

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

(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, 1996,
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 (IRS Employer Identification No.)
incorporation or organization)

4650 Norris Canyon Road, San Ramon, CA 94583
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (510) 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 December 28, 1996: 3,369,199
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GIGA-TRONICS INCORPORATED

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

<TABLE>
<CAPTION>

| | December 28, 1996 | March 30, 1996 |
|--|-------------------|------------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Current Assets: | | |
| Cash and cash equivalents | \$ 3,249 | \$ 5,923 |
| Investments | 9,666 | 5,313 |
| Trade accounts receivable, net | 3,777 | 3,658 |
| Inventories, net | 5,146 | 6,293 |
| Prepaid expenses | 150 | 228 |
| Deferred income taxes | 1,557 | 1,305 |
| | ----- | ----- |
| Total current assets | \$ 23,545 | \$ 22,720 |
| Property and Equipment: | | |
| Machinery and equipment | \$ 7,384 | \$ 7,277 |
| Office furniture and fixtures | 544 | 518 |
| Leasehold improvements | 121 | 106 |
| | ----- | ----- |
| Gross cost property and equipment | 8,049 | 7,901 |
| Less accumulated depreciation and amortization | (6,160) | (5,779) |
| | ----- | ----- |
| Net property and equipment | 1,889 | 2,122 |
| Patents and licenses | 1,170 | 1,590 |
| Other assets | 79 | 152 |
| | ----- | ----- |
| Total assets | <u>\$ 26,683</u> | <u>\$ 26,584</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|------------------------------|----------|----------|
| Current Liabilities: | | |
| Accounts payable | \$ 1,275 | \$ 2,070 |
| Accrued commissions | 294 | 277 |
| Other current liabilities | 771 | 751 |
| Accrued payroll and benefits | 822 | 666 |
| Accrued warranty | 579 | 580 |
| Accrued earnout payable | -- | 393 |
| Income taxes payable | 28 | 47 |
| Notes payable | -- | 730 |
| | ----- | ----- |
| Total current liabilities | 3,769 | 5,514 |
| Non-current liabilities | 245 | 253 |
| | ----- | ----- |
| Total liabilities | \$ 4,014 | \$ 5,767 |

| | | |
|--|-----------|-----------|
| Shareholders' Equity: | | |
| Preferred stock of no par value; | -- | -- |
| Authorized 1,000,000 shares; no shares outstanding | | |
| at December 28, 1996, and March 30, 1996 | | |
| Common stock of no par value; | | |
| Authorized 40,000,000 shares; 3,369,199 shares at | | |
| December 28, 1996 and 3,323,649 shares at March 30, 1996 | | |
| issued and outstanding | 10,872 | 10,543 |
| Unrealized gain (loss) on investments | 30 | (47) |
| Retained earnings | 11,767 | 10,321 |
| | ----- | ----- |
| Total shareholders' equity | \$ 22,669 | \$ 20,817 |
| | ----- | ----- |
| | | |
| Total liabilities and shareholders' equity | \$ 26,683 | \$ 26,584 |
| | ===== | ===== |

</TABLE>

See accompanying notes to financial statements

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

<TABLE>
<CAPTION>

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | Dec. 28, 1996 | Dec. 30, 1995 | Dec. 28, 1996 | Dec. 30, 1995 |
| | <C> | <C> | <C> | <C> |
| Net Sales | \$ 7,697 | \$ 7,718 | \$ 22,628 | \$ 23,059 |
| Cost of sales | 4,956 | 4,830 | 14,157 | 14,408 |
| | ----- | ----- | ----- | ----- |
| Gross profit | 2,741 | 2,888 | 8,471 | 8,651 |
| Product development | | 607 | 637 | 1,990 |
| Selling, general and administrative | | 1,499 | 1,582 | 4,553 |
| | | ----- | ----- | ----- |
| Operating expenses | | 2,106 | 2,219 | 6,543 |
| | | ----- | ----- | ----- |
| Net Operating income | | 635 | 669 | 1,928 |
| Other income/(expense) | | (32) | 18 | (14) |
| Amortization of intangibles | | (141) | (140) | (420) |
| Interest income, net | | 161 | 67 | 431 |
| | | ----- | ----- | ----- |
| Earnings before income taxes | | 623 | 614 | 1,925 |
| Provision for income taxes | | 154 | 82 | 479 |
| | | ----- | ----- | ----- |
| Net earnings | \$ 469 | \$ 532 | \$ 1,446 | \$ 1,438 |
| | ===== | ===== | ===== | ===== |
| Earnings per share of common stock | \$ 0.14 | \$ 0.16 | \$ 0.42 | \$ 0.43 |
| | ===== | ===== | ===== | ===== |
| Weighted average common and common equivalent shares outstanding | 3,411 | 3,369 | 3,414 | 3,369 |

</TABLE>

See accompanying notes to financial statements.

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GIGA-TRONICS INCORPORATED
STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

<TABLE>

<CAPTION>

Nine Months Ended

| | December 28, 1996 | December 30, 1995 |
|--|-------------------|-------------------|
| Cash flows provided from operations: | | |
| Net earnings as reported | \$ 1,446 | \$ 1,438 |
| Adjustments to reconcile net earnings to net cash provided from operations | | |
| Depreciation and amortization | 1,136 | 1,186 |
| Gain on sale of fixed assets | 23 | -- |
| Deferred income taxes, net | (252) | (68) |
| Changes in operating assets and liabilities | 172 | 1,110 |
| Net cash provided by operations | 2,525 | 3,666 |
| Cash flows used by investing activities: | | |
| Investment sales/(purchases), net | (4,276) | (318) |
| Additions to property and equipment, net | (459) | (551) |
| Net cash used in investing activities | (4,735) | (869) |
| Cash flows from financing activities: | | |
| Issuance/(re-purchase) of common stock | 329 | (16) |
| Payments on notes payable | (730) | (81) |
| Issuance/(payments) of other obligations | (63) | 49 |
| Net cash provided by financing activities | (464) | (48) |
| Increase in cash and cash equivalents | (2,674) | 2,749 |
| Beginning cash and cash equivalents | 5,923 | 3,202 |
| Ending cash and cash equivalents | \$ 3,249 | \$ 5,951 |

</TABLE>

Supplementary disclosure of cash flow information:

- (1) Cash paid for interest in the nine month period ending December 28, 1996 was \$44,000.
- (2) Cash paid for income taxes in the nine month period ending December 28, 1996 was \$592,000.
- (3) Non-cash investing activities:

The Company incurred an unrealized gain of \$77,000 (after-tax effect) on investments held available for sale during the nine month period ending December 28, 1996.

See accompanying notes to financial statements.

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(1) Basis of Presentation

The financial statements included herein have been prepared by 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, 1996.

Effective July 24, 1996, Giga-tronics merged with ASCOR in a transaction accounted for as a "pooling of interests." Accordingly, prior periods have been restated to reflect the acquisition and include the results of the ASCOR operations.

(2) Inventories

Inventories consist of the following (in thousands):

| | December 28, 1996 | March 30, 1996 |
|-----------------|-------------------|----------------|
| Raw materials | \$ 2,230 | \$ 2,388 |
| Work-in-process | 2,284 | 2,972 |
| Finished goods | 632 | 933 |
| | ----- | ----- |
| | \$ 5,146 | \$ 6,293 |
| | ===== | ===== |

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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF OPERATIONS AND FINANCIAL CONDITION

THREE MONTHS AND NINE MONTHS ENDED DECEMBER 28, 1996 AND DECEMBER 30, 1995

Net sales for the three month and nine month periods ended December 28, 1996 decreased less than 1% (\$21,000) and decreased 2% (\$431,000), respectively, compared to the same periods last year. The quarterly shipments of microwave signal generators was down over \$1,000,000 from the prior year third quarter, though increased shipment of RF signal generators and power measurement devices offset this decline. For the nine month period, a \$1,000,000 decline in shipments of microwave signal generators from the prior year was offset only partially by an increase in sales of ASCOR VXI products.

Gross profit for the current three month and nine month periods decreased 5% (\$147,000) and 2% (\$180,000), respectively, compared to the same periods last year. The quarterly gross profit decline was due to heavily discounted sales of microwave and RF signal generators. It is expected that these large discounts will not continue for the balance of the year in these two product lines.

Operating expenses for the three month and nine month periods decreased 5% (\$113,000) and 6% (\$444,000), respectively, compared to prior year periods. The decreases are due to lower sales and marketing expenses.

Operating income for the current three month and nine month periods is \$34,000 lower and \$264,000 higher, respectively, than the comparable periods last year. For the quarter, lower operating expenses mostly offset the lower gross profit. For the nine month period, the higher operating income was a result of lower operating expenses, only partially offset by lower sales volume.

Other income is lower relative to the comparable three month and nine month periods for the prior year because of non-recurring prior year fixed asset sales

and an insurance recovery.

Earnings before income taxes for the current three month and nine month periods are \$9,000 and \$320,000 higher, respectively, than the comparable periods of the prior year. The results for the quarter were due to higher interest income and lower operating expenses, offset mostly by lower gross profit. For the nine month period, the results were due to higher interest income and lower operating expenses, only partially offset by the lack of other income and lower sales volume. The favorable interest income is due to higher balances of cash equivalents and investments relative to prior year.

Orders for the three month and nine month periods for the current year were lower than the same periods last year. The backlog of unfilled orders as of December 28, 1996, is down significantly from the comparable period of the prior year, mostly due to a decline in microwave signal generator orders. Due to the continued softness in order intake, fiscal 1997 revenues are expected to be less than fiscal 1996. It is unclear at this time whether cost reduction activities will totally offset the unfavorable impact caused by the decline in revenues.

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FINANCIAL CONDITION

The Company maintains a strong financial position, with working capital of \$19,776,000 and a ratio of current asset to current liabilities of 6.2 as of December 28, 1996. The Company continues to fund all of its working capital needs from cash flow provided from operations. Cash provided from operations for the nine month period ended December 28, 1996 was \$2,525,000. Management believes that cash reserves and investments remain adequate to meet anticipated operating needs.

During the nine month period, the Company spent \$459,000 on new manufacturing and test equipment and other capital items. The Company will continue to invest in capital items that support growth and new product development, raise productivity and improve quality. Historically, the Company has satisfied its cash needs internally for both operating and capital expenses, and management expects to continue to do so.

The issuance of common stock was related to exercise of stock options. The outflow for notes payable was the retirement of debt by ASCOR in September.

Note: These statements contain forward looking information that involve a number of risks and limitations discussed in more detail in other documents submitted to the SEC.

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EXHIBIT II

PART II, Item 6

COMPUTATION OF NET EARNINGS PER SHARE AND COMMON SHARE EQUIVALENTS

(Unaudited)

(In thousands, except per share data)

Earnings per share were computed using the weighted average number of shares outstanding plus, when dilutive, incremental shares issuable upon exercise of outstanding options under the treasury stock method.

<TABLE>

<CAPTION>

| Three Months Ended | | Nine Months Ended | |
|--------------------|------------------|-------------------|------------------|
| Dec. 28, 1996 | Dec. 30, 1995 | Dec. 28, 1996 | Dec. 30, 1995 |
| <C> | <C> | <C> | <C> |

<S>

Weighted average:

| | | | | |
|--|----------------|----------------|----------------|----------------|
| Common shares outstanding | 3,369 | 3,291 | 3,358 | 3,291 |
| Common share equivalents | 42 | 78 | 56 | 78 |
| | <u>3,411</u> | <u>3,369</u> | <u>3,414</u> | <u>3,369</u> |
| Net earnings | <u>\$ 469</u> | <u>\$ 532</u> | <u>\$1,446</u> | <u>\$1,438</u> |
| Net earnings per share of common stock | <u>\$ 0.14</u> | <u>\$ 0.16</u> | <u>\$ 0.42</u> | <u>\$ 0.43</u> |

</TABLE>

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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: 01/15/96 /s/ George H. Bruns, Jr.

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

/s/ Gregory L. Overholtzer

Date: 01/15/96 Gregory L. Overholtzer
Vice President, Finance and Chief Financial Officer
(Principal Accounting Officer)

<TABLE> <S> <C>

<ARTICLE> 5

<MULTIPLIER> 1,000

| <S> | <C> |
|------------------------------|-------------|
| <PERIOD-TYPE> | 9-MOS |
| <FISCAL-YEAR-END> | MAR-29-1997 |
| <PERIOD-START> | MAR-31-1996 |
| <PERIOD-END> | DEC-28-1996 |
| <CASH> | 3,249 |
| <SECURITIES> | 9,666 |
| <RECEIVABLES> | 4,002 |
| <ALLOWANCES> | (225) |
| <INVENTORY> | 5,146 |
| <CURRENT-ASSETS> | 23,545 |
| <PP&E> | 8,049 |
| <DEPRECIATION> | (6,160) |
| <TOTAL-ASSETS> | 26,683 |
| <CURRENT-LIABILITIES> | 3,769 |
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| <COMMON> | 10,872 |
| <OTHER-SE> | 11,797 |
| <TOTAL-LIABILITY-AND-EQUITY> | 26,683 |
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| <CGS> | 14,157 |
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| <INTEREST-EXPENSE> | (431) |
| <INCOME-PRETAX> | 1,925 |
| <INCOME-TAX> | 479 |
| <INCOME-CONTINUING> | 1,446 |
| <DISCONTINUED> | 0 |
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| <EPS-PRIMARY> | 0.42 |
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