

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 28, 2002, 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 28,  
2003:

4,676,756 shares

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## ITEM 1

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

	Dec. 28, 2002	March 30, 2002
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 5,942	\$ 7,180
Trade accounts receivable, net of allowance of \$325 and \$358 respectively	3,419	3,881
Inventories	11,180	11,369
Income tax refund	—	701
Prepaid expenses	428	320
Deferred income taxes	—	4,841
<b>Total current assets</b>	<b>20,969</b>	<b>28,292</b>
Property and equipment		
Leasehold improvements	423	408
Machinery and equipment	16,637	16,590
Office furniture and fixtures	1,169	1,162
Property and equipment, gross cost	18,229	18,160
Less accumulated depreciation and amortization	15,537	14,098
<b>Property and equipment, net</b>	<b>2,692</b>	<b>4,062</b>
<b>Patents and licenses</b>	<b>4</b>	<b>20</b>
<b>Other assets</b>	<b>176</b>	<b>506</b>
<b>Total assets</b>	<b>\$ 23,841</b>	<b>\$ 32,880</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable	\$ 1,399	\$ 1,426
Accrued commissions	217	224
Accrued payroll and benefits	962	1,249
Accrued warranty	823	779
Customer advances	784	780
Obligations under capital lease	74	89
Other current liabilities	846	610
<b>Total current liabilities</b>	<b>5,105</b>	<b>5,157</b>
<b>Obligations under capital lease, net of current portion</b>	<b>31</b>	<b>94</b>
<b>Deferred income taxes</b>	<b>—</b>	<b>546</b>
<b>Deferred rent</b>	<b>375</b>	<b>422</b>
<b>Total liabilities</b>	<b>5,511</b>	<b>6,219</b>
<b>Shareholders' equity</b>		
Preferred stock of no par value		
Authorized 1,000,000 shares; no shares outstanding at December 28, 2002 and March 30, 2002	—	—
Common stock of no par value;		
Authorized 40,000,000 shares; 4,676,756 shares at December 28, 2002 and 4,648,944 shares at March 30, 2002 issued and outstanding	12,678	12,634
Retained earnings	5,652	14,027
<b>Total shareholders' equity</b>	<b>18,330</b>	<b>26,661</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 23,841</b>	<b>\$ 32,880</b>

*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)

	Three Months Ended		Nine Months Ended	
	Dec. 28, 2002	Dec. 29, 2001	Dec. 28, 2002	Dec. 29, 2001
<b>Net sales</b>	\$ 5,506	\$ 9,720	\$ 17,053	\$ 31,409
Cost of sales	3,929	6,315	11,629	21,066
<b>Gross profit</b>	1,577	3,405	5,424	10,343
Product development	1,141	1,612	4,293	5,156
Selling, general and administrative	1,572	2,166	5,213	6,924
Amortization of intangibles	6	46	16	136
Operating expenses	2,719	3,824	9,522	12,216
<b>Operating loss</b>	(1,142)	(419)	(4,098)	(1,873)
Other income (expense)	(54)	4	(125)	46
Interest income, net	16	13	46	47
<b>Loss before income taxes</b>	(1,180)	(402)	(4,177)	(1,780)
Provision (benefit) for income taxes	4,298	(211)	4,198	(748)
<b>Net loss</b>	\$ (5,478)	\$ (191)	\$ (8,375)	\$ (1,032)
Basic and diluted net loss per share	\$ (1.17)	\$ (0.04)	\$ (1.79)	\$ (0.22)
Shares used in per share calculation:				
Basic and dilutive	4,677	4,626	4,666	4,594

*See accompanying notes to unaudited condensed consolidated financial statements.*

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

	Nine Months Ended	
	Dec. 28, 2002	Dec. 29, 2001
<i>Cash flows provided from operations:</i>		
Net loss	\$ (8,375)	\$ (1,032)
Adjustments to reconcile net loss to net cash (used in) provided by operations:		
Depreciation and amortization	1,491	1,616
Gain on sale of equipment	(3)	(1)
Deferred income taxes, net	4,295	(60)
Changes in operating assets and liabilities	1,207	3,266
Net cash (used in) provided by operations	(1,385)	3,789
<i>Cash flows from investing activities:</i>		
Additions to property and equipment	(116)	(540)
Proceeds from sale of equipment	14	12
Other assets	330	(117)
Net cash provided by (used in) investing activities	228	(645)
<i>Cash flows from financing activities:</i>		
Issuance of common stock	44	190
Payments on capital lease and other long term obligations	(125)	(76)
Net cash (used in) provided by financing activities	(81)	114
(Decrease) increase in cash and cash equivalents	(1,238)	3,258
Beginning cash and cash equivalents	7,180	3,469
Ending cash and cash equivalents	\$ 5,942	\$ 6,727
<i>Supplementary disclosure of cash flow information:</i>		

- (1) Cash paid for interest in the nine month periods ended December 28, 2002 and December 29, 2001 was \$7 and \$9, respectively.
- (2) No cash was paid for income taxes in the nine month period ended December 28, 2002. Cash paid for income taxes in the nine month period ended December 29, 2001 was \$47.

*See accompanying notes to unaudited condensed consolidated financial statements.*

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 30, 2002.

Certain March 30, 2002 amounts have been reclassified to conform with the December 28, 2002 presentation.

(2) Revenue

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

The Company provides for estimated costs that may be incurred for product warranties at the time of shipment. The Company’s warranty policy generally provides 3 years for Fast Switching Microwave Synthesizers and Universal Power Meters and one year for all other products. The estimated cost of warranty coverage is based on the Company’s actual historical experience with its current products or similar products.

(3) Inventories

Inventories consist of the following (in thousands):

	Dec. 28, 2002	March 30, 2002
Raw materials	\$ 5,602	\$ 6,157
Work-in-process	4,341	3,852
Finished goods	844	683
Loaned Inventory	393	677
Total inventory	<u>\$ 11,180</u>	<u>\$ 11,369</u>

(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 28, 2002 and December 29, 2001 are as follows (in thousands):

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	Three Months Ended		Nine Months Ended	
	Dec. 28, 2002	Dec. 29, 2001	Dec. 28, 2002	Dec. 29, 2001
Weighted average:				
Common shares outstanding	4,667	4,626	4,666	4,594
Dilutive potential common shares	—	—	—	—
Common shares assuming dilution	4,667	4,626	4,666	4,594
Number of stock options not included in the computation	555	590	555	590

All stock options outstanding were excluded from the computation of diluted EPS for the three and nine month periods ended December 28, 2002 and December 29, 2001 because the Company experienced a loss from continuing operations and the options are, therefore, antidilutive. The weighted average exercise price of excluded options was \$3.71 and \$3.93 as of December 28, 2002 and December 29, 2001, respectively.

(5) Income Taxes

The Company has recorded an income tax provision (benefit) of \$4,298,000 and \$4,198,000 for the three and nine months ended December 28, 2002, respectively, and (\$211,000) and (\$748,000) for the three and nine months ended December 29, 2001, respectively. The Company is presently unable to conclude that its deferred tax assets will more likely than not be realized from the results of operations. Accordingly, the Company has provided a valuation allowance on its net deferred tax assets for the three and nine month periods ended December 28, 2002. For the three and nine month periods ended December 29, 2001, the Company recorded tax benefits related primarily to losses carried back to prior fiscal years.

(6) 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):

	Three Months Ended			
	December 28, 2002		December 29, 2001	
	Net Sales	Pre-tax Income (loss)	Net Sales	Pre-tax Income (loss)
Giga-tronics Instrument	\$2,662	\$ (285)	\$5,810	\$ 380
ASCOR	790	(184)	884	(311)
Microsource	1,797	(491)	2,478	(344)
DYMATiX	257	(424)	548	(339)
Corporate	—	204	—	212
Total	\$5,506	\$ (1,180)	\$9,720	\$ (402)

	Nine Months Ended			
	December 28, 2002		December 29, 2001	
	Net Sales	Pre-tax Income (loss)	Net Sales	Pre-tax Income (loss)
Giga-tronics Instrument	\$ 6,881	\$ (2,997)	\$17,893	\$ 289
ASCOR	2,973	(342)	2,946	(373)
Microsource	6,238	(170)	7,461	(1,727)
DYMATiX	961	(1,235)	3,109	(730)
Corporate	—	567	—	761
Total	\$17,053	\$ (4,177)	\$31,409	\$ (1,780)

(7) 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 No. 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 No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement No. 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 No. 142. Statement No. 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*. The Company adopted the provisions of Statement No. 141 as of July 1, 2001. The Company adopted the provisions of Statement No. 142 effective March 31, 2002. The adoption of the statements did not have a material effect on the consolidated financial statements of the Company.

In August 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The purpose of SFAS No. 143 is to develop consistent accounting of asset retirement obligations and related costs in the financial statements and to provide more information about future cash outflows, leverage, and liquidity regarding retirement obligations and the gross investment in long-lived assets. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not anticipate that the adoption of SFAS No. 143 will have a material effect on its financial statements.

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company adopted the provisions of SFAS No. 144 effective March 31, 2002. The adoption of SFAS No. 144 did not have a material effect on the Company's financial statements.

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This Statement requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. This Statement is effective for exit or disposal activities initiated after December 31, 2002; however, early application of the Statement is encouraged. The Company does not anticipate that the adoption of Statement 146 will have a material impact on its financial position or results of operations, but the adoption could result in the company recognizing costs of future restructuring activities, if any, over a period of time rather than in one reporting period.

In December 2002, the FASB issued Statement No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a table. Additionally, the statement requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of Statement No. 148 are effective for the Company in 2003. The interim disclosure requirements are effective for the Company's first quarter of 2004. The Company does not expect Statement No. 148 to have a material effect on its results of operations or financial condition.

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## ITEM 2

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 30, 2002 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 both defense electronics and wireless telecommunications. Giga-tronics also manufactures a line of inspection and handling equipment used in the production of semiconductor devices.

## THREE AND NINE MONTHS ENDED DECEMBER 28, 2002 AND DECEMBER 29, 2001

Total orders for the three month period were \$6,704,000 up 5% from the \$6,394,000 for the comparable period last year. Orders increased primarily due to strength in new military orders offset by the continuing weakness in our commercial wireless market. Orders at the Instrument division were 47% (\$1,970,000) lower in the third quarter of FY 2003 versus the prior year. Orders for ASCOR were 82% (\$737,000) higher for the third quarter versus last year. Orders at Microsource were 148% (\$1,503,000) higher than the comparable quarter last year. DYMATiX orders were 16% (\$40,000) higher in the three months ended December 28, 2002 versus the same period a year ago. For the nine months ended December 28, 2002, orders were \$14,920,000 compared to \$20,698,000 for the nine months ended December 29, 2001. Orders for the latter period were reduced by an order cancellation of \$3,703,000. But for that cancellation, the decrease in orders in the current period would have been greater by the amount of the cancellation. The decline in orders for the nine month period is attributable primarily to the general slow down in the wireless market. Backlog at December 28, 2002 was \$19,254,000 (about \$10,490,000 is expected to be shipped within one year) as compared to \$29,251,000 (about \$11,005,000 was expected to be shipped within one year) on December 29, 2001. Of the \$11,005,000 in orders considered shippable within one year as of December 29, 2001, since that date through December 28, 2002, the Company rescheduled (and reclassified as not shippable within one year) shipments for orders of \$1,255,000 net and recorded cancellations of orders for \$1,019,000.

Net sales for the three and nine month periods ended December 28, 2002 decreased 43% (\$4,214,000) and 46% (\$14,356,000), respectively, compared with the same periods last year. The reduction in sales in the quarter was primarily due to customer-delayed shipment schedules. The reduction in sales for the nine month period was primarily due to fewer orders booked because of the general slowdown in the wireless market coupled with stretch outs on existing orders in backlog predominately at the Instrument and Microsource segments. Sales at the Instrument division decreased 54% (\$3,148,000) for the quarter and decreased 62% (\$11,012,000) for the nine months ended December 28, 2002 primarily due to weak backlog as compared to the same periods a year ago. ASCOR sales during the quarter decreased 11% (\$94,000) and for the nine months increased 1% (\$27,000) versus the respective periods of a year ago. Sales at Microsource decreased 28% (\$681,000) in the quarter and decreased 16% (\$1,223,000) for the nine months ended December 28, 2002 primarily due to stretch-out of deliveries on existing backlog. Sales at DYMATiX decreased 53% (\$291,000) in the quarter and declined 70% (\$2,148,000) for the nine months primarily due to weak orders because of the slowdown in capital equipment spending affecting the semiconductor manufacturing market.

Cost of sales decreased 38% (\$2,386,000) in the quarter ended December 28, 2002 from the similar period a year ago primarily due to the 43% decline in sales offset with higher manufacturing material and labor costs for the products shipped. For the nine months ended December 28, 2002, cost of sales decreased 45% (\$9,437,000) primarily attributable to 46% lower sales and the product mix.

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Operating expenses for the three month period decreased 29% (\$1,105,000) due to decreases of \$594,000 in selling general and administrative (SG&A), \$471,000 in product development costs and \$40,000 in amortization expense. For the nine month period, operating expenses decreased 22% (\$2,694,000) due to decreases of \$1,711,000 in SG&A, \$863,000 in product development costs and \$120,000 in amortization expense. Product development costs for the three and nine month periods decreased 29% (\$471,000) and 17% (\$863,000), respectively, compared with the prior year primarily due to a reduction in product development costs at Microsource and the Instrument divisions mainly related to lower personnel costs. SG&A expenses decreased 27% (\$594,000) for the three months ended December 28, 2002 compared to the prior year. The decrease is a result of lower commission expense of \$335,000 on lower sales for the quarter, \$152,000 less in marketing expenses and \$107,000 less in administrative expenses during the quarter. For the nine months ended December 28, 2002, SG&A expenses decreased 25% (\$1,711,000) as compared to the same period a year ago. The decrease is primarily due to lower commission expense of \$660,000 related to lower sales levels and decreases in marketing expenses of \$640,000 and lower administrative expenses of \$411,000. The SG&A expense reductions were primarily personnel related. Amortization of intangibles decreased 87% (\$40,000) for the three months and 88% (\$120,000) for the nine months as compared to the prior year. The decrease in the amortization of intangibles is a result of the goodwill being fully amortized at March 30, 2002. Interest income for the three and nine month periods decreased from the prior year due to lower interest rates on cash available for investment and reduced levels of cash.

The loss before income taxes for the three month and nine month periods increased \$778,000 and \$2,397,000, respectively, compared to the same periods last year. The change was primarily due to lower revenues offset in part by lower operating expenses. Income taxes incurred by Giga-tronics are comprised of federal and state taxes. We recorded a provision for income taxes of \$4,298,000 and \$4,198,000 for the three and nine month periods ended December 28, 2002, and recorded a benefit for income taxes of \$211,000 and \$748,000 for the three and nine month periods ended December 29, 2001, respectively. The Company incurred tax expense in the three and nine month periods ended December 28, 2002 primarily because of an increase in the valuation allowance on deferred tax assets. The Company is presently unable to conclude that its deferred tax assets will more likely than not be realized from the results of operations. The total valuation was \$10,629,000 and \$6,331,000 as of December 28, 2002 and March 30, 2002, respectively. In the three and nine month periods ended December 29, 2001, we recorded tax benefits related primarily to losses carried back to prior fiscal years.

#### FINANCIAL CONDITION

Giga-tronics maintained working capital of \$15,864,000 and a ratio of current assets to current liabilities of 4.1 to 1.0 at December 28, 2002. Giga-tronics continues to fund all of its working capital needs from existing cash and operating cash flows.

Cash and cash equivalents at December 28, 2002 decreased \$1,238,000 from March 30, 2002. Cash used by operations, for the nine months ended December 28, 2002, was \$1,385,000. In addition, Giga-tronics spent \$116,000 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 and cash equivalents remain adequate to meet anticipated operating needs. 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

The wireless telecommunications market continues to be weak. All of our business segments have been impacted by the economic downturn currently affecting the test and measurement and semiconductor industries. Giga-tronics is uncertain of the duration and severity of this downturn in the markets we serve, and the ultimate impact this will have on the Company. New orders in the military sector are showing some indications of increased strength, the economic downturn continues to impact capital spending in many of our commercial markets and has resulted in

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declining product orders in that sector. 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 features. While Microsource management hopes that prospects for new orders will improve results for the balance of the fiscal 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 be 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.

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## ITEM 3

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial instruments that expose the company to market risk are cash and cash equivalents. The Company's cash and cash equivalents are held in recognized financial institutions and have limited market risk due to the short-term maturities of the instruments.

## ITEM 4

## CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

## PART II — OTHER INFORMATION

## ITEM 1

## LEGAL PROCEEDINGS

As of February 4, 2003, 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 6

## EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits

- |      |   |
|------|---|
| 99.1 | Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act. |
| 99.2 | Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act. |

## (b) Reports on Form 8-K

Not applicable

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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)

By:

Date: 2/04/03

/s/GEORGE H. BRUNS, JR.

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

Date: 2/04/03

/s/MARK H. COSMEZ II

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

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**CERTIFICATIONS UNDER SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, George H. Bruns, Jr. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Giga-tronics, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 2/04/03

/s/ George H. Bruns Jr.

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George H. Bruns, Jr.  
Chairman & Chief Executive Officer

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**CERTIFICATIONS UNDER SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, Mark H. Cosmez II, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Giga-tronics, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 2/04/03

/s/Mark H. Cosmez II

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Mark H. Cosmez II  
VP Finance, CFO and Secretary

Exhibit 99.1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Giga-tronics Incorporated (the "Company") on Form 10-Q for the period ending December 28, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George H. Bruns, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George H. Bruns Jr.

George H. Bruns, Jr.  
Chief Executive Officer  
February 4, 2003

Exhibit 99.2

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Giga-tronics Incorporated (the "Company") on Form 10-Q for the period ending December 28, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark H. Cosmez II, Vice President, Finance, Chief Financial Officer and Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark H. Cosmez II

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Mark H. Cosmez II  
Chief Financial Officer  
February 4, 2003