

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

FORM 10-Q

(Mark One)

- (X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 for the period ended December 30, 2000, 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)

(IRS Employer Identification No.)

4650 Norris Canyon Road, San Ramon, CA 94583

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Sections 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 [ ]

Common stock outstanding as of January 18, 2001: 4,491,962

PAGE 2

GIGA-TRONICS INCORPORATED

INDEX

<TABLE>

<CAPTION>

PART I - FINANCIAL INFORMATION

Page No.

<S>

<C>

ITEM 1 Condensed Consolidated Financial Statements:

Condensed Consolidated Balance Sheets as of December 30, 2000  
and March 25, 2000 (unaudited) .....3

Condensed Consolidated Statements of Operations, three and nine months  
ended December 30, 2000 and December 25, 1999 (unaudited).....4

Condensed Consolidated Statements of Cash Flows, nine months

ended December 30, 2000 and December 25, 1999 (unaudited).....5

Notes to Unaudited Condensed Consolidated Financial Statements.....6

ITEM 2 Management's Discussion and Analysis of  
Operations and Financial Condition.....9

## PART II - OTHER INFORMATION

### ITEM 1 Legal Proceedings

As of January 22, 2001, Giga-tronics has no material pending legal proceedings.  
From time to time, Giga-tronics is involved in various disputes and litigation  
matters that arise in the ordinary course of business.

ITEM 2 TO 5 Not applicable

### ITEM 6 Exhibits and Reports on Form 8-K

(a) Exhibits

(27) Financial Data Schedule

(b) Reports on Form 8-K

Not applicable

SIGNATURES.....12

</TABLE>

PAGE 3

## GIGA-TRONICS INCORPORATED CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited) (In thousands, except share data)

<TABLE>

<CAPTION>

	December 30, 2000	March 25, 2000
	----- <C>	----- <C>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,547	\$ 3,455
Trade accounts receivable, net of allowance of \$205 and \$253, respectively	7,424	9,194
Inventories, net	16,129	14,692
Prepaid expenses	532	444
Deferred income taxes	3,597	3,570
	-----	-----
Total current assets	31,229	31,355
Property and Equipment:		
Building and leasehold improvements	434	382
Machinery and equipment	15,429	14,673
Office furniture and fixtures	1,131	1,023
	-----	-----
Property and equipment, gross cost	16,994	16,078
Less accumulated depreciation and amortization	11,877	10,678
	-----	-----
Property and equipment, net cost	5,117	5,400
Patents and licenses	41	112
Goodwill, net	447	564
Other assets	91	95
	-----	-----
Total assets	\$ 36,925	\$ 37,526
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities			
Accounts payable	3,147	4,065	
Accrued commissions	588	625	
Accrued payroll and benefits	1,512	1,638	
Accrued warranty	688	553	
Customer advances	800	1,536	
Current portion of capital lease and other long term obligations		117	118
Other current liabilities	743	1,175	
	-----	-----	
Total current liabilities	7,595	9,710	
Capital lease and other long term obligations, net		1,556	1,667
	-----	-----	
Total liabilities	9,151	11,377	
	-----	-----	
Shareholders' Equity			
Common stock of no par value;	12,118	11,921	
Authorized 40,000,000 shares; 4,491,962 shares outstanding at			
December 30, 2000 and 4,431,008 shares at March 25, 2000			
Retained earnings	15,656	14,228	
	-----	-----	
Total shareholders' equity	27,774	26,149	
	-----	-----	
Total liabilities and shareholders' equity	\$ 36,925	\$ 37,526	
	=====	=====	

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.

PAGE 4

GIGA-TRONICS INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(In thousands, except per share data)

<TABLE>

<CAPTION>

	Three Months Ended		Nine Months Ended	
	Dec. 30, 2000	Dec. 25, 1999	Dec. 30, 2000	Dec. 25, 1999
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 11,810	\$ 11,314	\$ 38,029	\$ 34,653
Cost of sales	7,544	7,324	24,381	23,264
	-----	-----	-----	-----
Gross profit	4,266	3,990	13,648	11,389
Product development	1,128	1,071	3,683	2,979
Selling, general and administrative	2,696	2,392	8,083	7,137
Amortization of intangibles	59	105	190	405
	-----	-----	-----	-----
Operating expenses	3,883	3,568	11,956	10,521
Operating income	383	422	1,692	868
Other income	41	16	187	54
Interest income, net	96	22	165	24
	-----	-----	-----	-----
Earnings before income taxes	520	460	2,044	946
Provision for income taxes	157	138	616	285
	-----	-----	-----	-----
Net earnings	\$ 363	\$ 322	\$ 1,428	\$ 661
	=====	=====	=====	=====

Earnings per common share - basic	0.08	0.07	0.32	0.15
	=====	=====	=====	=====
Earnings per common share - diluted	0.08	0.07	0.30	0.15
	=====	=====	=====	=====
Weighted average basic common shares outstanding	4,488	4,383	4,462	4,371
	-----	-----	-----	
Weighted average diluted common shares outstanding	4,777	4,611	4,799	4,509
	-----	-----	-----	

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.

PAGE 5

GIGA-TRONICS INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In thousands)

<TABLE>  
<CAPTION>

	Nine Months Ended	
	Dec. 30, 2000	Dec. 25, 1999
	-----	-----
	<C>	<C>
<S>		
Cash flows provided from operations:		
Net earnings	\$ 1,428	\$ 661
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation and amortization	1,585	1,601
(Gain) / Loss on sale of fixed assets	(20)	20
Deferred income taxes, net	(19)	(48)
Changes in operating assets and liabilities	(1,871)	1,089
	-----	-----
Net cash provided by operations	1,103	3,323
Cash flows from investing activities:		
Additions to property and equipment	(1,118)	(864)
Proceeds from sale of equipment	26	--
Other assets	4	25
	-----	-----
Net cash used in investing activities	(1,088)	(839)
Cash flows from financing activities:		
Issuance of common stock	197	50
Proceeds on long term debt	--	2
Payments on capital lease and other long term obligations		(120)
	-----	-----
Net cash provided by (used in) financing activities	77	(5)
Increase in cash and cash equivalents	92	2,479
	-----	-----
Beginning cash and cash equivalents	3,455	2,686
Ending cash and cash equivalents	\$ 3,547	\$ 5,165
	=====	=====

</TABLE>

Supplementary disclosure of cash flow information:

- (1) No cash was paid for interest in the nine month periods ended December 30, 2000 and December 25, 1999.
- (2) Cash paid for income taxes in the nine month period ended December 30, 2000 was \$443,400. Cash paid for income taxes in the nine month period ended December 25, 1999 was \$5,500.

GIGA-TRONICS INCORPORATED  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The condensed financial statements included herein have been prepared by Giga-tronics (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. The 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 necessary to make the results of operations for the interim periods a fair statement of such operations. For further information, refer to the 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 25, 2000.

(2) Inventories

Inventories consist of the following (in thousands):

<TABLE>

<CAPTION>

	Dec. 30, 2000	March 25, 2000
	-----	-----
<S>	<C>	<C>
Raw materials	\$ 8,429	\$ 8,095
Work-in-process	6,115	5,746
Finished goods	621	294
Loaned inventory	964	557
	-----	-----
Total inventory	\$ 16,129	\$ 14,692
	=====	=====

</TABLE>

(3) Earnings Per Share

Basic earnings per share is calculated by dividing net income by weighted average common shares outstanding during the period. Diluted earnings per share reflects the net incremental shares that would be issued if dilutive outstanding stock options were exercised, using the treasury stock method. In addition, certain options are considered antidilutive because the options' exercise price is above the average market price during the period. Antidilutive shares are not included in the computation of diluted earnings per share, in accordance with the Statement of Financial Accounting Standards (SFAS) No. 128 Earnings per Share. The earnings per share and shares used in the computations for the three and nine month periods ended December 30, 2000 and December 25, 1999 are summarized as follows (in thousands, except per share data):

<TABLE>

<CAPTION>

	Three Months Ended		Nine Months Ended	
	Dec. 30, 2000	Dec. 25, 1999	Dec. 30, 2000	Dec. 25, 1999
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>

Net earnings	\$ 363	\$ 322	\$1,428	\$ 661
Weighted average:				
Common shares outstanding	4,488	4,383	4,462	4,371
Dilutive potential common shares	289	228	337	138
Common shares assuming dilution	4,777	4,611	4,799	4,509
Net earnings per share of common stock	\$ 0.08	\$ 0.07	\$ 0.32	\$ 0.15
Net earnings per share of common stock assuming dilution	\$ 0.08	\$ 0.07	\$ 0.30	\$ 0.15
Number of stock options not included in the computation	68	25	37	47

</TABLE>

The number of stock options not included in the computation of diluted EPS for the three and nine month periods ended December 30, 2000 and December 25, 1999 reflects stock options where the exercise prices were greater than the average market price of the common shares and were therefore antidilutive.

#### (4) Comprehensive Income

The Company has no components of other comprehensive income. As such, net income equals comprehensive income for December 30, 2000 and December 25, 1999, respectively.

#### (5) Significant Customers and Industry Segment Information

The Company has five reportable segments: Giga-tronics Instruments Division, ASCOR, Microsource, DYMATIX, and Corporate. Giga-tronics Instruments division produces a broad line of test and measurement equipment used in the development, test and maintenance of wireless communications' products and systems, flight navigational equipment, electronic defense systems and automatic testing systems. ASCOR designs, manufactures, and markets a line of switching devices that link together many specific purpose instruments that comprise automatic test systems. Microsource develops and manufactures a broad line of YIG (Yttrium, Iron, Garnet) tuned oscillators, filters and microwave synthesizers, which are used in a wide variety of microwave instruments or devices. DYMATIX, which includes Viking Semiconductor Equipment, Inc. and Ultracision, Inc., manufactures and markets optical inspection equipment used to test semiconductor devices and automation equipment for the test and inspection of silicon wafers. The Corporate segment handles the financing needs of each segment and lends funds to each segment as required.

PAGE 8

Information on reportable segments is as follows (in thousands):

<TABLE>

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Three Months Ended					
Dec. 30, 2000			Dec. 25, 1999		
Pre-tax Revenue		Pre-tax Income (loss)	Pre-tax Revenue		Pre-tax Income (loss)
<\$>	<C>	<C>	<C>	<C>	
Giga-tronics Instruments	\$ 6,249	\$ 151	\$ 4,676	\$ 99	
ASCOR	2,145	482	1,239	(218)	
Microsource	1,801	(556)	3,694	198	
DYMATIX	1,615	(21)	1,705	163	

Corporate	--	464	--	218
Total	\$ 11,810	\$ 520	\$ 11,314	\$ 460

</TABLE>

<TABLE>

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Nine Months Ended					
Dec. 30, 2000			Dec. 25, 1999		
Pre-tax		Pre-tax			
Revenue	Income (loss)	Revenue	Income (loss)		
<S>	<C>	<C>	<C>	<C>	
Giga-tronics Instruments	\$ 17,542	\$ 598	\$ 13,562	\$ 321	
ASCOR	5,973	1,345	4,707	(256)	
Microsource	9,905	(714)	10,891	19	
DYMATIX	4,609	(240)	5,493	152	
Corporate	--	1,055	--	710	
Total	\$ 38,029	\$ 2,044	\$ 34,653	\$ 946	

</TABLE>

#### (6) Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. For a derivative not designated as a hedging instrument, changes in the fair value of the derivative are recognized in earnings in the period of change. The Company must adopt SFAS No. 133 in the first quarter of fiscal 2002. Management does not believe the adoption of SFAS No. 133 will have a material effect on the financial position or operations of the Company.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101. SAB 101 presents certain of the SEC's staff views on applying generally accepted accounting principles for revenue recognition in financial statements. In June 2000, the SEC issued SAB No. 101B, to defer the date of SAB 101 for registrants until no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. The Company is required to adopt SAB 101 in the fourth quarter of its fiscal year ending March 31, 2001. Accordingly, any shipments previously reported as revenue, including revenue reported in the first three fiscal quarters of fiscal 2001, that do not meet SAB 101's guidance will be reported as revenue in future periods. Changes in the Company's revenue recognition policy resulting from the interpretation of SAB 101 would not involve restatement of prior fiscal year statements, but would, to the extent applicable, be reported as a change in accounting principle in the fiscal year ending March 31, 2001, with appropriate restatement of interim periods as required by SFAS No. 3 "reporting Accounting Changes in Interim Financial Statements." The Company anticipates that the adoption of SAB 101 will result in a cumulative adjustment to reduce net income in the current year by approximately \$845,000, net of tax. Had the Company accounted for revenue in accordance with SAB 101 in the nine month period ended December 30, 2000, revenue and net income, net of tax, would have increased by \$942,000 and \$377,000, respectively.

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 the Giga-tronics' annual report on Form 10-K for the fiscal year ended March 25, 2000 Part I, under the heading "Business" and "Certain factors which may adversely affect future operations or an investment in Giga-tronics", as well as the discussion of "Management's Discussion and Analysis of Financial Conditions and Results of Operations".

## GENERAL

Giga-tronics designs, manufactures, and markets microwave and radio frequency signal generation and power measurement instruments, switching devices, and YIG tuned oscillators. These products are used in the development, test, and maintenance of wireless communications' products and systems, electronic defense systems, and automatic testing systems (ATE). Giga-tronics also manufactures a line of inspection and handling devices used in the production of semiconductor devices.

### THREE AND NINE MONTHS ENDED DECEMBER 30, 2000 AND DECEMBER 25, 1999

Total orders for the three month period were \$13,418,000 or 17% higher (\$1,953,000) than the comparable period last year. Orders for the Instruments division were 12% (\$950,000) higher in the third quarter versus the prior year. Orders for ASCOR were 38% (\$381,000) higher for the third quarter versus last year. Orders for Microsource were 22% (\$440,000) lower than the comparable quarter last year. DYMATIX orders were 144% (\$1,062,000) higher in the three months ended December 30, 2000 versus the same period a year ago. For all of the segments in aggregate, orders for the nine month period were 16% higher (\$6,241,000) than the comparable period last year. Backlog at December 30, 2000 was \$41,812,000 (of which approximately \$31.3 million is expected to be shipped within one year) compared to \$22,511,000 at December 25, 1999.

Net sales for the three and nine month period ended December 30, 2000 increased 4% (\$496,000) and 10% (\$3,376,000), respectively, compared with the same periods last year. Giga-tronics Instruments sales increased 34% (\$1,573,000) for the quarter and increased 29% (\$3,980,000) for the nine months ended December 30, 2000 in comparison to the prior year. These increases are a result of strong orders and backlog for the Instruments division. ASCOR increased sales during the quarter 73% (\$906,000) and for the nine months increased 27% (\$1,266,000) from the respective periods of a year ago. Sales for Microsource decreased 51% (\$1,893,000) in the quarter and 9% (\$986,000) for the nine months ended December 30, 2000. This decline is a result of the contract cancellation from SpectraPoint without any offsetting shipments from the new business orders recorded in the first and second quarters. Sales for DYMATIX decreased 5% (\$90,000) in the quarter and declined 16% (\$884,000) for the nine months.

Cost of Sales increased 3% (\$220,000) in the quarter ended December 30, 2000 from the similar period a year ago. For the nine months ended December 30, 2000, cost of sales increased 5% (\$1,117,000). These increases are attributable to higher sales coupled with higher manufacturing material costs and manufacturing labor for the products shipped, and the write off of certain inventory related to the SpectraPoint contract cancellation.

Operating expenses for the three and nine month periods increased 9% (\$315,000) and 14% (\$1,435,000), respectively, compared with the prior year. Product development expenses for the three and nine month periods increased 5% (\$57,000) and 24% (\$704,000), respectively, compared with the prior year. The nine month increase is primarily due to the increased product development at Microsource (\$457,000). Selling, general and administrative expenses increased 13% (\$304,000) for the three months ended December 30, 2000 compared to the prior year. For the nine months ended December 30, 2000 selling, general and administrative expenses increased



13% (\$946,000). These increases are primarily due to higher commission expenses related to higher sales levels coupled with increased promotional expenses at the Instruments division. Amortization of intangibles decreased 44% (\$46,000) for the three months and 53% (\$215,000) for the nine months as compared to the prior year. The decrease in the amortization of intangibles is a result of lower amortization of patents and licenses as a result of fully amortized patents and licenses.

Interest income for the three and nine month periods improved over the prior year due to higher levels of cash available for investment.

Earnings before income taxes for the three month and nine month periods increased \$60,000 and \$1,098,000 compared to the same period last year. The change was primarily due to the improvement in gross profit offset by increased expenses as described above.

## FINANCIAL CONDITION

The Company maintains a strong financial position, with working capital of \$23,634,000 and a ratio of current assets to current liabilities of 4.1 to 1.0 at December 30, 2000. The Company continues to fund all of its working capital needs from cash provided by operations. Cash provided from operations, for the nine months ended December 30, 2000, was \$1,103,000.

Cash and cash equivalents increased \$92,000 for the nine months ended December 30, 2000. The Company spent \$1,118,000 on new manufacturing and test equipment and other capital items. The Company will continue to invest in capital items that support growth and new product development, raise productivity and improve quality. Historically the Company has satisfied its cash needs internally for both operating and capital expenditures, and management expects to continue to do so for the foreseeable future.

Management believes that cash reserves and investments remain adequate to meet anticipated operating needs. In addition, the Company has an unsecured revolving line of credit loan for 7 million dollars, none of which has been utilized. It is also the Company's intention to increase research and development expenditures for the purpose of broadening its product base. 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.

## OUTLOOK

Giga-tronics outlook for 2001 is optimistic. Giga-tronics expects sales of products in its Giga-tronics Instruments segment to improve along with the growing broadband wireless market especially with the initial shipments of the new Microwave Synthesizer (Model 12000). While its Microsource segment is expected to improve in the upcoming year as the broadband wireless market continues to grow, its short term growth will be less than previously anticipated as there are timing delays associated with setup and start up of recently booked orders in this segment.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this section of the report, including statements regarding sales under "OUTLOOK" and statements under "FINANCIAL CONDITION", are forward-looking. While Giga-tronics believes that these statements are accurate, Giga-tronics' business is dependent upon general economic conditions and various conditions specific to the test and measurement, wireless and semiconductor industries. Future trends and these factors could cause actual results to differ materially from the forward-looking statements that we have made. In particular:

Giga-tronics has a significant number of defense-related orders. If the defense market should decline, shipments in the current year could be less than anticipated and cause a decrease in earnings. The Company's commercial product backlog has a number of risks and uncertainties such as the cancellation or deferral of orders, dispute over

performance and our ability to collect amounts due. If this occurs, then shipments in the current year could fall short of plan resulting in a decline in earnings. In addition, other risks that Giga-tronics faces in running its operations include: shortages of critical parts; timely ability to ramp manufacturing capacity to meet order demand and the ability to quickly adapt cost structures to changing conditions.

The market for electronics equipment is characterized by rapidly changing technology and evolving industry standards. Giga-tronics believes that its future success will depend in part upon its ability to develop and commercialize its existing products and to develop new products and applications and in part to develop, manufacture and successfully introduce new products and product lines with improved capabilities and to continue to enhance existing products. There can be no assurance that Giga-tronics will successfully complete the development of current or future products or that such products will achieve market acceptance.

As part of its business strategy, the Company intends to broaden its product lines and expand its markets, in part through the acquisition of other business entities. The Company acquired Microsource, Inc. in fiscal 1999 in a transaction accounted for as a purchase. The Company is subject to various risks in connection with these and any future acquisitions. Such risks include, among other things, the difficulty of assimilating the operations and personnel of the acquired companies, the potential disruption of the Company's business, the inability of the Company's management to maximize the financial and strategic position of the Company by the successful incorporation of acquired technology and rights into the Company's product offerings, the maintenance of uniform standards, controls, procedures and policies, and the potential loss of key employees of acquired companies. No assurance can be given that any acquisition by the Company will or will not occur, that if an acquisition does occur, that it will not materially and adversely affect the Company or that any such acquisition will be successful in enhancing the Company's business. The Company currently contemplates that future acquisitions may involve the issuance of additional shares of the Company's common stock. Any such issuance may result in dilution to all shareholders of the Company, and sales of such shares in significant volume by the shareholders of acquired companies may depress the price of the Company's common stock.

Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this 10-Q contain forward-looking statements that involve risks and uncertainties. The actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed herein and in the Company's 2000 Report on Form 10-K under "Item 1. Business" and "Certain Factors Which May Affect Future Operations Or An Investment In Giga-tronics" as filed with the Securities and Exchange Commission.

PAGE 12

#### 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)

Date: January 22, 2001                      /s/ GEORGE H. BRUNS, JR.  
-----  
George H. Bruns, Jr.  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: January 22, 2001

/s/ MARK H. COSMEZ II

-----  
Mark H. Cosmez II  
Vice President, Finance and  
Chief Financial Officer  
(Principal Accounting Officer)