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 26, 1998, 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, 1998: 4,344,304

GIGA-TRONICS INCORPORATED

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

<TABLE>
<CAPTION>

<S>	December 26, 1998 <C>	March 28, 1998 <C>
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,640	$ 4,611
Investments	--	5,724
Notes receivable	--	860
Trade accounts receivable, net of allowance of $280 and $292, respectively	7,161	6,924
Inventories, net	13,370	8,064
Prepaid expenses	1,135	997
Deferred income taxes	2,401	2,092
Total current assets	25,707	29,272
Property and Equipment:		
Land	279	279
Building and leasehold improvements	1,052	782
Machinery and equipment	13,324	8,880
Office furniture and fixtures	1,069	689
Property and equipment, gross cost	15,724	10,630
Less accumulated depreciation and amortization	8,921	7,885
Property and equipment, net cost	6,803	2,745
Patents and licenses	426	577

Goodwill, net	1,172	--
Other assets	113	78
	--------	--------
Total assets	$ 34,221	$ 32,672
	========	========
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 3,005	$ 2,659
Accrued commissions	493	516
Accrued payroll and benefits	1,251	939
Accrued warranty	673	673
Customer advances	1,816	612
Current portion of capital lease and other long term obligations	135	27
Other current liabilities	801	670
	--------	--------
Total current liabilities	8,174	6,096
Capital lease and other long term obligations, net	463	58
Deferred income taxes	42	57
	--------	--------
Total liabilities	8,679	6,211
	--------	--------
Shareholders' Equity		
Preferred stock of no par value; Authorized 1,000,000 shares; no shares outstanding at December 26, 1998 and March 28, 1998	--	--
Common stock of no par value; Authorized 40,000,000 shares; 4,344,304 shares at December 26, 1998 and 4,326,299 shares at March 28, 1998 issued and outstanding	11,578	11,532
Accumulated other comprehensive income	--	(18)
Retained earnings	13,964	14,947
	--------	--------
Total shareholders' equity	25,542	26,461
	--------	--------
Total liabilities and shareholders' equity	$ 34,221	$ 32,672
	========	========

</TABLE>

See accompanying notes to unaudited consolidated condensed financial statements.

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

<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended	
	Dec. 26, 1998	Dec. 27, 1997	Dec. 26, 1998	Dec. 27, 1997
<S>	<C>	<C>	<C>	<C>
Net sales	$ 11,343	$ 9,514	$ 29,050	$ 28,169
Cost of sales	7,653	5,598	19,213	15,734
	--------	--------	--------	--------
Gross profit	3,690	3,916	9,837	12,435
Product development	1,124	1,792	4,100	4,396
Selling, general and administrative	2,404	2,019	6,919	6,757
Amortization of intangibles	143	102	408	332
	--------	--------	--------	--------
Operating expenses	3,671	3,913	11,427	11,485
Operating income (loss)	19	3	(1,590)	950
Other income	27	7	65	32

Interest income, net	2	97	120	319
Earnings (loss) before income taxes	48	107	(1,405)	1,301
Provision (benefit) for income taxes	14	35	(422)	393
Net earnings (loss)	$ 34	$ 72	$ (983)	$ 908
Net earnings (loss) per common share - - basic	$ 0.01	$ 0.02	$ (0.23)	$ 0.21
Net earnings (loss) per common share - - diluted	$ 0.01	$ 0.02	$ (0.23)	$ 0.21
Weighted average basic common shares outstanding	4,344	4,320	4,334	4,318
Weighted average diluted common shares outstanding	4,362	4,413	4,334	4,377

</TABLE>

See accompanying notes to unaudited consolidated condensed financial statements.

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

<TABLE>
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	Nine Months Ended	
	Dec. 26,1998	Dec. 27, 1997
<S>	<C>	<C>
Cash flows from operations:		
Net earnings (loss)	$ (983)	$ 908
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operations:		
Depreciation and amortization	1,635	1,062
Gain (loss) on sale of fixed assets	7	(3)
Deferred income taxes, net	(324)	(406)
Changes in operating assets and liabilities	(2,404)	(2,403)
Net cash used in operations:	(2,069)	(842)
Cash flows from investing activities		
Investment maturities, net	5,742	(797)
Additions to property and equipment, net	(922)	(621)
Payment for purchase of Microsource Inc, including transaction costs	(692)	--
Advances to Microsource	(940)	--
Other assets	(21)	(708)
Net cash provided by (used in) investing activities	3,167	(2,126)
Cash flows from financing activities:		
Issuance of common stock	46	27
Dividends paid	--	(27)
Payment on line of credit	(1,500)	(189)
Payment on notes payable and long term debt	(2,530)	(985)
Payment on capital lease and other long term	(85)	(24)
Net cash used in financing activities	(4,069)	(1,198)
Decrease in cash and cash equivalents	(2,971)	(4,166)
Beginning cash and cash equivalents	4,611	6,999

Ending cash and cash equivalents	$ 1,640	$ 2,833
	=======	=======

</TABLE>

Supplementary disclosure of cash flow information:

(1) No cash was paid for interest in the nine month period ended December 26, 1998. Cash paid for interest in the nine month period ended December 27, 1997 was $46,000.

(2) Cash paid for income taxes in the nine month period ended December 26, 1998 was $7,000. Cash paid for income taxes in the nine month period ended December 27, 1997 was $741,000.

See accompanying notes to unaudited consolidated condensed financial statements.

GIGA-TRONICS INCORPORATED
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(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 28, 1998.

(2) Business Combinations

On May 18, 1998, the Company acquired Microsource, Inc. of Santa Rosa, California. Microsource develops and manufactures a broad line of YIG tuned oscillators, filters, and microwave synthesizers. The acquisition was accounted for using the "purchase" method of accounting, and accordingly, the results of operations of Microsource have been included in the Company's consolidated financial statements from May 18, 1998. The purchase price consisted of $1,500,000 plus contingent payments based upon future net income of Microsource during the two fiscal years after the effective time of the merger. The excess of the purchase price over the fair value of the net identifiable assets of $1,323,000 was recorded as goodwill and is being amortized on a straight-line basis over five years. The additional payments, if any, over the next two years contingent on future net income of Microsource will be accounted for as additional goodwill.

The total purchase price of $1,500,000 has been allocated to the net assets acquired based on the estimated fair value as follows (in thousands):

<TABLE>

<S>	<C>
Accounts receivable	$ 1,390
Net inventory	3,661
Prepaid expenses	254
Property and equipment	4,370
Goodwill	1,323
Line of credit	(1,500)
Bank term loans and short term capital leases	(913)
Notes to related parties	(682)
Accounts payable	(985)
Accrued commissions	(33)
Accrued payroll	(340)

Accrued warranty	(63)
Customer advances	(2,004)
Other current liabilities	(498)
Capital lease and other long term obligations, net	(517)

	3,463

Less advances to Microsource, net, and transaction costs	(1,963)

	$ 1,500
	=======

</TABLE>

(3) Inventories

Inventories consist of the following (in thousands):

<TABLE>
<CAPTION>

<S>	December 26, 1998 <C>	March 28, 1998 <C>
Raw materials	$ 7,799	$ 3,943
Work-in-process	4,447	2,999
Finished goods	1,124	1,122
	-------	-------
Total inventories	$13,370	$ 8,064
	=======	=======

</TABLE>

(4) Earnings Per Share

Basic earnings per share is calculated by dividing net income or loss by weighted average common shares outstanding during the period. Diluted earnings per share reflects the net incremental shares that would be issued if dilutive outstanding stock options were exercised, using the treasury stock method. In 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. Antidilutive shares are not included in the computation of diluted earnings per share, in accordance with SFAS No. 128. The shares used in per share computations for the fiscal periods ended December 26, 1998 and December 27, 1997 are as follows:

<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended	
<S>	Dec. 26, 1998 <C>	Dec. 27, 1997 <C>	Dec. 26, 1998 <C>	Dec. 27, 1997 <C>
Net earnings (loss)	$ 34	$ 72	$ (983)	$ 908
	=======	=======	=======	=======
Weighted average common shares outstanding:	4,344	4,320	4,334	4,318
Common share equivalents:	18	93	--	59
	-------	-------	-------	-------
Weighted average common shares outstanding assuming dilution	4,362	4,413	4,334	4,377
	=======	=======	=======	=======
Net earnings (loss) per share of common stock	$ 0.01	$ 0.02	$ (0.23)	$ 0.21
	=======	=======	=======	=======
Net earnings (loss) per share of common				

stock assuming dilution	$ 0.01	$ 0.02	$ (0.23)	$ 0.21
	=======	=======	=======	=======
Number of stock options not included in the computation	443	--	376	165
	-------	-------	-------	-------

</TABLE>

The number of stock options not included in the computation of diluted EPS for the nine month period ended December 26, 1998 reflects 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 month period ended December 26, 1998 and the nine month period ended December 27, 1997 reflects stock options where the exercise prices were greater than the average market price of the common shares and are therefore antidilutive.

(5) Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130,"Reporting Comprehensive Income". SFAS No. 130 establishes standards of reporting and display of comprehensive income and its components of net income and "other comprehensive income" in a full set of general purpose financial statements. " Other comprehensive income" refers to revenues, expenses, gains and losses that are not included in net income but rather are recorded directly in shareholders' equity. SFAS No. 130 is effective for annual and interim periods beginning after December 15, 1997 and for periods ended before that date when presented for comparative purposes. The Company has not yet determined the format it will use to display the information required by SFAS No. 130 in the financial statements for the year ending March 27, 1999. Total comprehensive gain was $34,000 and $66,000 for the three month period ended December 26, 1998 and December 27, 1997. Total comprehensive loss was $965,000 for the nine months ended December 26,1998. Total comprehensive income was $881,000 for the nine months ended December 27, 1997.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

The forward-looking statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations, 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 discussed below. Forward-looking information provided by Giga-tronics pursuant to the safe harbor established by recent securities legislation should be evaluated in the context of these factors.

GENERAL

The Company 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). The Company also manufactures a line of inspection and handling devices used in the production of semiconductor devices.

THREE MONTHS AND NINE MONTHS ENDED DECEMBER 26, 1998 AND DECEMBER 27, 1997

Net sales for the three month and nine month period ended December 26, 1998 increased 19.2% ($1,829,000) and 3% ($881,000), respectively, compared with the same periods last year. Sales for semiconductor products decreased 10% ($304,000) in the quarter and 42% ($3,483,000) for the nine month period principally due to declining orders related to the Asian markets and the downturn in the semiconductor industry. Sales for power meters (PM) and instruments also decreased 21% ($1,069,000) in the quarter and 13% ($2,039,000) for the nine month period due to a slowdown in new orders. These declines were offset by sales for switching modules which have increased 61% ($852,000) in the quarter and 8% ($337,000) for the nine month period due to a pickup in new orders. Also, these declines were offset by additional sales of $2,350,000 in the quarter and $6,066,000 for the nine month period by Microsource Inc., which was acquired by the Company in May 1998.

Gross profit for the three month and the nine month period decreased by 6% ($226,000) and 21% ($2,598,000), respectively, due to higher labor and material costs in the products shipped. Gross margin as a percent of sales for the three months decreased to 33% compared to 41% in the prior year period and the nine months decreased to 34% compared to 44% for the prior year period due to product mix. The lower gross profit percentage on the sales for Microsource products as compared to the Company's other products also contributed to the decline in margin as a percent of sales as compared to the prior year.

Operating expenses for the three month and for the nine month period declined 6% ($242,000) and 1% ($58,000), respectively, compared with the corresponding period in the prior year. Product development expenses for the three month and nine month period decreased 37% ($668,000) and 7% ($296,000), respectively, compared with the prior year periods principally due to reduced external development of semiconductor products partially offset by the addition of Microsource's product development costs. There was $49,000 in the three months and $273,000 in the nine months of product development spending at Microsource. Sales and administrative expenses increased by 19% ($385,000) for the three month and 2% ($162,000) for the nine month period compared to the corresponding prior year periods. Sales and administrative expenses in the prior year included $227,000 in the three months and $678,000 in the nine months of merger transaction costs. Sales and administrative costs included approximately $480,000 of expenses for the three months and $1,137,000 for the nine months incurred by the Microsource subsidiary subsequent to the acquisition.

Interest income for the three month and nine month periods declined over the prior year due to lower cash available for investment. The cash decline resulted from the purchase of Microsource and the extinguishment of its debt.

Earnings before income taxes for the three month period decreased 55% ($59,000) and decreased 208% ($2,706,000) for the nine month period compared to the same period last year. The decline was primarily due to the reduction in gross margin caused by the adverse product mix.

Orders for the current quarter were 16% ($1,340,000) lower than the comparable period last year. Orders were 26% ($309,000) higher for switching modules while orders for instruments were down 26% ($1,349,000) due to the softness of the wireless industry. The decline in orders of 87% ($1,698,000) for semiconductor products was a result of the continued effect of the Asian economy and downturn in the semiconductor industry. Included in the current orders is $1,398,000 for Microsource where there were no comparable orders in the prior year. Orders for the nine month period were lower by 2% (or $714,000) which was the result of higher orders for switches of $3,296,000 and the addition of Microsource orders of $3,558,000 which were offset by reduced orders for instruments of $4,250,000 and semiconductor equipment of $3,318,000. Backlog at December 1998 was $14,651,000 compared to $6,492,000 at the March year end. The backlog decreased when excluding $12,150,000 of backlog acquired in the Microsource acquisition. The decrease in backlog is a result of the decline in orders in the instrumentation and semiconductor products, partially offset by increase in switching module backlog.

FINANCIAL CONDITION

The Company maintains a strong financial position, with working capital of $17,533,000 and a ratio of current assets to current liabilities of 3.1 to 1.0 at December 26, 1998. The Company continues to fund all of its working capital needs from cash provided by operations. Cash used in operations, for the nine months ended December 26, 1998, was $2,069,000.

Cash and cash equivalents declined $2,971,000 and investments declined

$5,724,000 in the nine month period primarily due to the acquisition of Microsource and subsequent pay-off of their line of credit and bank notes. The Company spent $922,000 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.

Management believes that cash reserves and its unsecured revolving line of credit for $7,000,000 (none of which has been utilized) remain adequate to meet anticipated operating needs. It is also the Company's intention to increase product 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.

YEAR 2000 (Y2K) ISSUES

The Company is aware of and is addressing the issues associated with the programming code in existing computer systems as the year 2000 approaches. The Year 2000 problem is pervasive and complex, as many computer systems, manufacturing equipment and industrial control systems will be affected in some way by the rollover of the two-digit year value to 00. Systems that do not properly recognize such data could generate erroneous information or cause a system to fail. The Year 2000 issue creates risk for the Company from unforeseen problems in its own systems and from third parties with which the Company deals on financial transactions worldwide. Failures of the Company's and/or third parties' computer systems, manufacturing equipment and industrial control systems could have a material adverse impact on the Company's ability to conduct its business.

The Company is in the process of analyzing the Company's internal systems as well as all external systems (such as vendor, customer, banking systems, etc.) upon which the Company is dependent, to identify and evaluate any potential Year 2000 issues. The Company is committed to achieving Year 2000 compliance; however, with a significant portion of the problem external and therefore outside the direct control of the Company, there can be no assurances that the Company will be fully or even significantly Year 2000 compliant at the critical juncture. In addition, as full testing of Year 2000 functionality must occur in a simulated environment, the Company will not be able to test full system Year 2000 interfaces and capabilities prior to the Year 2000.

The Company has completed an inventory of internal systems, hardware, software, manufacturing equipment and embedded chips in industrial control instruments. Each of these items was identified as mission critical, mission essential; mission impaired or missions non-critical. The Company is in the process of prioritizing and evaluating mission critical and mission essential items, identifying fixes and resources as appropriate, and performing and testing corrective measures. While the Company believes that its evaluation has been comprehensive, there can be no assurance that all systems critical to Year 2000 compliance have been identified, or that the corrective actions identified will be completed on time.

The Company has completed an inventory of current products and their hardware, software, and embedded chips. Each of the Company's products was evaluated as to whether it maintained the date and if the date handling was Year 2000 compliant. All of the Company's current products, which maintained the date, were found to be Year 2000 compliant. Several of the Company's non-current products were found not to be Year 2000 compliant but the Company has determined either a manual work around or has an upgrade path to resolve the Year 2000 problem for such non-current products.

Currently, the Company is inventorying key suppliers of goods and services to the Company, and considering the potential impact on the Company and its customers of Year 2000 compliance by these suppliers. The Giga-tronics Instrument Division has mailed surveys to more than 600 of its suppliers, and is in the process of evaluating responses and sending follow-up letters. The Ascor subsidiary has mailed surveys to more than 50 of its suppliers, and is in the process of evaluating responses and sending follow-up letters. Surveys to the suppliers of the Company's other subsidiaries and divisions are scheduled to go out during the next fiscal quarter. The Company plans to determine if our sources pose a threat to us for their non compliance. If these sources pose a threat to us we plan to disqualify these non-complaint sources, look for alternative sources and re-qualify new suppliers to help mediate potential business disruptions. While the Company believes that it will be able to qualify alternative suppliers as needed, until all supplier and customer survey responses have been received and evaluated, the Company can not fully evaluate the extent of potential problems and the costs associated with corrective actions.

To date, the Company has not incurred significant costs associated with Year 2000 compliance. The Company estimates the cost to complete its current compliance program will not be significant. Of these costs, less than $40,000 is associated with the upgrade of packaged software systems used by the Company's subsidiaries. These are systems that would not otherwise have been replaced or upgraded at this time. The Company may incur significant additional costs depending largely on the response from the Company's suppliers and the extent to which supplier re-qualification is needed. Cost estimates will also be reevaluated as the status of the overall compliance program is updated. Currently, the Company has no other contingency plan for Year 2000 compliance. There can be no assurance that actual costs will not be materially higher than currently anticipated. Most of these costs are not likely to be incremental costs to the Company, but rather will represent the redeployment of existing information technology resources. The Company is unable to determine what effect the failure of systems because of Year 2000 issues by the Company or its suppliers or customers will have, but any significant failures could have an adverse material effect on the Company's results of operations and financial condition.

FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS

Due to the softness in order intake for 1999, revenues for the fourth quarter, excluding anticipated revenues from Microsource products, may be less than the prior year. However, it is projected at this time that cost reduction activities and improvement in manufacturing efficiencies may partially offset the unfavorable impact caused by the decline in revenues.

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 had acquired Viking Semiconductor Equipment, Inc. and Ultracision, Inc. in fiscal 1998 in transactions accounted for as a pooling of interests and 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 issuances 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.

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: 2/1/99 /s/ GEORGE H. BRUNS, JR.
---------------- --
George H. Bruns, Jr.
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: 2/1/99 /s/ MARK H. COSMEZ II
---------------- --
Mark H. Cosmez II
Vice President, Finance and
Chief Financial Officer
(Principal Accounting Officer)

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