GIGA TRONICS INC
Form 10-Q
February 08, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **December 26, 2015**

OR

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

Commission File No. **0-12719**

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

California	**94-2656341**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4650 Norris Canyon Road, San Ramon, CA 94583	**(925) 328-4650**
(Address of principal executive offices)	Registrant’s telephone number, including area code

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

Yes [X] No [ ]

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

Yes [X] 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 (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[X]

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

Yes [ ] No [X]

There were a total of 9,549,453 shares of the Registrant’s Common Stock outstanding as of February 1, 2016.

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FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are based on Management’s current knowledge and belief and include information concerning the Company’s possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company’s ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to risks related to (1) the potential loss of certain future orders and sales if the Company is unable to regain certification of AS9100C compliance or similar assurance of quality control within a reasonable time; (2) the Company’s potential inability to obtain necessary capital to finance its operations; (3) possible delisting of the Company’s common stock from the Nasdaq Capital Market; (4) the Company’s ability to develop competitive products in a market with rapidly changing technology and standards; (5) risks related to customers’ credit worthiness/profiles; (6) changes in the Company’s credit profile and its ability to borrow; (7) a potential decline in demand for certain of the Company’s products; (8) potential product liability claims; (9) the potential loss of key personnel; and (10) U.S. and international economic conditions. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. The reader is directed to the Company's annual report on Form 10-K for the year ended March 28, 2015 for further discussion of factors that could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

PART I – FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

GIGA-TRONICS INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands except share data)	December 26, 2015	March 28, 2015
Assets		
Current assets:		
Cash and cash-equivalents	$ 783	$ 1,170
Trade accounts receivable, net of allowance of $45, respectively	2,136	2,354
Inventories, net	4,311	3,365
Prepaid expenses and other current assets	171	373
Total current assets	7,401	7,262
Property and equipment, net	774	718
Other long term assets	68	74
Capitalized software development costs	440	—
Total assets	$ 8,683	$ 8,054
Liabilities and shareholders' equity		
Current liabilities:		
Line of credit	$ 1,200	$—
Current portion of long term debt, net of discount	575	811
Accounts payable	2,431	973
Accrued payroll and benefits	582	678
Deferred revenue	1,394	1,127
Deferred rent	144	127
Capital lease obligations	48	69
Other current liabilities	584	501
Total current liabilities	6,958	4,286
Long term loan	—	392
Warrant liability, at estimated fair value	392	252
Long term obligations - deferred rent	—	111
Long term obligations - capital lease	177	58
Total liabilities	7,527	5,099
Commitments and contingencies		
Shareholders' equity:		
Convertible preferred stock of no par value Authorized - 1,000,000 shares; Series A - designated 250,000 shares; no shares at December 26, 2015 and March 28, 2015 issued and outstanding	—	—

Series B, C, D- designated 19,500 shares; 18,533.51 shares at December 26, 2015 and March 28, 2015 issued and outstanding; (liquidation value of $3,540 at December 26, 2015 and March 28, 2015)	2,911	2,911
Common stock of no par value; Authorized - 40,000,000 shares; 6,752,581 shares at December 26, 2015 and 6,705,065 at March 28, 2015 issued and outstanding	20,713	19,975
Accumulated deficit	(22,468)	(19,931)
Total shareholders' equity	1,156	2,955
Total liabilities and shareholders' equity	$ 8,683	$ 8,054

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

GIGA-TRONICS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands except per share data)	Three Month Periods Ended December 26, 2015	Three Month Periods Ended December 27, 2014	Nine Month Periods Ended December 26, 2015	Nine Month Periods Ended December 27, 2014
Net sales	$4,483	$ 4,509	$11,921	$ 14,127
Cost of sales	2,868	2,637	7,701	8,101
Gross margin	1,615	1,872	4,220	6,026
Operating expenses:				
Engineering	614	672	2,179	2,563
Selling, general and administrative	1,417	1,133	4,221	3,401
Total operating expenses	2,031	1,805	6,400	5,964
Operating income/(loss)	(416)	67	(2,180)	62
Gain/(loss) on adjustment of derivative liability to fair value	(98)	107	(51)	16
Interest expense:				
Interest expense, net	(54)	(62)	(164)	(199)
Interest expense from accretion of loan discount	(34)	(45)	(140)	(115)
Total interest expense	(88)	(107)	(304)	(314)
Income / (loss) before income taxes	(602)	67	(2,535)	(236)
Provision for income taxes	—	—	2	47
Net income/(loss)	$(602)	$ 67	$(2,537)	$ (283)
Earnings/ (loss) per common share - basic	$(0.09)	$ 0.01	$(0.40)	$ (0.05)
Earnings/(loss) per common share - diluted	$(0.09)	$ 0.01	$(0.40)	$ (0.05)
Weighted average shares used in per share calculation:				
Basic	6,484	5,208	6,402	5,166
Diluted	6,484	5,463	6,402	5,166

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

GIGA-TRONICS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Nine Month Periods Ended December 26, 2015	December 27, 2014
Cash flows from operating activities:		
Net loss	$(2,537)	$ (283)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	220	237
Share based compensation	717	545
Loss on adjustment of derivative liability to fair value	51	(16)
Accretion of discounts on loan	140	115
Change in deferred rent	(94)	(76)
Changes in operating assets and liabilities	708	(1,035)
Net cash used in operating activities	(795)	(513)
Cash flows from investing activities:		
Purchases of property and equipment	(109)	(30)
Net cash used in investing activities	(109)	(30)
Cash flows from financing activities:		
Proceeds from line of credit	1,200	8,125
Repayments of debt	(680)	(99)
Payments on capital leases	(65)	(123)
Proceeds from exercise of stock options	62	145
Proceeds from issuance of debt	—	500
Repayments of line of credit	—	(7,668)
Net cash provided by financing activities	517	880
(Decrease)/Increase in cash and cash-equivalents	(387)	337
Beginning cash and cash-equivalents	1,170	1,059
Ending cash and cash-equivalents	$783	$ 1,396
Supplementary disclosure of cash flow information:		
Cash paid for income taxes	$2	$ 2
Cash paid for interest	$120	$ 172
Supplementary disclosure of noncash financing activities:		
Equipment acquired under capital lease	$163	$ 49

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 normal recurring entries) 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 28, 2015.

Principles of Consolidation The consolidated financial statements include the accounts of Giga-tronics and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Derivatives The Company’s derivatives are valued in accordance with US Generally Accepted Accounting Principles in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 820, Fair Value Measurements and Disclosures. Changes in fair values are reported in earnings as gain or loss on adjustment of derivative liability to fair value.

New Accounting Standards In July 2015, the FASB issued ASU No, 2015-11, *Inventory (Topic 330): “Simplifying the Measurement of Inventory”*. Topic 330, *Inventory*, currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The amendments do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact this accounting standard update may have on its financial statements.

In August 2015, the FASB delayed the effective date of ASU 2015-14 – "*Revenue from Contracts with Customers" (Topic 606).*

The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact this accounting standard update may have on its financial statements.

Also in August 2015, the FASB amended ASU 2015-03 – "*Interest—Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements",* Previously, on April 7, 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which required entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The guidance in ASU 2015-03 (see paragraph 835-30-45-1A) does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff stated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. For public business entities, the guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect a material impact on its financial statements as a result of the adoption of ASU No. 2015-03.

In November 2015, the FASB issued ASU 2015-17 – *Income Taxes (Topic 740): "Balance Sheet Classification of Deferred Taxes"*.

Topic 740 is effective for public business entities for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The amendments may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The amendments in ASU 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The Company is currently evaluating the impact this accounting standard update may have on its financial statements.

(2) Going Concern and Management's Plan

The Company incurred net losses of $602,000 for the third quarter of fiscal 2016 and $2.5 million for the first nine months of fiscal 2016, which have contributed to an accumulated deficit of $22.5 million as of December 26, 2015.

The Company has experienced delays in the development of features, orders, and shipments for the new Advanced Signal Generator. These delays have significantly contributed to a decrease in working capital from $3.0 million at March 28, 2015, to $443,000 at December 26, 2015. The new Advanced Signal Generator product has now shipped to several customers, but potential delays in the development of features, longer than anticipated sales cycles, or the ability to continue shipments in volume quantities, could significantly contribute to additional future losses. The losses in the first nine months of fiscal 2016 caused working capital restraints, resulting in delayed payments to suppliers. Many suppliers have since halted the shipment of raw materials to the Company until payments for past shipments are received.

The Company has lost, and is seeking to regain its AS9100C Certification that is commonly required in the aircraft manufacturing industry. The Company's Microsource division sells components used on military aircrafts to two major customers that have the expectation the Company will have a Supplier Quality Management System certified to be AS9100C compliant. The Company has worked with one of the major customers to allow continued shipping and orders during the lapse in certification by allowing the customer to do its own quality inspections prior to the shipment of the Company's products. The Company is working with the second customer for a similar solution during the lapse in certification. The Company's Giga-tronics division receives orders from time to time that require a Supplier Quality Management System certified to be AS9100C. If the Company was unable to regain AS9100C certification, the lack of certifications could result in a loss of revenue and have a material adverse effect on results of operations and working capital.

These matters raise substantial doubt as to the ability of the Company to continue as a going concern.

To address these matters, the Company's management has taken several actions to provide additional liquidity and reduce costs and expenses going forward. These actions are described in the following paragraphs.

On January 29, 2016, the Company completed the sale of approximately 2.7 million shares of Common Stock yielding gross proceeds of approximately $3.5 million. Net proceeds to the Company were approximately $3.2 million. The sale included Warrants to purchase approximately 2.4 million shares of Common Stock at $1.15 per share (see Note 17, Subsequent Events). The proceeds will be used to pay suppliers past due accounts, and to fund the forecasted increases in sales and manufacturing activities associated with the Advanced Signal Generator. There is no guarantee that payments to suppliers can be made in time to allow for materials to arrive at the Company in time for anticipated fourth quarter fiscal 2016 shipments.

On December 15, 2015, the Company entered into an Asset Purchase Agreement with Spanawave Corporation (“Spanawave”), whereby Spanawave agreed to purchase the Giga-tronics’ Division product lines for its Power Meters, Amplifiers and Legacy Signal Generators for $1.5 million with one-half of the payments ($750,000) expected to be received between June and July 2016 (see Note 16, Sale of Product Lines). The Company received $75,000 from Spanawave on January 4, 2016 upon the initiation of data transfer to Spanawave. Proceeds from the asset sale will be used for working capital and general corporate purposes.

To assist with regaining AS9100C certification, the Company has hired a Director of Quality to lead the recertification process and retained a consulting firm to advise the Company through the recertification process.

In the first quarter of fiscal 2016, the Company’s Microsource business unit also finalized a multiyear $10.0 million YIG production order (“YIG Production Order”). The Company expects to start shipping the YIG Production Order in the fall of 2016.

To assist with the upfront purchases of inventory required for future product deliveries, the Company entered into advance payment arrangements with two large customers, whereby the customers reimburse the Company for raw material purchases prior to the shipment of the finished products. In the first three quarters of fiscal 2016, the Company entered into advance payment arrangements totaling $2.0 million, and during the first three quarters of fiscal 2015 the Company entered into $1.4 million of advance payment arrangements. The Company will continue to seek similar terms in future agreements with these customers and other customers.

Management will continue to review all aspects of the business in an effort to improve cash flow and reduce costs and expenses, while continuing to invest, to the extent possible, in new product development for future revenue streams.

Management will also continue to seek additional working capital through debt, equity financing or possible product line sales, however there are no assurances that such financings or sales will be available at all, or on terms acceptable to the Company.

The current year loss has had a significant negative impact on the financial condition of the Company and raises substantial doubt about the Company's ability to continue as a going concern. The Consolidated Financial Statements have been prepared assuming the Company will continue as a going concern and do not include any adjustments that might result if the Company were unable to do so.

(3) Revenue Recognition

The Company records revenue when there is persuasive evidence of an arrangement, delivery has occurred, the price is fixed and determinable, and collectability is reasonably assured. This occurs when products are shipped or the customer accepts title transfer. If the arrangement involves acceptance terms, the Company defers revenue until product acceptance is received. The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges. The Company evaluates each deliverable in an arrangement to determine whether they represent separate units of accounting. On certain large development contracts, revenue is recognized upon achievement of substantive milestones. Determining whether a milestone is substantive is a matter of judgment and that assessment is performed only at the inception of the arrangement. The consideration earned from the achievement of a milestone must meet all of the following for the milestone to be considered substantive:

a. It is commensurate with either of the following:

1. The Company's performance to achieve the milestone.

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

b. It relates solely to past performance.

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

Milestones are agreed upon with the customer prior to the start of the contract and some milestones will be tied to product shipping while others will be tied to design review. In fiscal 2015 the Company's Microsource business unit received a $6.5 million order from a major aerospace company for non-recurring engineering services to develop a variant of its high performance fast tuning YIG filters for an aircraft platform and to deliver a limited number of flight-qualified prototype hardware units (the "NRE Order") which is being accounted for on a milestone basis. The Company considered factors such as estimated completion dates and product acceptance of the order prior to accounting for the NRE Order as milestone revenue. During the three and nine month periods ended December 26, 2015 and December 27, 2014, revenue recognized on a milestone basis were $6,000 and $716,000, and $1.6 million and $4.5 million, respectively.

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

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

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 twelve to eighteen months depending on the customer. 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

Inventories consisted of the following:

(In thousands)	**December 26, 2015**	**March 28, 2015**
Raw materials	$ 2,537	$1,631
Work-in-progress	1,667	1,598
Finished goods	22	15
Demonstration inventory	85	121
Total	$ 4,311	$3,365

(5) Earnings/ Loss Per Share

Basic earnings (loss) per share (EPS) is calculated by dividing net income or loss allocated to common shareholders by the weighted average common shares outstanding during the period. Net income allocated to common shareholders excludes earnings allocated to certain non-vested restricted stock awards that have non forfeitable dividend rights and therefore are considered participating securities. Diluted EPS reflects the net incremental shares that would be issued if unvested restricted shares became vested and dilutive outstanding stock options were exercised, using the treasury stock method. In the case of a net loss, it is assumed that no incremental shares would be issued because they would be anti-dilutive. In addition, certain options are considered antidilutive because assumed proceeds from exercise price, related tax benefits and average future compensation were greater than the weighted average number of options outstanding multiplied by the average market price during the period. The shares used in per share computations are as follows:

(In thousands except per share data)	**Three Month Periods Ended December 26, 2015**	**Three Month Periods Ended December 27, 2014**	**Nine Month Periods Ended December 26, 2015**	**Nine Month Periods Ended December 27, 2014**
Net income/(loss)	$(602)	$ 67	$(2,537)	$ (283)
Earnings allocated to participating securities	—	(18)	—	—
Net income/(loss) allocated to common shareholders	$(602)	$ 49	$(2,537)	$ (283)
Weighted average:				
Common shares outstanding	6,484	5,208	6,402	5,166
Potential common shares	—	255	—	—
Common shares assuming dilution	6,484	5,463	6,402	5,166
Net earnings/ loss per share - basic	$(0.09)	$ 0.01	$(0.40)	$ (0.05)
Net earnings/ loss per share - diluted	$(0.09)	$ 0.01	$(0.40)	$ (0.05)
Stock options not included in computation that could potentially dilute EPS in the future		1,376		1,759
Restricted stock awards not included in computation that could potentially dilute EPS in the future	245	187	245	237
Convertible preferred stock not included in computation that could potentially dilute EPS in the future	1,853	—	1,853	1,853
Warrants not included in computation that could potentially dilute EPS in the future	1,353	—	1,353	1,277

The stock options, restricted stock, convertible preferred stock and warrants not included in the computation of diluted earnings per share (EPS) for the three month period ended December 26, 2015 and nine month periods ended

December 26, 2015 and December 27, 2014 are a result of the Company's net loss and, therefore, the effect of these instruments would be anti-dilutive. The restricted stock awards and stock options not included in the computation of diluted earnings per share for the three month period ended December 27, 2014 are as a result of these instruments being anti-dilutive after application of the treasury method described above.

(6) Share Based Compensation

The Company has established the 2005 Equity Incentive Plan, which provide for the granting of options and restricted stock for up to 2,850,000 shares of common stock at 100% of fair market value at the date of grant, with each grant requiring approval by the Board of Directors of the Company. Options granted generally vest in one or more installments in a four or five year period and must be exercised while the grantee is employed by the Company or within a certain period after termination of employment. Options granted to employees shall not have terms in excess of 10 years from the grant date. Holders of options may be granted stock appre