

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 June 30, 2001, 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 July 27, 2001: 4,574,194

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GIGA-TRONICS INCORPORATED

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PART II - OTHER INFORMATION

ITEM 1 Legal Proceedings

As of July 27, 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

(b) Reports on Form 8-K

Not applicable

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

<TABLE>

<CAPTION>

(In thousands except share data)	June 30, 2001	March 31, 2001
<S>	<C>	<C>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,197	\$ 3,469
Trade accounts receivable, net of allowance of \$254 and \$262 respectively	6,566	7,767
Inventories, net	15,048	15,185
Prepaid expenses	954	549
Deferred income taxes	3,590	3,560
TOTAL CURRENT ASSETS	29,355	30,530
Property and equipment		
Leasehold improvements	398	398
Machinery and equipment	16,232	16,123
Office furniture and fixtures	1,153	1,142
Property and equipment, gross cost	17,783	17,663
Less accumulated depreciation and amortization	12,598	12,357
PROPERTY AND EQUIPMENT, NET	5,185	5,306
PATENTS AND LICENSES	32	36
GOODWILL, NET	298	339
OTHER ASSETS	1,303	1,232
TOTAL ASSETS	\$ 36,173	\$ 37,443

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable	\$ 3,084	\$ 3,347		
Accrued commissions	330	435		
Accrued payroll and benefits	1,382	1,687		
Accrued warranty	793	732		
Customer advances	633	690		
Obligation under capital lease	146	167		
Other current liabilities	495	548		
	-----	-----		
TOTAL CURRENT LIABILITIES		6,863	7,606	
OBLIGATIONS UNDER CAPITAL LEASE, NET OF CURRENT PORTION			94	115
DEFERRED INCOME TAXES		796	796	
DEFERRED RENT		443	451	
	-----	-----		
TOTAL LIABILITIES		8,196	8,968	
	-----	-----		
SHAREHOLDERS' EQUITY				
Preferred stock of no par value				
Authorized 1,000,000 shares; no shares outstanding at June 30, 2001 and March 31, 2001		-	-	
Common stock of no par value;				
Authorized 40,000,000 shares; 4,573,694 shares at June 30, 2001 and 4,542,694 shares at March 31, 2001 issued and outstanding		12,414	12,346	
Retained earnings	15,563	16,129		
	-----	-----		
TOTAL SHAREHOLDERS' EQUITY		27,977	28,475	
	-----	-----		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 36,173	\$ 37,443	
	=====	=====		

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements

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

<TABLE>
<CAPTION>

	Three Months Ended	
	June 30, 2001	June 24, 2000
	-----	-----
<S>	<C>	<C>
NET SALES	\$ 11,797	\$ 13,637
Cost of sales	8,471	8,674
	-----	-----
GROSS PROFIT	3,326	4,963
Product development	1,769	1,166
Selling, general and administrative	2,518	2,546
Amortization of intangibles	45	63
	-----	-----
Operating expenses	4,332	3,775
OPERATING (LOSS) INCOME		(1,006) 1,188
Other income	44	32
Interest income, net	19	33
	-----	-----
(LOSS) EARNINGS BEFORE (BENEFIT) PROVISION FOR INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE		(943) 1,253
(Benefit) provision for income taxes	(377)	376
	-----	-----
(LOSS) EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE		(566) 877

Cumulative effect of accounting change	---	520
NET (LOSS) EARNINGS	\$ (566)	\$ 357
Basic net (loss) earnings per share:		
Before cumulative effect of accounting change	\$ (0.12)	\$ 0.20
Cumulative effect of accounting change		(0.12)
Basic net (loss) earnings per share	\$ (0.12)	\$ 0.08
Diluted net (loss) earnings per share:		
Before cumulative effect of accounting change	\$ (0.12)	\$ 0.18
Cumulative effect of accounting change	---	(0.11)
Diluted net (loss) earnings per share	\$ (0.12)	\$ 0.07
Weighted average basic common shares outstanding	4,565	4,437
Weighted average diluted common shares outstanding	4,565	4,817

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.

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

<TABLE>
<CAPTION>

	Three Months Ended	
	June 30, 2001	June 24, 2000
<S>	<C>	<C>
Cash flows provided from operations:		
Net (loss) earnings	\$ (566)	\$ 357
Adjustments to reconcile net (loss) earnings to net cash provided by operations:		
Depreciation and amortization	532	511
Gain on sale of equipment	(1)	(3)
Deferred income taxes, net	(30)	(84)
Changes in operating assets and liabilities	220	149
Net cash provided by operations	155	930
Cash flows from investing activities		
Additions to property and equipment	(386)	(291)
Proceeds from sale of equipment	12	3
Other assets	(71)	559
Net cash (used in) provided by investing activities	(445)	271
Cash flows from financing activities:		
Issuance of common stock	68	21
Payments on capital lease and other long term obligations	(50)	(43)
Net cash provided by (used in) financing activities	18	(22)
(Decrease) increase in cash and cash equivalents	(272)	1,179
Beginning cash and cash equivalents	3,469	3,455

Ending cash and cash equivalents	\$	3,197	\$	4,634
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</TABLE>

Supplementary disclosure of cash flow information:

- (1) No cash was paid for interest in the three month periods ended June 30, 2001 and June 24, 2000.
- (2) Cash paid for income taxes in the three month period ended June 30, 2001 was \$23. Cash paid for income taxes in the three month period ended June 24, 2000 was \$14.

See accompanying notes to unaudited condensed consolidated financial statements.

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GIGA-TRONICS INCORPORATED
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The condensed consolidated balance sheets of Giga-tronics as of June 30, 2001 and March 31, 2001 and the condensed consolidated statements of operations, and cash flows for the three months ended June 30, 2001 and June 24, 2000 are unaudited. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair preparation of the condensed consolidated financial position and results of operations and cash flows, have been included in such unaudited condensed consolidated financial statements. The consolidated results of operations for the three months ended June 30, 2001 are not necessarily indicative of the results to be expected for the entire year. 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 31, 2001.

(2) Inventories

Inventories consist of the following (in thousands):

<TABLE>

<CAPTION>

	June 30, 2001	March 31, 2001
	-----	-----
<S>	<C>	<C>
Raw materials	\$ 8,970	\$ 8,432
Work-in-process	4,106	4,833
Finished goods	1,110	1,020
Loaned Inventory	862	900
	-----	-----
Total inventory	\$15,048	\$15,185
	=====	=====

</TABLE>

(3) Earnings Per Share

Basic earnings per share is calculated by dividing net income or loss by the 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 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 for the fiscal quarters ended June 30, 2001 and June 24, 2000 are as follows:

<TABLE>
<CAPTION>

		Three Months Ended	
		June 30, 2001	June 24, 2000
		-----	-----
<S>	<C>	<C>	<C>
Net (loss) earnings	\$	(566)	\$ 357
Weighted average:			
Common shares outstanding		4,565	4,437
Dilutive potential common shares		---	380
Common shares assuming dilution		4,565	4,817
Number of stock options excluded in the computation		560	---

</TABLE>

All stock options outstanding were excluded from the computation of diluted EPS for the three month period ended June 30, 2001 because the company experienced a loss from continuing operations and the options are, therefore, antidilutive.

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Stock options excluded from the computation of diluted EPS for the three month period ended June 24, 2000 reflects stock options where the exercise prices were greater than the average market price of the common shares and the options are, therefore, antidilutive.

(4) 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.

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

<TABLE>
<CAPTION>

		Three Months Ended			
		June 30, 2001		June 24, 2000	
		-----		-----	
		Pre-tax		Pre-tax	
		Net Sales	Income (loss)	Net Sales	Income (loss)
		-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Giga-tronics Instruments	\$	6,734	\$ (83)	\$ 5,224	\$ 207
ASCOR		1,080	(18)	1,897	487
Microsource		2,440	(983)	4,033	14
DYMATIX		1,543	(169)	2,483	293

Corporate	---	310	---	252
Total	\$ 11,797	\$ (943)	\$ 13,637	\$ 1,253

</TABLE>

(5) Revenue Recognition

Revenues are recognized when there is evidence of an arrangement, delivery has occurred, the price is fixed and determinable, and collectibility is reasonably assured. Revenue to customers is recorded when products are shipped and the risk of loss has passed. Upon shipment, the Company also provides for the estimated cost that may be incurred for product warranties. Revenue related to products shipped subject to customers' evaluation is recognized upon final acceptance.

During the fourth quarter of fiscal 2001, the Company adopted Staff Accounting Bulletin (SAB) 101, Revenue Recognition in Financial Statements, effective March 26, 2000. Prior to the adoption of SAB 101, the Company recognized revenue on sales with final customer acceptance upon delivery and provided for the estimated costs of installation obligations at the time the revenue was recognized. The Company recorded a cumulative effect adjustment in the first quarter of fiscal 2001 related to this change in accounting of \$520,000, net of income taxes. The adoption of SAB 101 resulted in the deferral of \$2,165,000 in sales as of the beginning of the 2001 fiscal year, and subsequent recognition of the deferred sales during the year.

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(6) Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

The Company is required to adopt the provisions of Statement 141 immediately, except with regard to business combinations initiated prior to July 1, 2001, which it expects to account for using the pooling-of-interest method and Statement 142 effective January 1, 2002.

The Company has not yet determined the impact the adoption of Statements 141 and 142 will have on its financial position or results of operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF OPERATIONS AND FINANCIAL CONDITION

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 31, 2001 Part I, under the heading "Certain factors which may adversely affect future operations or an investment in Giga-tronics", and "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 MONTHS ENDED JUNE 30, 2001 AND JUNE 24, 2000

Orders for the three month period were \$11,839,000 versus \$17,176,000 for the same period a year ago. Due to the softness in the wireless industry, our orders were 31% lower (\$5,337,000) than the comparable period last year. Orders for the Instruments division were 36% lower (\$1,893,000) in the first quarter of 2002 versus the prior year. Orders for ASCOR were 62% (\$893,000) lower for the first quarter versus last year. Orders for Microsource were 35% (\$3,158,000) lower than the comparable quarter last year. DYMATIX orders were 43% higher (\$607,000) in the first three months ended June 30, 2001 versus the same period a year ago. Backlog at June 30, 2001 was \$40,006,000 (about \$21.8 million is expected to be shipped within one year) as compared to \$39,832,000 (about \$29.6 million expected to be shipped within one year) on June 24, 2000.

Net sales for the three month period ended June 30, 2001 decreased 14% (\$1,840,000) compared with the same period last year. Sales for Microsource decreased 40% (\$1,593,000) primarily due to timing delays in delivery on some of their products. Giga-tronics Instruments increased sales by 29% (\$1,510,000) primarily due to strong backlog. Sales at ASCOR decreased by 43% (\$817,000) during the quarter due to weak orders. Sales for DYMATIX decreased 38% (\$940,000) in the quarter because of the SAB 101 adjustment of an additional \$1,476,000 of sales booked in the same period a year ago. Without the SAB 101 adjustment, sales at DYMATIX would have increased 53% (\$536,000) due to strong order growth.

Cost of Sales decreased slightly in the quarter ended June 30, 2001 from the similar period a year ago. The decrease in the first quarter of fiscal 2002 was attributable to the 14% decline in sales and was offset by higher manufacturing material costs and manufacturing labor for the products shipped during that quarter.

Operating expenses for the three month period increased 15% (\$557,000) compared with the prior year. Research and development expenses for the three month period increased 52% (\$603,000) compared with the prior year due to increased new product development at DYMATIX and the Instruments division, as well as increased YIG product development costs at Microsource. Selling, general and administrative expenses were down 1% (\$28,000) compared with the same period a year ago due to lower commission expense of \$177,000 partially offset by an increase in marketing expenses of about \$149,000. Amortization of intangibles decreased 29% (\$18,000) as compared to the prior year. The decrease in the amortization of intangibles is a result of lower amortization of patents and licenses.

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Interest income for the three month period decreased from the prior year due to less cash available for investment. The lower cash available is primarily due to additional cash used by operations during the period.

Earnings before income taxes for the three month period decreased \$2,196,000 compared to the same period last year. The change was primarily due to lower revenues and higher research and development costs.

FINANCIAL CONDITION

Giga-tronics had working capital of \$22,492,000 and a ratio of current assets to current liabilities of 4.3 to 1.0 at June 30, 2001. Giga-tronics continues to fund all of its working capital needs from cash provided by operations. Cash provided from operations, for the three months ended June 30, 2001, was \$155,000.

Cash and cash equivalents decreased \$272,000. Giga-tronics spent \$374,000 on new manufacturing and test equipment and other capital items. Giga-tronics intends to continue investing in capital items that support growth, new product development, raise productivity and improve the quality of its products. 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 for \$7 million, none of which has been utilized. This line of credit expires July 31, 2001. The Company is currently negotiating a renewal or replacement of this line. 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

With the broad softening in the Wireless industry, Giga-tronics' outlook for 2002 is cautious. Giga-tronics is uncertain of the duration of the current economic downturn in the markets we serve. However, Giga-tronics will continue to invest in new product development in order to expand our product line and update our existing line with additional features. While its Microsource segment is expected to improve in the current year, its short-term growth will be less than previously anticipated as there are timing delays associated with currently booked orders.

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.

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, develop new products and applications and in part to develop, manufacture

and successfully introduce new products and product lines with improved capabilities and continue enhancing 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. Giga-tronics may also experience difficulty obtaining critical parts or components required in the manufacturing of our products, resulting in our

inability to fulfill orders in a timely manner which may have a negative impact on our earnings. Also, the company may not timely ramp manufacturing capacity to meet order demand and quickly adapt cost structures to changing market conditions.

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 form 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 2001 Report 10-K under "Item 1. Business" and "Certain Factors Which May Affect Future Operation Or An Investment In Giga-tronics" as filed with the Securities and Exchange Commission.

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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: 07/27/01 /s/ GEORGE H. BRUNS, JR.

George H. Bruns, Jr.
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: 07/27/01 /s/ MARK H. COSMEZ II

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

