

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 29, 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 January 18, 2002: 4,628,038

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GIGA-TRONICS INCORPORATED

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PART II - OTHER INFORMATION

ITEM 1 Legal Proceedings

As of January 18, 2002, 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>

	December 29, 2001	March 31, 2001
	-----	-----
	<C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,727	\$ 3,469
Trade accounts receivable, net of allowance of \$282 and \$262, respectively	5,221	7,767
Inventories, net	12,317	15,185
Prepaid expenses	835	549
Deferred income taxes	3,620	3,560
	-----	-----
TOTAL CURRENT ASSETS	28,720	30,530
Property and Equipment:		
Building and leasehold improvements	408	398
Machinery and equipment	16,373	16,123
Office furniture and fixtures	1,169	1,142
	-----	-----
Property and equipment, gross cost	17,950	17,663
Less accumulated depreciation and amortization	13,604	12,357
	-----	-----
PROPERTY AND EQUIPMENT, NET	4,346	5,306
PATENTS AND LICENSES	24	36
GOODWILL, NET	215	339

OTHER ASSETS	1,349	1,232		
TOTAL ASSETS	\$ 34,654	\$ 37,443		
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	\$ 1,121	\$ 3,347		
Accrued commissions	368	435		
Accrued payroll and benefits	1,012	1,687		
Accrued warranty	782	732		
Customer advances	1,601	690		
Obligation under capital lease	114	167		
Other current liabilities	684	548		
TOTAL CURRENT LIABILITIES		5,682	7,606	
OBLIGATIONS UNDER CAPITAL LEASE, NET OF CURRENT PORTION				113
DEFERRED INCOME TAXES		796	796	115
DEFERRED RENT	430	451		
TOTAL LIABILITIES	7,021	8,968		
Shareholders' Equity				
Common stock of no par value;	12,536	12,346		
Authorized 40,000,000 shares; 4,628,038 shares outstanding at				
December 29, 2001 and 4,542,694 shares at March 31, 2001				
Retained earnings	15,097	16,129		
TOTAL SHAREHOLDERS' EQUITY		27,633	28,475	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 34,654	\$ 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		Nine Months Ended	
	Dec. 29, 2001	Dec. 30, 2000	Dec. 29, 2001	Dec. 30, 2000
<S>	<C>	<C>	<C>	<C>
NET SALES	\$ 9,720	\$ 11,368	\$ 31,409	\$ 38,647
Cost of sales	6,315	7,300	21,066	24,802
GROSS PROFIT	3,405	4,068	10,343	13,845
Product development	1,612	1,128	5,156	3,683
Selling, general and administrative	2,166	2,696	6,924	8,083
Amortization of intangibles	46	59	136	190
Operating expenses	3,824	3,883	12,216	11,956
OPERATING (LOSS) INCOME		(419)	185	(1,873)
Other income, net	4	41	46	187
Interest income, net	13	96	47	165

(LOSS) EARNINGS BEFORE (BENEFIT) PROVISION FOR INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(402)	322	(1,780)	2,241
(Benefit) provision for income taxes	(211)	97	(748)	674
(LOSS) EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	\$ (191)	\$ 225	\$ (1,032)	\$ 1,567
Cumulative effect of accounting change	--	--	520	
NET (LOSS) EARNINGS	\$ (191)	\$ 225	\$ (1,032)	\$ 1,047

Basic net (loss) earnings per share:

Before cumulative effect of accounting change	\$ (0.04)	\$ 0.05	\$ (0.22)	\$ 0.35
Cumulative effect of accounting change	--	--	--	(0.12)
Basic net (loss) earnings per share	\$ (0.04)	\$ 0.05	\$ (0.22)	\$ 0.23

Diluted net (loss) earnings per share:

Before cumulative effect of accounting change	\$ (0.04)	\$ 0.05	\$ (0.22)	\$ 0.33
Cumulative effect of accounting change	--	--	--	(0.11)
Diluted net (loss) earnings per share	\$ (0.04)	\$ 0.05	\$ (0.22)	\$ 0.22

Shares used in per share calculation -

Basic	4,626	4,488	4,594	4,462
Dilutive	4,626	4,777	4,594	4,799

</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>

Nine Months Ended	
Dec. 29, 2001	Dec. 30, 2000
<C>	<C>

<S>

Cash flows provided from operations:

Net (loss) earnings	\$ (1,032)	\$ 1,047
Adjustments to reconcile net (loss) earnings to net cash provided by operations:		
Depreciation and amortization	1,616	1,585
Gain on sale of fixed assets	(1)	(20)
Deferred income taxes, net	(60)	(183)
Changes in operating assets and liabilities	3,266	(1,905)
Net cash provided by operations	3,789	524
Cash flows from investing activities:		
Additions to property and equipment	(540)	(1,118)
Proceeds from sale of equipment	12	26

Other assets	(117)	583	
Net cash used in investing activities	(645)	(509)	
Cash flows from financing activities:			
Issuance of common stock	190	197	
Payments on capital lease and other long term obligations	(76)	(120)	
Net cash provided by financing activities	114	77	
Increase in cash and cash equivalents	3,258	92	
Beginning cash and cash equivalents	3,469	3,455	
Ending cash and cash equivalents	\$ 6,727	\$ 3,547	

</TABLE>

Supplementary disclosure of cash flow information:

- (1) No cash was paid for interest in the nine month periods ended December 29, 2001 and December 30, 2000.
- (2) Cash paid for income taxes in the nine month period ended December 29, 2001 was \$47. Cash paid for income taxes in the nine month period ended December 30, 2000 was \$443.

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 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 31, 2001.

Certain amounts in the accompanying March 2001 consolidated financial statements have been reclassified in order to conform to the December 2001 consolidated financial statement presentation.

(2) Significant Accounting Policies

Revenue

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.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. The Company has estimated a reserve for excess and obsolete inventory based on consideration of

changes to product specifications, inventory trends, and market conditions.

Accounts Receivable

Accounts receivable are stated at the net realizable value. The Company has estimated an allowance for uncollectible accounts based on analysis of outstanding receivables, consideration of the age of those receivables, and the Company's historical collection experience.

Deferred Tax Assets

The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets, which 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 the historical taxable income and projections for future taxable income over the periods in which the deferred tax assets become deductible, management believes it more likely than not that the Company will realize benefits of these deductible differences, net of valuation allowances as of December 29, 2001.

Product Development Costs

The Company incurs pre-production costs on certain long-term supply arrangements. The costs, which represent non-recurring engineering and tooling costs owned by the Company, are capitalized as other assets and amortized over their useful life when reimbursable by the customer. Otherwise, they are expensed as incurred. Included in other assets as of December 29, 2001 and March 31, 2001 are capitalized pre-production costs of \$1,257,000, and \$1,133,000, respectively.

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(3) Inventories

Inventories consist of the following (in thousands):

<TABLE>

<CAPTION>

	Dec. 29, 2001	March 31, 2001
	-----	-----
<S>	<C>	<C>
Raw materials	\$ 7,149	\$ 8,432
Work-in-process	3,802	4,833
Finished goods	862	1,020
Loaned Inventory	504	900
	-----	-----
Total inventory	\$ 12,317	\$ 15,185
	=====	=====

</TABLE>

(4) 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 three and nine month periods ended December 29, 2001 and December 30, 2000 are as follows (in thousands):

<TABLE>

<CAPTION>

	Three Months Ended		Nine Months Ended	
	Dec. 29, 2001	Dec. 30, 2000	Dec. 29, 2001	Dec. 30, 2000
<S>	<C>	<C>	<C>	<C>
Net (loss) earnings	\$ (191)	\$ 225	\$ (1,032)	\$ 1,047
Weighted average:				
Common shares outstanding	4,626	4,488	4,594	4,462
Dilutive potential common shares	--	289	--	337
Common shares assuming dilution	4,626	4,777	4,594	4,799
Number of stock options not included in the computation	590	68	590	37

</TABLE>

All stock options outstanding were excluded from the computation of diluted EPS for the three and nine month periods ended December 29, 2001 because the company experienced a loss from continuing operations and the options are, therefore, antidilutive.

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

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(5) Significant Customers and Industry Segment Information

The Company has five reportable segments: Giga-tronics Instrument Division, ASCOR, Microsource, DYMATIX and Corporate. Giga-tronics Instrument division produces a broad line of test and measurement equipment used in the development, test and maintenance of wireless communications products and systems, flight navigational equipment, electronic defense systems and automatic testing systems. ASCOR designs, manufactures, and markets a line of switching devices that link together many specific purpose instruments that comprise automatic test systems. Microsource develops and manufactures a broad line of YIG (Yttrium, Iron, Garnet) tuned oscillators, filters and microwave synthesizers, which are used in a wide variety of microwave instruments and devices. DYMATIX 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			
	December 29, 2001		December 30, 2000	
	Net Sales	Pre-tax Income (loss)	Net Sales	Pre-tax Income (loss)
<S>	<C>	<C>	<C>	<C>
Giga-tronics Instrument	\$ 5,810	\$ 380	\$ 6,249	\$ 151
ASCOR	884	(311)	2,145	482
Microsource	2,478	(344)	1,801	(556)
DYMATIX	548	(339)	1,173	(219)
Corporate	--	212	--	464
Total	\$ 9,720	\$ (402)	\$ 11,368	\$ 322

</TABLE>

<TABLE>
<CAPTION>

Nine Months Ended					
December 29, 2001			December 30, 2000		
Net Sales	Pre-tax Income (loss)		Net Sales	Pre-tax Income (loss)	
<S>	<C>	<C>	<C>	<C>	
Giga-tronics Instrument	\$ 17,893	\$ 289	\$ 17,542	\$ 598	
ASCOR	2,946	(373)	5,973	1,345	
Microsource	7,461	(1,727)	9,905	(714)	
DYMATIX	3,109	(730)	5,227	(43)	
Corporate	--	761	--	1,055	
Total	\$ 31,409	\$ (1,780)	\$ 38,647	\$ 2,241	

</TABLE>

(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 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives, 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.

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The Company adopted the provisions of Statement 141 as of July 1, 2001. The adoption of Statement 141 did not have a material impact on the Company's financial position or results of operations. The Company is required to adopt the provisions of Statement 142 effective March 31, 2002. The Company has not yet determined the impact the adoption of Statement 142 will have on its financial position or results of operations.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Statement No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Statement No. 144 retains the fundamental provisions in Statement No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with Statement No. 121. Statement No. 144 also retains the basic provisions of APB Opinion No. 30 on how to present discontinued operations in the statement of operations, but broadens that presentation to include a component of an entity (rather than a segment of a business). The Company is required to adopt the provisions of Statement No. 144 effective March 31, 2002. The impact of such adoption is not anticipated to have a material effect on the Company's 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 have broad applications in the development, test and maintenance of commercial and military wireless communications systems, electronic defense systems and automatic testing systems (ATE). Giga-tronics also manufactures a line of inspection and handling equipment used in the production of semiconductor devices.

THREE AND NINE MONTHS ENDED DECEMBER 29, 2001 AND DECEMBER 30, 2000

Total orders for the three month period were \$6,394,000 versus \$13,418,000 for the comparable period last year. The new orders declined primarily due to the weakness in the overall wireless market partially offset by increases in military orders. Orders for the Instrument division were 51% (\$4,381,000) lower in the third quarter of FY 2002 versus the prior year. Orders for ASCOR were 36% (\$495,000) lower for the third quarter versus last year. Orders for Microsource were 37% (\$594,000) lower than the comparable quarter last year. DYMATIX orders were 86% (\$1,554,000) lower in the three months ended December 29, 2001 versus the same period a year ago. For the nine months, orders were \$20,698,000, which includes the partial order cancellation in the second quarter at the Instrument division of \$3,703,000, compared to \$45,712,000 for the same period last year. Backlog at December 29, 2001 was \$29,251,000 (of which approximately \$11.0 million is expected to be shipped within one year) compared to \$43,359,000 at December 30, 2000.

Net sales for the three and nine month periods ended December 29, 2001 decreased 15% (\$1,648,000) and 19% (\$7,238,000), respectively, compared with the same periods last year. The reduction in sales was primarily due to fewer orders booked because of the general slowdown in the commercial wireless market and stretch outs on existing orders in backlog. Giga-tronics Instrument sales decreased 7% (\$439,000) for the quarter on weak orders and increased 2% (\$351,000) for the nine months ended December 29, 2001 primarily due to strong backlog as compared to the same periods a year ago. ASCOR sales decreased in the third quarter 59% (\$1,261,000) and for the nine months decreased 51% (\$3,027,000) primarily due to less backlog from the respective periods of a year ago coupled with weaker new orders. Sales for Microsource increased 38% (\$677,000) in the quarter primarily due to shipments on the \$7 million order received in the first quarter of FY 2002 and decreased 25% (\$2,444,000) for the nine months ended December 29, 2001 primarily due to our customers delaying shipments of new product. Sales for DYMATIX decreased 53% (\$625,000) in the quarter and declined 41% (\$2,118,000) for the nine months primarily due to customers delaying orders until the new product is released, as well as less backlog than the comparable periods a year ago.

Cost of Sales decreased 14% (\$985,000) in the quarter ended December 29, 2001 from the similar period a year ago primarily due to the 15% overall decline in sales offset by the increase in cost of sales at Microsource on their 38% increase in revenue. For the nine months ended December 29, 2001, cost of sales decreased 15% (\$3,736,000) versus the prior year. This decrease is attributable to 19% lower sales coupled with higher manufacturing material costs and manufacturing labor for the products shipped.

Operating expenses for the three month period decreased 2% (\$59,000) from the same period a year ago due to decreases of \$530,000 in SG&A and \$13,000 in total amortization offset by an increase of \$484,000 in product development. For the nine month period, operating expenses increased 2% (\$260,000) from the comparable period a year ago due to decreases of \$1,159,000 in SG&A and \$54,000 in total amortization offset by an increase of \$1,473,000 in product development. Product development expenses for the three and nine month periods increased 43% (\$484,000) and 40% (\$1,473,000), respectively, compared with the prior year primarily due to increased product development at DYMATIX and increased YIG product development costs at Microsource. Selling, general and administrative expenses decreased 20% (\$530,000) for the three months ended December 29, 2001 compared to the prior year. The decrease is a result of lower commission expense of \$125,000 on lower sales for the quarter, \$219,000 less in administrative expenses and \$186,000 less in marketing expenses during the quarter. For the nine months ended December 29, 2001, selling, general and administrative expenses decreased 14% (\$1,159,000) versus the same period a year ago. The decrease is primarily due to lower commission expense of \$599,000 related to lower sales levels coupled with lower administrative and marketing expenses of \$462,000 and \$98,000, respectively, primarily due to expense reduction measures. For the three and nine month periods ended December 29, 2001, these expense reductions were primarily personnel related. Amortization of intangibles decreased 22% (\$13,000) for the three months and 28% (\$54,000) 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.

Interest income for the three and nine month periods decreased from the prior year due to lower interest rates on cash available for investment.

Earnings before income taxes for the three month and nine month periods decreased compared to the same periods last year. The change was primarily due to lower revenue and higher research and development expenses.

FINANCIAL CONDITION

Giga-tronics maintains a strong financial position, with working capital of \$23,038,000 and a ratio of current assets to current liabilities of 5.1 to 1.0 at December 29, 2001. Giga-tronics continues to fund all of its working capital needs from cash provided by operations. Cash provided from operations, for the nine months ended December 29, 2001, was \$3,789,000.

Cash and cash equivalents increased \$3,258,000 for the nine months ended December 29, 2001. Giga-tronics spent \$540,000 on new manufacturing and test equipment and other capital items. Giga-tronics intends to continue investing in capital items that support growth and 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, Giga-tronics has an unsecured revolving line of credit for \$7 million, none of which has been utilized. This line of credit expires September 30, 2002. 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, Giga-tronics 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 and severity of the current economic downturn in the markets we serve and the ultimate impact this will have on the Company. While there are some indications of increased strength in defense, the economic downturn has impacted capital spending in many of our commercial markets and has resulted in declining new product orders. In response to the current market conditions, Giga-tronics has implemented cost reduction programs in order to reduce expenses. However, Giga-tronics remains committed to

the investment in new product development in order to expand our product lines and update our existing lines with additional

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features. While the 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' core business is test and measurement, as well as components for the wireless communications market, which continues to remain soft. 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 the commercial market should decline further, then shipments in the current year could fall short of plan resulting in a decline in earnings. Also, Giga-tronics has a significant number of defense-related orders. While Giga-tronics has seen some improvement in the defense sector, it is not significant enough to offset the decline in the commercial sector. If the defense market should decline, shipments in the current year could be less than anticipated and cause a decrease 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 our business strategy, Giga-tronics 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 past 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 Giga-tronics 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. Giga-tronics 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 Operations 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: January 28, 2002 /s/ GEORGE H. BRUNS, JR

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

Date: January 28, 2002 /s/ MARK H. COSMEZ II

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