McDaniel	68	2006
Robert Caret	63	2006

John J. Oliver, Jr. has been the CEO and Publisher of the Afro-American Newspapers since 1996.

Mr. Oliver's experience as CEO and Publisher of the Afro-American Newspapers provides the Board valuable management level experience. In addition, Mr. Oliver's continued involvement in community organizations and local political matters is a vital component of a well rounded board.

John P. McDaniel is the former Chief Executive Officer of MedStar Health, Inc. a multi-institutional, not-for-profit, health care organization serving Washington, DC, Maryland, Virginia and the Mid-Atlantic region. Mr. McDaniel served as Chairman of the Greater Washington Board of Trade, and is currently a member of the Executive committee for Greater Washington Board of Trade and Federal City Counsel. He is also a member of the Board of Directors for Thrivent Financial for Lutherans, Georgetown University, Washington Real Estate Investment Trust, the Greater Baltimore Committee and the Mary and Daniel Loughran Foundation. Mr. McDaniel is also a member of the Boards of Directors of Medifast, Inc. (NYSE: MED) and Washington Real Estate Investment Trust (NYSE: WRE).

Mr. McDaniel's involvement in local organizations has allowed him to develop strong ties to the community, providing the board with valuable insight regarding the local business and consumer environment.

Robert Caret has been the President of Towson University since July 2003. He was the President of San Jose State University from 1995-2003, and Provost and Executive Vice President of Towson State University from 1991-1995. He is currently a member of the Board of Directors for CollegeBound Foundation and the Governor's Workforce Investment Board. He is also on the Board of Governors and the American Flag Foundation Board of the Center Club of Baltimore.

As the leader of a complex organization with hundreds of employees, Mr. Caret brings significant executive experience to board deliberations. Mr. Caret serves on the board of directors of several major area not-for-profit organizations and his extensive knowledge of community affairs helps to ensure that the Company is able to reach out to meet community needs where appropriate.

DIRECTORS EMERITUS

We currently have three Directors Emeritus: Melvin S. Kabik, Governor William Donald Schaefer and Governor Marvin Mandel.

BOARD MEETINGS AND COMMITTEES

GOVERNANCE OF THE COMPANY

Our business, property and affairs are managed by or, are under the direction of, the Board of Directors, pursuant to the Maryland General Corporation Law and our Bylaws. Members of the Board of Directors are kept informed of the Company's business through discussions with the Chairman, with the President and other Executive Officers, and with key members of management by reviewing materials provided to them and participating in meetings of the Board and its committees.

The Board of Directors and management periodically review the corporate governance policies and practices of the Company, including by comparing our current policies and practices to policies and practices suggested by our outside counsel and other public companies. Based upon these periodic reviews, the Board of Directors adopts changes from time to time that the Board believes are the best corporate governance policies and practices for the Company and/or are required by applicable law, including the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and The NASDAQ Stock Market.

DIRECTOR INDEPENDENCE

The Board of Directors has determined that all of its members are independent under the listing standards of The NASDAQ Stock Market, except for the management directors, Edwin F. Hale, Sr., Mark A. Keidel and George H. Mantakos, who are each executive officers of the Company. In determining the independence of its directors, the Board of Directors considered transactions, relationships and arrangements between the Company and its directors that are not required to be disclosed under the heading *"Transactions with Certain Related Persons, "* including loans or lines of credit that 1st Mariner Bank has directly or indirectly made to Directors Bondroff, Brown, Caret, Devou, Keidel, Mantakos and Schmoke.

BOARD LEADERSHIP STRUCTURE AND BOARD'S ROLE IN RISK OVERSIGHT

The Board endorses the view that one of its primary functions is to protect stockholders' interests by providing independent oversight of management, including the CEO. However, the Board does not believe that mandating a particular structure, such as a separate Chairman and CEO, is necessary to achieve effective oversight. The Board of the Company is currently comprised of 13 directors, 10 of whom are independent directors under the listing standards of The NASDAQ Stock Market. The Chairman of the Board has no greater nor lesser vote on matters considered by the Board than any other director, and the Chairman does not vote on any related party transaction. All directors of the Company, including the Chairman, are bound by fiduciary obligations, imposed by law, to serve the best interests of the stockholders. Separating the offices of Chairman and Chief Executive Officer would not serve to enhance or diminish the fiduciary duties of any director of the Company.

To further strengthen the regular oversight of the full Board, the Audit, Nominating and Compensation Committees of the Board are entirely comprised of independent directors. The Compensation Committee reviews and evaluates the performance of all executive officers of the Company including the CEO and reports to the Board. The Audit Committee oversees the Company's financial practices, regulatory compliance, accounting procedures and financial reporting functions. In addition, the Audit Committee is specially entrusted by law to fully review and make recommendations to the full Board on related party transactions and possible conflicts of interest, if any. Furthermore, as a regulated entity, all related party transactions are closely scrutinized by federal and state government agencies that regularly examine the Company. In the opinion of the Board of Directors, an independent chairman does not add any value to this already effective process.

The Board believes that the interests of the Company and its stockholders are best served at this time by the experienced leadership and decisive direction provided by a full-time Chairman and CEO, subject to oversight by the Company's independent directors. The Board and the Company are strengthened by the presence of Mr. Hale, who provides strategic, operational, and technical expertise, broad vision and a proven ability to lead the Company to the successes it has experienced. The Board believes that success is promoted by active and independent directors and loyal and hard-working executives who act consistently with a strong set of corporate governance ethics, rather than a particular Board structure. The Board believes that it needs to retain the ability to balance board structure with the flexibility to determine board leadership. The Board does not currently have a lead director.

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including credit risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. Management is responsible for the day-to-day management of risks the Company faces, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. To do this, the Chairman of the Board meets regularly with management to discuss strategy and the risks facing the Company. Senior management attends the Board meetings and is available to address any questions or concerns raised by the Board on risk management and any other matters. The Chairman of the Board and independent members of the Board work together to provide strong, independent oversight of the Company's management and affairs through its standing committees and, when necessary, special meetings of independent directors.

DIRECTORS ATTENDANCE AT ANNUAL MEETINGS

Although the Company does not have a formal policy regarding director attendance at annual stockholder meetings, all directors are encouraged to attend the annual meeting of stockholders and the annual meeting of the Board of Directors. All of the Company's directors who were serving as such attended the 2009 Annual Meeting of Stockholders.

STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Stockholders may communicate directly with any member of the Board of Directors of the Company by writing the First Mariner Bancorp Board of Directors, 1501 South Clinton Street, Baltimore, MD 21224. Communications received are distributed to the Chairman of the Board, Chairman of the Audit Committee or other member of the Board as appropriate, depending on the facts and circumstances of the communications.

COMMITTEES OF THE BOARD OF DIRECTORS

During 2009, the Board of Directors met nine times, the Audit Committee met eight times, the Compensation Committee met two times, and the Nominating Committee met once. Each director attended at least 75% or more of all meetings of the Board of Directors and Committees of the Board on which he or she served during 2009.

All members of each of the Audit, Compensation and Nominating Committees are independent in accordance with the listing requirements of The NASDAQ Stock Market. Each committee operates under a written charter that is approved by the Board of Directors that governs its composition, responsibilities and operation. Each committee reviews and reassesses the adequacy of its charter at least annually. The charters of all three committees are available in the Governance Documents portion of the Investor Relations section of the Company's Web site (www.1stmarinerbancorp.com). The following table identifies our standing committees and their members as of April 26, 2010.

Name	Audit	Compensation	Nominating
Anirban Basu			
Barry B. Bondroff	X	Chairman	
John Brown III	X		
Robert L. Caret	X	X	Chairman
Gregory A. Devou	X	X	X
Edwin F. Hale, Sr.			
Mark A. Keidel			
George H. Mantakos			
John P. McDaniel			X
John J. Oliver, Jr.			
Patricia L. Schmoke			
Hector Torres			
Michael R. Watson	Chairman		

AUDIT COMMITTEE

The Board of Directors has determined that Barry B. Bondroff, CPA qualifies as an "audit committee financial expert" under the rules of the Securities and Exchange Commission (the "SEC").

The Audit Committee meets with management and independent public accountants to review financial results and the quarterly and annual reports, discuss the financial statements, the auditor's independence and accounting methods, and recommend and review with such accountants and management the internal accounting procedures and controls. The Audit Committee also discusses with the Company's senior management and independent public accountants the process used for certifications by the Company's CEO and CFO that are required by the Exchange Act and the rules promulgated thereunder. The Audit Committee is responsible for engaging the independent public accountants and also reviews, considers and makes recommendations regarding proposed related party transactions, if any. The Audit Committee Report is included in this proxy statement.

COMPENSATION COMMITTEE

The Compensation Committee reviews and determines salaries and other benefits for executive and senior management of the Company and its subsidiaries, reviews and determines the employees to whom stock-based compensation is granted and the terms of such grants, and reviews the selection of officers who participate in incentive and other compensation plans and arrangements. The Compensation Committee reviews all components of compensation including base salary, bonus, equity compensation, benefits and other perquisites. In addition to reviewing competitive market values, the Compensation Committee also examines the total compensation mix, pay-for-performance relationship and how all elements, in the aggregate, comprise the executives' total compensation package. The CEO makes recommendations to the Compensation Committee from time to time regarding the appropriate mix and level of compensation for other officers. Those recommendations consider the objectives of our compensation philosophy and the range of compensation programs authorized by the Compensation Committee. Decisions by the Compensation Committee with respect to the compensation of executive officers are approved by the full Board of Directors. The Compensation Committee determines director compensation by reviewing peer group comparison reports prepared by compensation consultants.

NOMINATING COMMITTEE

The Nominating Committee selects qualified persons as nominees for election by the stockholders to the Company's Board of Directors. The duties and responsibilities of the Nominating Committee include, among other things:

Establish criteria and qualifications for Board membership, including standards for assessing independence.

Identify and consider candidates, including those recommended by stockholders and others, to fill positions on the Board, and assess the contributions and independence of incumbent directors in determining whether to recommend them for reelection to the Board.

Recommend to the Board candidates for election or reelection at each annual meeting of stockholders.

In evaluating candidates for nominees for director, the Nominating Committee considers the needs of the Company with respect to the particular talents and experience of its directors. Nominees should have, among other things, the highest ethical standards and integrity; a willingness to act and be accountable for Board decisions; an ability to provide wise, informed and thoughtful counsel to top management on a range of issues; loyalty and commitment to driving the success of the Company; sufficient time to devote to the affairs of the Company; and a history of achievements that reflect high standards for the nominee and others. Further, when identifying nominees to serve as director, the Nominating Committee seeks to create a Board that is strong in its collective knowledge and has a diversity of skills and experience with respect to accounting and finance, management and leadership, vision and strategy, business operations, business judgment, industry knowledge and corporate governance.

The Nominating Committee may identify director nominees through a combination of referrals, including by management, existing Board members, stockholders, direct solicitations and from outside search firms if warranted. Once a candidate has been identified, the Nominating Committee reviews the individual's experience and background and may discuss the proposed nominee with the source of the recommendation.

The Nominating Committee's recommendations are presented to the Board of Directors at regularly scheduled meetings. The Nominating Committee will also consider recommendations by stockholders, which must be submitted in writing to the Secretary of the Company at its principal executive officer and include the recommended candidate's name, biographical data and qualifications. It should be noted that a stockholder recommendation is not a nomination, and there is no guarantee that a candidate recommended by a stockholder will be approved by the Nominating Committee or nominated by the Board of Directors. A stockholder who desires to nominate a candidate for election may do so only in accordance with the Company's Bylaws. Pursuant to the Company's Bylaws, any stockholder that wishes to submit director nominations must submit advance notice of the proposed nomination to the Secretary of the Company not less than 90 days or more than 120 days in advance the anniversary date of the release of the Company's proxy statement to stockholders in connection with the preceding year's annual meeting of stockholders, provided that if the date of the annual meeting has been changed by more than 30 days from the anniversary of the annual meeting date stated in the previous year's proxy statement, nominations must be received by the Company not later than the close of business on the 10th day following the first public announcement of the date of the meeting. In addition to meeting the applicable deadline, nominations must be accompanied by certain information specified in the Company's Bylaws.

The Nominating Committee received no security holder recommendations for nomination to the Board of Directors in connection with the 2010 Meeting.

COMPLIANCE COMMITTEE

The Compliance Committee of the Board of Directors of the Company is comprised of the same five members who serve on the Audit Committee as well as Mr. McDaniel, each of whom is independent under the listing standards of The NASDAQ Stock Market.

The Compliance Committee oversees compliance with all relevant laws, rules, guidelines and regulations. It also ensures compliance with the agreements into which the Company and its subsidiaries periodically enter with their regulators.

DIRECTORS' COMPENSATION

Directors who are not employees of the Company receive fees for their services, and are reimbursed for expenses incurred in connection with their service as directors. Beginning in 2010, directors fees are expected to be paid in Company stock in lieu of cash. Directors currently receive the equivalent of $1,000 for each Board meeting attended, $1,000 for each committee meeting other than the Audit Committee, $250 for each meeting of the Mortgage Oversight Committee, $250 for each meeting of the Investment Committee, and $250 for attending the meeting of the Bank's Loan Committee, consisting of one outside director (Barry B. Bondroff). The members of the Audit Committee currently receive the equivalent of $2,000 for each Audit Committee meeting attended. Directors receive no other compensation for attending meetings and receive no annual retainer. The following table provides information about the compensation paid to or earned by the Company's directors during 2009 who are not named executive officers (as defined below). Information regarding directors who are also named executive officers is presented in the Summary Compensation Table below.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(1)	Total ($)
Anirban Basu	16,000		16,000
Barry B. Bondroff	41,750		41,750
Edith B. Brown	6,000		6,000
John Brown, III	34,500		34,500
Robert L. Caret	32,000		32,000
Gregory A. Devou	33,000		33,000
John P. McDaniel	16,700		16,700
John J. Oliver, Jr.	18,000		18,000
Patricia L. Schmoke	10,000		10,000
Hector Torres	18,000		18,000
Michael R. Watson	28,000		28,000

(1) The number of stock options outstanding for each director as of December 31, 2009, all of which are exercisable, are set forth in the table below:

Director	Stock Options			
Anirban Basu	500			
Barry B. Bondroff	15,150			
John Brown, III	6,350			
Robert L. Caret	1,950			
Gregory A. Devou	600			
John P. McDaniel	1,900			
John J. Oliver, Jr.	7,150			
Patricia L. Schmoke	6,100	4,442	5,254	
Gross profit	1,338	2,081	2,735	4,025
Engineering	522	514	1,078	1,100
Selling, general and administrative	1,437	1,365	2,801	2,640
Restructuring	---	---	---	80
Operating expenses	1,959	1,879	3,879	3,820

Operating (loss) income		(621)		202		(1,144)		205
Other expense		---		13		---		---
Interest income, net		6		9		9		23
(Loss) income from continuing operations before income taxes		(615)		198		(1,135)		228
Provision for income taxes		---		---		2		2
(Loss) income from continuing operations		(615)		198		(1,137)		226
Income (loss) on discontinued operations, net of income taxes		75		(10)		75		54
Net (loss) income	$	(540)	$	188	$	(1,062)	$	280
Basic net (loss) income per share:								
From continuing operations	$	(0.13)	$	0.04	$	(0.24)	$	0.05
On discontinued operations		0.02		(0.00)		0.02		0.01
Basic net (loss) income per share	$	(0.11)	$	0.04	$	(0.22)	$	0.06
Diluted net (loss) income per share:								
From continuing operations	$	(0.13)	$	0.04	$	(0.24)	$	0.05
On discontinued operations		0.02		(0.00)		0.02		0.01
Diluted net (loss) income per share	$	(0.11)	$	0.04	$	(0.22)	$	0.06
Shares used in per share calculation:								
Basic		4,824		4,810		4,824		4,810
Diluted		4,824		4,880		4,824		4,871

See accompanying notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements Of Cash Flows

(In thousands)	Six Months Ended September 27, 2008	September 29, 2007
Cash flows from operations:		
Net (loss) income	$ (1,062)	$ 280
Adjustments to reconcile net income (loss) to net cash (used in) provided by operations:		
Depreciation and amortization	82	65
Share based compensation	118	96
Deferred rent	(52)	(101)
Changes in operating assets and liabilities	663	(443)
Net cash used in operations	(251)	(103)
Cash flows from investing activities:		
Purchases of property and equipment	(64)	(94)
Net cash used in investing activities	(64)	(94)
Cash flows from financing activities:		
Capital lease	47	---
Issuance of common stock	---	10
Net cash provided by financing activities	47	10
Decrease in cash and cash equivalents	(268)	(187)
Cash and cash equivalents at beginning of period	1,845	1,804
Cash and cash equivalents at end of period	$ 1,577	$ 1,617

Supplementary disclosure of cash flow information:

Cash paid for income taxes was $2 for the six month period ended September 27, 2008. Cash paid for income taxes was $2 for the six month period ended September 29, 2007.

See accompanying notes to unaudited condensed consolidated financial statements.

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-K, filed with the Securities and Exchange Commission for the year ended March 29, 2008.

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

(2) Discontinued Operations

In the first quarter of fiscal 2004, the Company 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, the Company consummated the sale of its Dymatix Division. Expenses are recorded for discontinued operations associated with the partial abandonment of the lease for the Fremont facility. Included in this lease is 7,727 square feet, which the Company effectively abandoned upon sale of Dymatix on March 26, 2004. As of March 29, 2008, the Company has fully reserved the remaining lease due to the low probability of leasing it to a sub-tenant prior to the expiration of our lease obligation in June 30, 2009. Income from discontinued operations was $75,000 for the three and six month periods ended September 27, 2008. This resulted from the foreclosure and resale of the Dymatix assets to a third party. During the three month period ended September 29, 2007, the Company recorded a $10,000 loss on discontinued operations due to the adjustment to the sub-lease accrual. During the six month period ended September 29, 2007, the Company recorded $54,000 as income on discontinued operations due to the receipt of a payment of $18,000 on previously reserved receivables, a payment of $41,000 from the sale of a previously written off asset, and an adjustment of $5,000 to the sub-lease accrual.

(3) Revenue Recognition

The Company records revenue in accordance with Staff Accounting Bulletin (SAB) 101, Revenue Recognition in Financial Statements and SAB 104, Revenue Recognition. As such, revenue is recorded when there is evidence of an arrangement, delivery has occurred, the price is fixed and determinable, and collectability is assured. This occurs when products are shipped, unless the arrangement involves acceptance terms. If the arrangement involves acceptance terms, the Company defers revenue until product acceptance is received.

The Company provides for estimated costs that may be incurred for product warranties at the time of shipment. The Company’s warranty policy generally provides one to three years for the 2400 and 2500 families of Microwave Synthesizers and one year for all other products. The estimated cost of warranty coverage is based on the Company’s actual historical experience with its current products or similar products. For new products, the required reserve is based on historical experience of similar products until such time as sufficient historical data has been collected on the new product. Adjustments are made as new information becomes available.

(4) Inventories

Inventory is comprised of the following at September 27, 2008 and March 29, 2008:

INVENTORY

(In thousands)		September 27, 2008		March 29, 2008
Raw materials	$	2,777	$	2,767
Work-in-progress		1,664		1,501
Finished goods		273		369
Demonstration inventory		566		371
Total inventory	$	5,280	$	5,008

(5) Earnings Per Share

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

	Three Months Ended				Six Months Ended			
(In thousands except per share data)		September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007
Net (loss) income	$	(540)	$	188	$	(1, 062)	$	280
Weighted average:								
Common shares outstanding		4,824		4,810		4,824		4,810
Potential common shares		---		70		---		61
Common shares assuming dilution		4,824		4,880		4,824		4,871
Net (loss) income per share of common stock		(0.11)		0.04		(0.22)		0.06
Net (loss) income per share of common stock assuming dilution		(0.11)		0.04		(0.22)		0.06
Stock options not included in computation		965		393		965		393

The number of stock options not included in the computation of diluted EPS for the three and six month periods ended September 27, 2008 is a result of the Company’s loss from continuing operations and, therefore, the options are anitdilutive. The number of stock options not included in the computation of diluted EPS for the three and six month periods ended September 29, 2007 reflects stock options where the exercise prices were greater than the average market price of the common shares and are, therefore, antidilutive. The weighted average exercise price of excluded options was $1.92 and $2.45 as of September 27, 2008 and September 29, 2007, 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 140,000 grants made in the first half of fiscal 2009. There were no option grants made in the six month period ended September 27, 2007.

SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as a cash flow from financing in the statement of cash flows. These excess tax benefits were not significant for the Company, for each of the three and six month periods ended September 27, 2008 and September 29, 2007.

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

	Three Months Ended September 27, 2008
Dividend yield	None
Expected volatility	89.48%
Risk-free interest rate	2.74%
Expected term (years)	3.75

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

As of September 27, 2008, there was $562,460 of total unrecognized compensation cost related to non-vested options granted under the plans. That cost is expected to be recognized over a weighted average period of 1.39 years. There were 46,851 options that vested during the quarter ended September 27, 2008. There were 62,726 options that vested during the quarter ended September 29, 2007. The total fair value of options vested during each of the quarters ended September 27, 2008 and September 29, 2007 was $42,166 and $62,832, respectively. There were 59,351 and 75,226 options that vested during the six month periods ended September 27, 2008 and September 29, 2007, respectively. The total fair value of options vested during the six month periods ended September 27, 2008 and September 29, 2007 was $58,716 and $79,382, respectively. No cash was received from stock option exercises for the three month period ended September 27, 2008. Cash received from the exercise of stock options for the three month period ended September 29, 2007 was $9,800.

(7) Industry Segment Information

The Company has two reportable segments: Giga-tronics and Microsource. Giga-tronics produces a broad line of test and measurement equipment used in the development, test and maintenance of wireless communications products and systems, flight navigational equipment, electronic defense systems and automatic testing systems and designs, manufactures, and markets a line of switching devices that link together many specific purpose instruments that comprise automatic test systems. 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.

Information on reportable segments is as follows:

(In thousands)	Three Months Ended September 27, 2008 Net Sales	Three Months Ended September 27, 2008 Net (Loss) Income	Three Months Ended September 29, 2007 Net Sales	Three Months Ended September 29, 2007 Net (Loss) Income
Giga-tronics	$ 2,438	$ (628)	$ 3,584	$ 132
Microsource	1,251	88	1,067	56
Total	$ 3,689	$ (540)	$ 4,651	$ 188

(In thousands)	Six Months Ended September 27, 2008 Net Sales	Six Months Ended September 27, 2008 Net (Loss) Income	Six Months Ended September 29, 2007 Net Sales	Six Months Ended September 29, 2007 Net (Loss) Income
Giga-tronics	$ 5,098	$ (1,143)	$ 7,010	$ 51
Microsource	2,079	81	2,269	229
Total	$ 7,177	$ (1,062)	$ 9,279	$ 280

(8) Warranty Obligations

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

(In thousands)	Three Months Ended September 27, 2008	Three Months Ended September 29, 2007	Six Months Ended September 27, 2008	Six Months Ended September 29, 2007
Balance at beginning of period	$ 196	$ 195	$ 190	$ 207
Provision, net	19	26	127	79
Warranty costs incurred	(31)	(40)	(133)	(105)
Balance at end of period	$ 184	$ 181	$ 184	$ 181

(9) Restructuring

In an effort to improve results and make optimal use of its resources, the Company decided in fiscal 2008 to integrate all ASCOR and Instrument Division engineering and manufacturing activities at the San Ramon, California facility. Subsequently, in fiscal 2009, the ASCOR subsidiary was combined into the Giga-tronics Instrument Division. 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 in the first half of fiscal 2008 was a one-time restructuring charge of $80,000 in severance costs.

(10) Income Taxes

The Company accounts for income taxes in accordance with Financial Accounting Standards Board Statement No. 109 (FAS109) and Financial Accounting Standards Board Interpretation No. 48 (FIN 48). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. A valuation allowance is applied to deferred tax assets which are less than likely to be realized on a future tax return. Benefits from uncertain tax positions are recorded only if they are more likely than not to be realized.

(11) Recent Accounting Pronouncements

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 non-controlling 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. This standard will change the Company's accounting treatment for business combinations on a prospective basis.

Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations

The forward-looking statements included in this report including, without limitation, statements containing the words "believes", "anticipates", "estimates", "expects", "intends" and words of similar import, which reflect management’s best judgment based on factors currently known, involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to those listed in Giga-tronics’ Annual Report on Form 10-K for the fiscal year ended March 29, 2008 Part I, under the heading “Certain Factors Which May Adversely Affect Future Operations or an Investment in Giga-tronics”, and Part II, under the heading “Management’s Discussion and Analysis of Financial Conditions and Results of Operations”.

Overview

The Company produces instruments, subsystems and sophisticated microwave components that have broad applications in both defense electronics and wireless telecommunications. In 2009, our business consisted of two operating and reporting segments: Giga-tronics and Microsource.

Our business is highly dependent on government spending in the defense electronics sector and on the wireless telecommunications market. The Company has seen a reduction in defense orders for the first half of fiscal 2009 versus the first half of fiscal 2008. Conversely, the Company has seen some improvement in commercial orders for the six month period ended September 27, 2008 as compared to the same period last year.

The Company continues to monitor costs, including reductions in personnel, facilities and other expenses, to more appropriately align costs with revenues. In March 2007, the Company moved ASCOR’s engineering, sales and marketing, and administrative activities to the San Ramon, California facility, effectively abandoning its Fremont, California facility. Subsequently, in fiscal 2009, the ASCOR subsidiary was combined into the Giga-tronics Instrument Division. As a result, the Company has accrued its future lease obligations, net of estimated sub-lease income, through June 2009. The Company is pursuing subleasing of this facility. Microsource sales and marketing and engineering activities were also consolidated into the San Ramon facility to better integrate our component development activities with the Company’s overall new product plans. The Microsource facility in Santa Rosa, California, however, remains open as a manufacturing operation.

Results of Operations

New orders received from continuing operations in the second quarter of fiscal 2009 decreased 18% to $3,089,000 from the $3,751,000 received in the second quarter of fiscal 2008. New orders received from continuing operations in the second half of fiscal 2009 decreased 16% to 7,313,000 from the $8,731000 received in the second half of fiscal 2008.

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

New Orders

	Three Months Ended				
(Dollars in thousands)	September 27, 2008		% change	September 29, 2007	
Giga-tronics	$	2,347	(34%)	$	3,536
Microsource		742	245%		215
Total	$	3,089	(18%)	$	3,751

	Six Months Ended				
(Dollars in thousands)	September 27, 2008		% change	September 29, 2007	
Giga-tronics	$	6,405	(20%)	$	7,980
Microsource		908	21%		751
Total	$	7,313	(16%)	$	8,731

Orders at Giga-tronics decreased for the three and six month periods ended September 27, 2008 primarily due to an decrease in new military orders whereas orders at Microsource increased for the three and six month periods ended September 27, 2008 primarily due to an increase in military demand for its products.

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

Backlog

(Dollars in thousands)	September 27, 2008		% Change	September 29, 2007	
Backlog of unfilled orders	$	7,664	(3%)	$	7,891
Backlog of unfilled orders shippable within one year		6,248	16%		5,389
Previous fiscal year (FY) quarter end backlog reclassified during year as shippable later than one year		---	---		---
Net cancellations during year of previous FY quarter end one-year backlog		---	---		---

Backlog at the end of the first half of fiscal 2009 decreased 3% as compared to the end of the same period last year. However, our shippable backlog has increased due to a partial liquidation of our multiyear contract with Boeing.

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

Allocation of Net Sales

	Three Months Ended				
(Dollars in thousands)	September 27, 2008		% change	September 29, 2007	
Giga-tronics	$	2,438	(32%)	$	3,584
Microsource		1,251	17%		1,067
Total	$	3,689	(21%)	$	4,651

	Six Months Ended
(Dollars in thousands)	% change

	September 27, 2008		September 29, 2007
Giga-tronics	$ 5,098	(27%)	$ 7,010
Microsource	2,079	(8%)	2,269
Total	$ 7,177	(23%)	$ 9,279

Fiscal 2009 second quarter net sales were $3,689,000, a 21% decrease from the $4,651,000 in the second quarter of fiscal 2008. Sales at Giga-tronics decreased 32% or $1,146,000 primarily due to a decrease in military demand for its products. Sales at Microsource increased 17% or $184,000 during the second quarter of fiscal 2009 versus the second quarter of fiscal 2008 primarily due to an increase in military shipments.

Net sales for the six month period ended September 27, 2008 were $7,177,000, a 23% decrease from the $9,279,000 in the six month period ended September 29, 2007. Sales at Giga-tronics decreased 27% or $1,912,000 primarily due to a decrease in military demand for its products. Sales at Microsource decreased 8% or $190,000 during the first half of fiscal 2009 versus the first half of fiscal 2008 primarily due to a decrease in commercial shipments.

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

Cost of Sales

Three Months Ended			
(Dollars in thousands)	September 27, 2008	% change	September 29, 2007
Cost of sales	$ 2,351	(9%)	$ 2,570

Six Months Ended			
(Dollars in thousands)	September 27, 2008	% change	September 29, 2007
Cost of sales	$ 4,442	(16%)	$ 5,254

In the second quarter of fiscal 2009, cost of sales decreased 9% to $2,351,000 from $2,570,000 for the same period last year. For the six months ended September 27, 2008, cost of sales decreased 16% to $4,442,000 from $5,254,000 for the similar period ended September 29, 2007. For both the three months and six month periods the primary reason is lower sales, however, due to a poor product mix the rate of decrease in cost of sales did not keep up with the sales reduction.

Operating expenses were as follows for the fiscal periods shown:

Operating Expenses

Three Months Ended			
(Dollars in thousands)	September 27, 2008	% change	September 29, 2007
Engineering	$ 522	2%	$ 514
Selling, general and administrative	1,437	5%	1,365
Restructuring	---	---	---
Total	$ 1,959	4%	$ 1,879

Six Months Ended			
(Dollars in thousands)	September 27, 2008	% change	September 29, 2007
Engineering	$ 1,078	(2%)	$ 1,100
Selling, general and administrative	2,801	6%	2,640
Restructuring	---	---	80
Total	$ 3,879	2%	$ 3,820

Operating expenses increased 4% or $80,000 in the second quarter of fiscal 2009 over fiscal 2008. Product development costs increased 2% or $8,000 for the quarter ended September 27, 2008 as compared to the same period in the prior year. Selling, general and administrative expenses increased 5% or $72,000 for the second quarter of fiscal year 2009 compared to the same period in the prior year. The increase is a result of higher marketing expenses of $173,000 and higher administrative expenses of $6,000 offset by lower commission expenses of $107,000 on lower commissionable sales for the quarter.

Operating expenses increased 2% or $59,000 for the six months ended September 27, 2008 over the same period for the prior year. Engineering costs from continuing operations decreased 2% or $22,000 for the six month period ended September 27, 2008. Selling, general and administrative expenses from continuing operations increased 6% or $161,000 for the six month period ended September 27, 2008. The increase is a result of higher marketing expenses of $205,000 and higher administrative expenses of $200,000 offset by lower commission expenses of

$244,000 on lower commissionable sales for the quarter. A one-time restructuring charge of $80,000 in severance costs was made in the first quarter of fiscal 2008.

The Company recorded a net loss of $540,000 or $0.11 per fully diluted share for the second quarter of fiscal 2009 versus a net income of $188,000 or $0.04 per fully diluted share in the same period last year. The Company recorded a net loss of $1,062,000 or $0.22 per fully diluted share for the first half of fiscal 2009 versus a net income of $280,000 or $0.06 per fully diluted share in the same period last year.

Financial Condition and Liquidity

As of September 27, 2008, the Company had $1,577,000 in cash and cash equivalents, compared to $1,845,000 as of March 29, 2008.

Working capital at September 27, 2008 was $6,200,000 compared to $7,131,000 at March 29, 2008. The decrease in working capital was primarily due to lower accounts receivable and accrued expenses in fiscal 2009.

The Company's current ratio (current assets divided by current liabilities) at September 27, 2008 was 3.38 compared to 3.55 on March 29, 2008.

Cash used in operations amounted to $251,000 in the first half of fiscal 2009. Cash used in operations amounted to $103,000 in the same period of fiscal 2008. Cash used in operations in the first half of fiscal 2009 is primarily attributed to the operating loss offset by the net change in operating assets and liabilities in the year. Cash used by operations in the first half of fiscal 2008 was primarily attributed to the net change in operating assets and liabilities offset by the operating income in the year.

Additions to property and equipment were $64,000 in the first half of fiscal 2009 compared to $94,000 for the same period last year. The capital equipment spending in fiscal 2008 was due to an upgrade of capital equipment enabling the manufacture of new products being released.

On June 17, 2008, the Company renewed its secured revolving line of credit for $2,500,000, with interest payable at prime rate plus 1%. The borrowing under this line of credit is based on the Company's accounts receivable and inventory and is secured by all of the assets of the Company. The Company had no borrowings under this line of credit in the three and six month periods ended September 27, 2008.

From time to time, the Company considers a variety of acquisition opportunities to also broaden its product lines and expand its market. Such acquisition activity could also increase the Company's operating expenses and require the additional use of capital resources. The Company also intends to maintain research and development expenditures for the purpose of broadening its product line.

Future tax benefits are subject to a valuation allowance when management is unable to conclude that its deferred tax assets will more likely than not be realized from the results of operations. The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based on historical taxable income and projections for future taxable income over the periods in which the deferred tax assets become deductible, management has taken a conservative approach that the Company will not realize benefits of these deductible differences as of September 27, 2008. Management has, therefore, established a valuation allowance against its net deferred tax assets as of September 27, 2008.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 11 to the Condensed Consolidated Financial Statements included in this report.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4T - Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures provide reasonable assurances that the information the Company is required to disclose in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period required by the Commission’s rules and forms. There were no significant changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1 - Legal Proceedings

As of September 27, 2008, the Company has no material pending legal proceedings. From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business.

Item 1a - Risk Factors

The Company sells a majority of its products to the military; however, during these unstable economic times, it is difficult to predict the effect on the Company and whether the credit crunch will have a negative effect. In addition, the stock market has been in somewhat a freefall and we believe this has had a negative effect on the market value of the Company. NASDAQ has temporarily suspended its Rules on de-listing a Company's stock and if the market value of the stock does not rise, this could have a further negative effect.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 - Defaults Upon Senior Securities

None.

Item 4 - Submission of Matters to a Vote of Security Holders

The Annual Meeting of stockholders was held on August 19, 2008, with the following results:

(1) The votes for the nominated Directors were as follows:

Nominee	In Favor	Withheld
George H. Bruns, Jr.	3,272,378	228,112
James A. Cole	3,289,948	210,542
Garrett A. Garrettson	3,289,948	210,542
Kenneth A. Harvey	3,289,948	210,542
John R. Regazzi	3,289,948	210,542
Robert C. Wilson	3,289,948	210,542

(2) Ratification of the selection of Perry-Smith LLP as independent public accountants for the fiscal year 2009 was approved as follows:

	No. of Votes on Proposal	Percent of Votes Cast
For	3,365,647	96.15%
Against	89,751	2.56%
Abstain	45,093	1.29%

Quorum	3,500,491	100.00%

Broker non-voted Shares = 0

Outstanding shares on Record Date = 4,824,021

(3) No other matters were brought up for a vote.

Item 5 - Other Information

None.

Item 6 - Exhibits

32.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act.
32.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act.
32.3 Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act.
32.4 Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act.

Signatures

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

GIGA-TRONICS INCORPORATED
(Registrant)

By:

Date: October 31, 2008	/s/ John R. Regazzi John R. Regazzi President and Chief Executive Officer (Principal Executive Officer)
Date: October 31, 2008	/s/ Patrick J. Lawlor Patrick J. Lawlor Vice President Finance/ Chief Financial Officer & Secretary (Principal Accounting Officer)