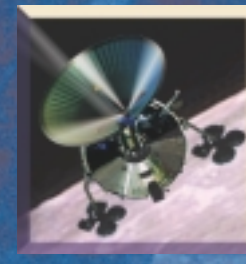
2000 ANNUAL REPORT

# Giga-tronics



# C O R P O R A T E  P R O F I L E

Giga-tronics Incorporated (NASDAQ/NMS: GIGA) was founded in 1980. It became a publicly traded company in 1983, and is listed on the NASDAQ market under the symbol GIGA. Giga-tronics Incorporated consists of four, separate operating units:

Instrument Division supplies RF and microwave frequency synthesizers and power measurement instruments in bench top, rack mount and VXIbus configurations for use in cellular, PCS, radar, electronic warfare, satellite and telecommunications systems test applications.

Microsource is a vertically integrated designer and manufacturer of leading-edge microwave circuits, components, and sub-systems. The company's product line includes a broad range of YIG based signal sources and peripheral devices such as oscillators, filters, multipliers, band reject and band pass filters, and broad band signal synthesizers.

ASCOR designs and manufactures switching equipment in the VXI and PXI formats for terrestrial and satellite related communications, commercial aircraft, military flight systems and automatic test systems.

DYMATIX designs and manufactures automation and test equipment for the semiconductor and memory media industries. Key products include, automatic die sorting systems, automatic tape and reel equipment, robotic wafer/disk handling and inspection equipment, and wafer test probers.

# FINANCIAL HIGHLIGHTS

| (In thousands except per share data and ratio) | March 25, 2000 | March 27, 1999 | March 28, 1998 |
|---|---|---|---|
| New orders | $ 64,013 | $ 36,786 | $ 33,092 |
| Net sales | 47,577 | 37,636 | 36,813 |
| Operating income | 1,495 | (3,759) | 617 |
| Pre-tax earnings (loss) | 1,633 | (3,006) | 1,096 |
| Net earnings (loss) | 1,139 | (1,858) | 767 |
| Backlog | 34,128 | 17,692 | 6,492 |
| Earnings (loss) per share - basic | 0.26 | (0.43) | 0.18 |
| Earnings (loss) per share - diluted | 0.24 | (0.43) | 0.18 |
| Current ratio | 3.23 | 3.32 | 5.06 |
| Working capital | 21,645 | 18,021 | 23,484 |
| Shareholders' equity | 26,149 | 24,710 | 26,461 |
| Total assets | 37,526 | 33,259 | 32,672 |
| Equity per share | 5.90 | 5.66 | 6.12 |

# TO OUR SHAREHOLDERS

## Operations

The fiscal year ended March 25, 2000 was a good year for Giga-tronics. It produced a record level of new orders, a record backlog, and full recovery from the poor operating performance of the prior period.

New orders booked this year totaled $64,013,000, up 74% from $36,786,000 a year earlier.

Backlog at year-end was $34,128,000, up 93% from $17,692,000 at March 27, 1999. Of this backlog, approximately $10,000,000 is currently scheduled for shipment beyond FY2001 year-end and thus contributes to longer term planning stability.

Sales for the year were $47,577,000, up 26% from $37,636,000 the preceding year. Manufacturing margin was $15,810,000, up 36% from $11,534,000 a year ago. Net earnings of $1,139,000 or $.24 a share compared with a loss of $1,858,000 or $.43 a share in the prior year.

The fourth quarter of FY2000 produced a record quarterly booking of new orders of $24,541,000 up 109% from the $11,727,000 for the same period a year earlier.

Sales for the quarter were $12,924,000 up more than 50% from $8,586,000 a year earlier. Earnings were $478,000 or $.10 a fully diluted share compared with a loss of $875,000 or $.20 a share in the prior year.

All divisions were profitable for the quarter and for the year.

Most gratifying, however, was the consistent improvement in operating performance throughout the year.

| | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| Sales | $11,505 | $11,834 | $11,314 | $12,924 | $47,577 |
| Pretax | 162 | 324 | 460 | 687 | 1,633 |
| EPS | .03 | .05 | .07 | .10 | .24 |

Giga-tronics continues to evidence a strong balance sheet with a ratio of current assets to current liabilities of 3.23 to 1.0.

Working capital at year-end was $21,645,000 up from $18,021,000 a year earlier.

Shareholder's equity was $26,149,000 or $5.90 per share compared with $24,710,000 or $5.66 a share at the end of the prior year.

## Organization

Instrument Division's focus this year has been on strengthening both its engineering and marketing organizations. A new Vice President of Product Development brings more than 30 years of wireless technology, discipline and managerial experience to the organization. The addition of an International Sales Manager reflects the Instrument Division's commitment to that extremely important market.

Microsource, acquired in May 1998, has done well in overcoming many of its pre-acquisition problems. New orders, sales and backlog all set new records in the year just closed. However, we believe Microsource still has before it an opportunity to substantially improve its manufacturing margins and therefore its level of profitability through improvement of its manufacturing process. To this end, the Division has, this past year, restructured and added to the management strength of its manufacturing organization.

DYMATIX is a new entity reflecting the complete consolidation of the former Viking and Ultracision subsidiaries into a single operating unit in one location under one management team. In addition to the obvious benefits of reduced management structure and more efficient utilization of resources, this consolidation has resulted in a sharper focus on fewer objectives and therefore a much improved ratio of successful attainment.

ASCOR had a good year in terms of booking new business but a difficult time in making its sales and earnings goals through most of the year because of delivery schedule constraints on its larger orders. By year-end, however, it did achieve levels of shipment that enabled it to return to profitability not only for the fourth quarter but for the full year as well. ASCOR enters FY2001 with a good backlog and a broadening product line. We believe it should, therefore, return to its historical consistency in operating performance.

## Outlook

Giga-tronic's principal market is in the broad span of wireless communication as reflected in part by the specific applications shown on the following pages of this report. Forecasts published by analysts of this market are extremely optimistic.

The accuracy of these forecasts is of less consequence than their thrust, as they point to continuing, even accelerating, growth in broad band wireless applications.

Some segments of the market have been growing very rapidly and are expected to continue to do so. Other segments of the market are seen as potentially explosive but are based on relatively new technology. Others still are extremely futuristic and beyond the range of any meaningful measure. And cutting across all of this is the ever-present question of customer acceptance and utilization.

Nevertheless, we believe we are participating in an exceptional market opportunity. How this sorts out in terms of the application of our products and technology to these many segments of wireless communication is indeed the challenge before us. We approach it with optimism and enthusiasm.

George H. Bruns, Jr.
*Chairman and Chief Executive Officer*

# FREQUENCY SPECTRUM

| | | |
|---|---|---|
| FIXED & MOBILE SERVICES | 10 KHz - 500 | |
| MARITIME COMM & NAV | 10 KHz - 3000 | |
| BROADCAST, AM TO TVRO | 500 KHz - 4000 | |
| AERO COMM & NAV | 40 KHz - 3700 | |
| CB | 27 | |
| PAGING | 30 - 50 | |
| LOW BAND LAND MOBILE | 30 - 50 | |
| CT1 | 40 - 50 | |
| Wireless Local Loop | 66 - 88, 132 - 520 | |
| SCA PAGING | 90 - 108 | |
| HIGH BAND LAND MOBILE | 150 - 170 | |
| PAGING | 150 - 175 | |
| TETRA, Wireless Local Loop | 380 - 512 | |
| UHF LAND MOBILE | 450 - 500 | |
| IMTS PAGING | 450 - 500 | |
| UHF TV | 500 - 800 | |
| CELLULAR | 800 - 900 | |
| CELLULAR TRUNKING SMR | 800 - 950 | |
| Wireless Local Loop | 800 | |
| ISM | 800 - 1000 | |
| PCN spread spectrum | 900 | |
| CT2 | 1000 | 1 GHz |
| Narrowband GPS | 930 - 931 | |
| GPS | 970 - 1210, 1220 - 1400, 1420 - 1540 | |
| Wireless Local Loop | 1500 | |
| GPS | 1550 - 1580, 1590 - 1640, 1650 - 1680 | |
| Globalstar mobile link | 1600 | |
| DECT, Wireless Local Loop | 1800 | |
| PCS | 1850 - 1990 | |
| Wireless Local Loop | 1900 | |
| PCS | 2130 - 2150, 2180 - 2200 | |
| ISM | 2200 - 2700 | |
| Wireless Local Loop | 2300 - 2310 | |
| PCS, Big LEO sat/mobile downlink | 2400 - 2500 | |
| Bluetooth | 2400 | |
| Wireless Local Loop | 2400 | 2.5 GHz |
| TV RELAY AND MMDS-IFTS | 1700 - 2700 | |
| Multichannel Multipoint Distribution Service (MMDS) | 2500 - 2700 | |
| Wireless Local Loop | 2700 | |
| MILITARY | 2700 - 2900 | |
| RADAR, AERO. COMM & NAV | 2700 - 3000 | |
| MARITIME COMM & NAV | 2900 - 3000 | |
| Wireless Local Loop | 3500 | |
| AERO. COMM & NAV | 3600 - 3700 | |
| TVRO | 3950 - 4000 | |
| Fixed Satellite, Mobile, space to earth | 4660 - 4685 | 5 GHz |
| Big LEO, forward link | 5000 - 5150 | |
| Private Land Mobile | 5150 - 5650 | |
| WLL, unlicensed high speed data, ISM, Govt | 5150 - 5350, 5725 - 5825 | |
| Big LEO | 5925 - 6425 | |
| Big LEO, return link | 6425 - 7125 | 8 GHz |
| Govt, space research, satellite | 7075 - 8500 | |
| RADAR | 9000 - 10500 | |
| Mobile Satellite | 11.7 - 12.2 GHz | |
| DBS | 12.2 - 12.7 | |
| RADAR | 13.4 - 14 GHz | |
| Fixed - Satellite, earth to space | 14 - 15.7 GHz | |
| RADAR | 15 - 17.7 GHz | 20 GHz |
| Fixed - Mobile, Video | 21.4 - 22.5 GHz | |
| Local Multipoint Distribution Service (LMDS) | 27.5 - 28.35 GHz | |
| LMDS | 29.1 - 29.25 GHz | |
| Big LEO | 29 .75 - 30 GHz | |
| Microwave point to point | 38 GHz | 40 GHz |
| European LMDS | 41 - 42 GHz | |
| ISM | 61 GHz | |
| Vehicle Radar | 77 GHz | |
| Air to Air secure communications | 94 GHz | 110 GHz |

| | |
|---|---|
| CB | Citizens Band |
| EMC | Electro-magnetic compatibility |
| TETRA | Trans Euro. Trunked Radio |
| GSM | Global Sytem/Mobile Comm. |
| UHF | Ultra High Frequency |
| IMTS | Improved mobile telephone service |
| ISM | Industrial Scientific & Medical Band |
| PCN | Public Communications Network |
| GPS | Global Positioning System |
| DECT | Digital European Cordless Telephone |
| PCS | Personal Comm. System |
| WLL | Wireless Local Loop |
| TVRO | TV Recieve Only |
| LEO | Low Earth Orbit |
| LMDS | Local Multi-point Distr. Service |
| CDMA | Code Division Multiple Access |
| TDMA | Time Division Multiple Access |
| LAN | Local Area Network |
| WAN | Wide Area Network |
| DBS | Direct Broadcast Service |

# M A R K E T S

The distribution of frequency spectrum on the proceeding page, ranging from 10 kilohertz to 110 gigahertz, indicates the real breadth of the wireless communications market and the wide range of specific applications of this technology.

Giga-tronic's target market at this time is in the range of frequencies up to 42 gigahertz.

We tend to think of wireless communication principally in terms of voice and data transmission. Certainly this does represents the largest and most rapidly growing segment of this market and includes such sub-segments as cellular, internet, point to point, point to multipoint, LMDS, back-haul, fixed and mobile services, satellite up and down links, GPS, LAN, WAN and others. This rapid growth is expected to continue across the entire range of voice and data communication as methods of delivery are refined and declining costs permit access to an increasingly broader user base.

At the same time, however, the aviation segment of this market uses wireless communication not only in voice and data transmission but in its application of radar to the very vital function of air traffic control. Commercial aircraft in flight use storm warning radar to detect and avoid storm cells for reasons of both safety and passenger comfort. Forward looking radar provides terrain warning in mountainous country. Ground control radar is used to direct and control aircraft traffic on runways and taxiways. There are potential applications for in flight close proximity warning.

The military uses radar in a wide range of navigation, identification and weapons control applications. Ground forces are now equipped with very sophisticated wireless communications and wireless weapons control. With the current strong focus on COTS (commercial off-the shelf) procurement by the armed services there is little difference between commercial and military procurement.

Although they may vary substantially in size, all of the foregoing segments of this very large market utilize the same fundamental technologies and have very similar needs for operating systems and the products to support them. Therefore they are all extremely important markets to Giga-tronics.

## PRODUCTS

Microwave Signal Generators

RF Signal Generators

Peak Power Meters

Universal Power Meters

Hand Held Power Meters

Micro chip inspection & handing systems

VXI Microwave Signal Generator

VXI Universal Power Meters

VXI ATE Switches

Scaler Network

Yig based microwave and milli-meter wave products.

Free running and phase locked oscillators in narrow and wide band configurations.

Band pass and band reject filters.

Narrow and wide band frequency synthesizers.

Highly integrated front-end modules for digital radio applications.

## USERS

Lucent Technologies

SpectraPoint Wireless

Motorola

Nokia

Ericsson

Qualcomm

Alcatel

Nortel

Agilent

Management Technologies

RCAF (Canadian Airforce)

Boeing

Hughes

Raytheon

Midoriya

Northrop Grumman

Harris Aerospace

Harris Radio (Farinon)

Teradyne

Rohde & Schwarz

BAE Systems

MIT (Microwave InstrumentationTechnologies)

U.S. Navy


In 1999, Nokia, Motorola and Ericcson together are reported to have produced more than one hundred and fifty million wireless telephone handsets.

Accurate output signal control of these handsets is essential to insure proper communication under a variety of field use conditions. Additionally, with production quantities of this magnitude, rapid testing is essential to meet production cost constraints.

Giga-tronics Instrument Division supplies the Model 8650 Power Meter to these and other companies for the purpose of production line testing of wireless telephone handsets.

Global expansion of terrestrial and satellite communications is driving the need for higher performance antennas and other wireless communications products. Antenna pattern measurement is an essential step in this process.

Far field measurements are conducted over distance at a large outdoor range. It is often more practical, however, to conduct these extensive tests indoors within an anechoic chamber and then convert these near field measurements to far field equivalents. These near field measurements generally require two microwave sources, one for the signal and a second as a local oscillator.

Microwave Instrument Technologies, a former Scientific Atlanta Company, is a leading designer and producer of antenna and related instrument systems. Giga-tronics Instrument Division supplies it's Model 12000A Microwave Synthesizer to MI Technologies for antenna pattern measurement where stability, accuracy, spectral purity and fast switching speed are required.

Satellites in orbit require constant monitoring of the many elements of this very complex system of rocket engines, radio receivers, radio transmitters, battery monitors, thermal monitors, etc. ASCOR provided the digital interface products to permit different elements of the satellite to communicate with each other in the course of ground testing.

ASCOR is similarly involved in a number of wireless communications test applications such as wired and wireless scanning (Symbol Technology), DSL testing (Alcatel, Agilent Technologies, Wandel & Goltermann), power supply testing, (Lucent Technologies) and wireless testing (Motorola).

ASCOR products include microwave switches and very low noise switch matrix devices incorporating design techniques that provide little or no cross talk thus insuring excellent signal fidelity.

Oscillators are a basic source of frequency for wireless transmission systems as well as many types of frequency based instruments. Because of their particular design, YIG (yttrium - iron- garnet) oscillators provide stability, low noise and wide bandwidth that make them particularly suitable for wireless communication application.

Microsource Division of Giga-tronics is a leader in YIG oscillator technology and in the design and manufacture of such associated products as band pass and band reject filters, multipliers and broad band signal synthesizers.

These devices are used in wireless base station transmitting and receiving radios, for point-to-point and point-to-multipoint communications. Tunable reject filters are used in combat aircraft and naval shipboard to filter out clutter from their own radar signal which otherwise would interfere with analysis of incoming signals.

YIG oscillators and filters are also used in a variety of signal generating test and measurement instruments produced by other equipment manufactures.

Radar in its early days was a basic communications system. It communicated with other physical bodies - i.e.: aircraft, surface vessels, shorelines, etc. - to determine relative speed and direction.

Modern radar systems are much more sophisticated and much more versatile. They can detect heavy weather cells from commercial aircraft in flight, detect other aircraft in close proximity, distinguish between friendly and enemy aircraft and detect and "signature identify" incoming missiles. This ability to identify in accurate and timely fashion is critical in determining specific response.

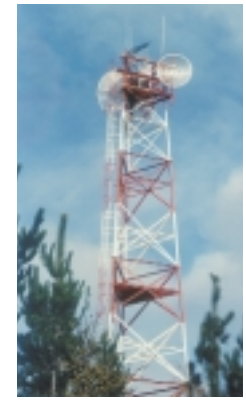
Clearly, the calibration and maintenance of such complex systems is essential to their purpose. An early application of Giga-tronics microwave synthesizers was as shipboard installations for the purpose of maintaining at full readiness the wide range of radar systems aboard Navy combat vessels. Giga-tronics' instruments today are used across the broad spectrum of radar systems for effective calibration and maintenance.

Automatic Test Equipment (ATE) Systems ordinarily consist of racks of specific purpose test instruments mounted in a fixed location to which the device to be tested is delivered. However, new electronic defense systems place increased emphasis on rapid deployment and flexibility in systems integration. They must be able to address a wide variety of applications monitoring battlefield conditions and maintaining front line as well as rear echelon communications equipment.

The U.S. Marine Corp required a highly mobile and reliable battlefield ATE system to maintain and repair a variety of communications and other electronic systems in the field.

The resulting system consisted of the usual array of specific purpose test instruments designed, however, as VXI "instrument on a card" devices. Thus it was possible to mount in the back of a Humvee an entire ATE system, which in conventional design would have resulted in the larger, much heavier rack mounted configuration.

Giga-tronics Instrument Division is supplying both the VXI Microwave Signal Generator and VXI Downconverter for this system.



Internet access is typically obtained through a modem to either copper or fiber optic cable. Both are limited by bandwidths of 3 mb/s and 10 mb/s of data respectively. Current systems are becoming increasingly limited as business and personal use accelerates. The trend toward increased data file transfers and downloading of software for leasing purposes will continue to increase demand for wider bandwidths.

Fixed wireless communication systems currently provide bandwidths of up to 155 mb and therefore much greater carrying capacity.

SpectraPoint Wireless LLC - now owned jointly by Motorola and Cisco Systems - manufacturers and markets high speed, broadband wireless systems for Local Multipoint Distribution Services (LMDS). This LMDS cutting-edge technology provides high-speed internet access, wireless data, voice and video to subscribers. Giga-tronics' Microsource Division provides Node Local Oscillator Assemblies to SpectraPoint as an integral part of both transmitters and receivers in SpectraPoint's LMDS system.

Microchips are critical components in most wireless communication devices. The testing of these circuits is essential to insure proper performance. Equally critical, however, is the equipment that handles the micro circuits without inducing defects during the manufacture and test process.

DYMATIX Division of Giga-tronics produces a range of automation systems that test, handle, inspect, sort and package micro circuits.

The Model 1046 tape and reel system shown here picks chips from a sliced wafer and transfers them to a continuous tape for transport, storage or to other automatic equipment for attaching chips to their final location. The advantage of the Model 1046 is that it is readily adaptable to handling many different types and sizes of chips.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Results of Operations for Fiscal 2000 as Compared to 1999

New orders received in 2000 were $64,013,000, an increase of 74% from $36,786,000 in 1999. At year end 2000, the Company's backlog of unfilled orders was $34,128,000, compared to $17,692,000 at the end of 1999. As of year end 2000, there were approximately $10,201,000 unfilled orders that were scheduled for shipment beyond a year and as of year end 1999 there were no unfilled orders scheduled for shipment beyond a year. Primarily, the increase in backlog is attributable to strong order levels at Microsource and at the Giga-tronics Instruments division.

Net sales for 2000 were $47,577,000, a 26% increase from $37,636,000 in 1999. Every segment of the business improved revenue during the fiscal year. In fiscal 2000, Microsource increased revenues 68% or $6,085,000, DYMATIX (formerly the Semiconductor Equipment Group) improved 43% or $2,180,000, in revenue, while Giga-tronics Instruments increased 8% or $1,455,000, in sales and ASCOR improved 3% or $221,000, in sales.

Cost of sales increased 22% in 2000 to $31,767,000 from $26,102,000 in 1999. The increase in fiscal 2000 is attributable to increased shipments of products during the fiscal year coupled with higher costs for labor and material for the products shipped.

Operating expenses declined 6% in 2000 over 1999. Product development costs declined $1,133,000 in fiscal 2000 to $4,180,000 as the development of new products returned to previous levels. Selling, general and administrative expenses increased $237,000 to $9,655,000 in 2000 due to higher commissions on higher revenues. Amortization of intangibles decreased $82,000 to $480,000 as a result of reduced amortization of patents and licenses.

Other income decreased in fiscal 2000 primarily due to the fiscal 1999 gain from the sale of a surplus building following facilities consolidation at DYMATIX for which there was no corresponding sale in fiscal 2000. Net interest income in 2000 decreased 51% from 1999 due to lower average cash available for investment. The average cash decline resulted principally from low cash level at the beginning of the year. The provision for income taxes in 2000 was $494,000, or 30%, of the pre-tax earnings.

Giga-tronics recorded net earnings of $1,139,000, or $0.24 per share, in 2000 versus a loss of $1,858,000, or $0.43 per share, in 1999. The improvement in 2000 earnings was due to the Company's higher sales levels in 2000 as compared to 1999.

## Results of Operations for Fiscal 1999 as compared to 1998

Giga-tronics acquired Microsource, Inc., a manufacturer of YIG oscillators and communications related synthesizers, on May 18, 1998 in a purchase transaction. Performance from that date through March 27, 1999 is included in the Company's operating results. Management believes this acquisition positioned Giga-tronics to expand its market for microwave instruments and devices.

New orders received in 1999 were $36,786,000, an increase of 11% from $33,092,000 in 1998. These orders included $7,900,000 for Microsource for which there were no comparable orders in 1998. At year end 1999, the Company's backlog of unfilled orders was $17,692,000, compared to $6,492,000 at the end of 1998. The increase in backlog is primarily attributable to addition of the Microsource backlog which was $11,066,000 at year end.

Net sales for 1999 were $37,636,000, a 2% increase from 1998. The increase is due to the addition of Microsource sales of $9,000,000 offset by reduced sales volume for DYMATIX (formerly the Semiconductor Equipment Group) as well as Giga-tronics Instrument products. In 1999, DYMATIX sales declined $6.2 million. Revenues for Giga-tronics' semiconductor product lines were impacted by the substantial downturn of the semiconductor industry together with the severe economic problems in Asia. The Giga-tronics Instrument sales reductions of $3.4 million were due to the aging of the product lines, delay in new product releases, and weakness in the wireless industry. ASCOR sales improved $1.4 million in 1999 over 1998.

Cost of sales increased 24% in 1999 to $26,102,000 from $21,024,000 in 1998. The increase in 1999 is attributable to the addition of Microsource as well as inventory write offs associated with the Company's decision to discontinue a particular semiconductor equipment line. The cost of sales for Microsource during fiscal 1999 was $6,978,000.

Operating expenses increased 1% in 1999 over 1998, which includes Microsource operating expenses of $2,152,000. Product development costs declined $.9 million in 1999 to $5.3 million as the development of new products began to return to previous levels. Selling, general and administrative expenses increased in 1999 due to the addition of Microsource which had expenses of $1,602,000. Amortization of intangibles increased as a result of the addition of the amortization of goodwill for Microsource offset by reduced amortization of patents and licenses.

Other income increased primarily due to the gain from the sale of a surplus building following facilities consolidation of the Company's semiconductor equipment operations. Net interest income in 1999 declined 75% from 1998 due to lower cash available for investment. The cash decline resulted principally from the extinguishment of debt, reduction of accounts payable and acquisition costs associated with the acquisition of the Microsource subsidiary. The benefit for income taxes in 1999 was $1,148,000 or 38% of the pre-tax loss.

The Company recorded a net loss of $1,858,000, or $0.43 per share, in 1999 versus earnings of $767,000, or $0.18 per share in 1998. The decline in 1999 earnings was due to the Company's lower gross profits in 1999 of $11,534,000 as compared to $15,789,000 in 1998.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Financial Condition and Liquidity

As of March 25, 2000, Giga-tronics had $3,455,000 in cash, cash equivalents, and investments, compared to $2,686,000 as of March 27, 1999 and $10,335,000 as of March 28, 1998. Cash provided by operations amounted to $2,065,000 in 2000, compared to cash used by operations of $2,365,000 in 1999, and $1,099,000 in 1998. Cash provided by operations in 2000 is attributed to operating income in the year. In 1999, losses by operations were the significant reason for the increase in use of cash by operations. In 1998, the increase in product development costs of $1,619,000 and the merger transaction costs of $643,000 were the significant reasons for the use of cash by operations.

Giga-tronics continues to maintain a strong financial position, with working capital at year end of $21,645,000 compared to $18,021,000 in 1999 and $23,484,000 in 1998. The Company's current ratio of 3.2 decreased from the 1999 and 1998 current ratio of 3.3 and 5.1, respectively. The increase in working capital is primarily a result of the increased operations of the Company.

Additions to property and equipment were $1,361,000 in 2000, compared to $953,000 in 1999 and $779,000 in 1998. Fiscal 2000 spending reflects continuing investments to support new product development, increased productivity, and improved product quality. Other cash inflows in 2000 consists of $174,000 of common stock in connection with the exercise of stock options. Other cash inflows in 1999 were $89,000 of common stock in connection with the exercise of stock options, $1,291,000 from the sale of the Company's building and $5,742,000 from maturities of investments, net of purchases, which were principally marketable securities classified as available for sale.

Management believes that the Company has adequate resources to meet its operating and capital expenditure needs for the foreseeable future. The Company has a seven million dollar unsecured line of credit, none of which has been used. The Company may continue to increase product development expenditures in the near term for the purpose of broadening its product base. It is the Company's intention to broaden its product lines and expand its market, both by internal development of new products and through the acquisition of other business entities.

## Factors That May Affect Future Results Of Operations

### BUSINESS CLIMATE MAY BECOME VOLATILE

Giga-tronics' has a significant number of defense-related orders. If the defense market should decline, shipments in the current year could be less than anticipated and cause a decrease in earnings. The Company's commercial product backlog has a number of risks and uncertainties such as the cancellation or deferral of orders. If this occurs, then shipments in the current year could fall short of plan resulting in a decline in earnings.

### GIGA-TRONICS ACQUISITIONS MAY NOT BE EFFECTIVELY INTEGRATED AND THEIR INTEGRATION MAY BE COSTLY

As part of its business strategy, Giga-tronics intends to broaden its product lines and expand its markets, in part through the acquisition of other business entities. In fiscal 1999 the Company acquired Microsource, Inc. in a transaction accounted for as a purchase. Giga-tronics is subject to various risks in connection with this 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 management to maximize the financial and strategic position of the Company by the successful incorporation of acquired technology and rights into its 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 harm 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 common stock. Any such issuance may result in dilution to all Giga-tronics shareholders, and sales of such shares in significant volume by the shareholders of acquired companies may depress the price of its common stock.

Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report to Stockholders 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 2000 Report 10-K under "Item 1. Business" and "Certain Factors Which May Affect Future Operation Or An Investment In Giga-tronics" as filed with the Securities and Exchange Commission.

# CONSOLIDATED BALANCE SHEETS

| (In thousands except share data) | March 25, 2000 | March 27, 1999 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 3,455 | $ 2,686 |
| Trade accounts receivable, net of allowance of $253 and $435 respectively | 9,194 | 6,434 |
| Inventories, net | 14,692 | 13,249 |
| Income tax receivable | — | 725 |
| Prepaid expenses | 444 | 383 |
| Deferred income taxes | 3,570 | 2,309 |
| **Total current assets** | 31,355 | 25,786 |
| Property and equipment | | |
| Leasehold improvements | 382 | 311 |
| Machinery and equipment | 14,673 | 13,460 |
| Office furniture and fixtures | 1,023 | 1,060 |
| Property and equipment, gross cost | 16,078 | 14,831 |
| Less accumulated depreciation and amortization | 10,678 | 9,179 |
| **Property and equipment, net** | 5,400 | 5,652 |
| **Patents and licenses** | 112 | 349 |
| **Goodwill, net** | 564 | 1,194 |
| **Deferred income taxes** | — | 169 |
| **Other assets** | 95 | 109 |
| **Total assets** | $ 37,526 | $ 33,259 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities | | |
| Accounts payable | $ 4,065 | $ 3,022 |
| Accrued commissions | 625 | 369 |
| Accrued payroll and benefits | 1,638 | 1,346 |
| Accrued warranty | 553 | 467 |
| Customer advances | 1,536 | 1,648 |
| Obligation under capital lease | 118 | 112 |
| Other current liabilities | 1,175 | 801 |
| **Total current liabilities** | 9,710 | 7,765 |
| **Obligations under capital lease, net of current portion** | 127 | 210 |
| **Deferred income taxes** | 1,011 | — |
| **Deferred rent** | 529 | 574 |
| **Total liabilities** | 11,377 | 8,549 |
| **Shareholders' equity** | | |
| Preferred stock of no par value; Authorized 1,000,000 shares; no shares outstanding at March 25, 2000 and March 27, 1999 | — | — |
| Common stock of no par value; Authorized 40,000,000 shares; 4,431,008 shares at March 25, 2000 and 4,361,902 shares at March 27, 1999 issued and outstanding | 11,921 | 11,621 |
| Retained earnings | 14,228 | 13,089 |
| **Total shareholders' equity** | 26,149 | 24,710 |
| **Total liabilities and shareholders' equity** | $ 37,526 | $ 33,259 |

*See Accompanying Notes to Consolidated Financial Statements*

# CONSOLIDATED STATEMENTS OF OPERATIONS

| Years ended (In thousands except per share data) | March 25, 2000 | March 27, 1999 | March 28, 1998 |
|---|---|---|---|
| **Net sales** | $ 47,577 | $ 37,636 | $ 36,813 |
| Cost of sales | 31,767 | 26,102 | 21,024 |
| **Gross profit** | 15,810 | 11,534 | 15,789 |
| Product development | 4,180 | 5,313 | 6,200 |
| Selling, general and administrative | 9,655 | 9,418 | 8,537 |
| Amortization of intangibles | 480 | 562 | 435 |
| Operating expenses | 14,315 | 15,293 | 15,172 |
| **Operating income (loss)** | 1,495 | (3,759) | 617 |
| Other income (expense) | 79 | 632 | 22 |
| Interest income, net | 59 | 121 | 457 |
| **Earnings (loss) before income taxes** | 1,633 | (3,006) | 1,096 |
| Provision (benefit) for income taxes | 494 | (1,148) | 329 |
| **Net earnings (loss)** | $ 1,139 | $ (1,858) | $ 767 |
| **Earnings (loss) per common share - basic** | $ 0.26 | $ (0.43) | $ 0.18 |
| **Earnings (loss) per common share - diluted** | $ 0.24 | $ (0.43) | $ 0.18 |
| **Weighted average basic common shares outstanding** | 4,379 | 4,338 | 4,319 |
| **Weighted average diluted common shares outstanding** | 4,693 | 4,338 | 4,377 |

*See Accompanying Notes to Consolidated Financial Statements*

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (In thousands except share data) | Common Stock | | Comprehensive Income (Loss) | Other Comprehensive Income (Loss) | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance at March 29, 1997** | 4,316,188 | $ 11,463 | $ — | $ 11 | $ 14,180 | $ 25,654 |
| Comprehensive Income | | | | | | |
| Net earnings | — | — | 767 | — | 767 | 767 |
| Unrealized loss on investments, net of income tax benefit of $16 | — | — | (29) | (29) | — | (29) |
| Comprehensive Income | — | — | 738 | — | — | — |
| Stock issuance under stock option plans | 10,111 | 69 | — | — | — | 69 |
| **Balance at March 28, 1998** | 4,326,299 | $ 11,532 | $ — | $ (18) | $ 14,947 | $ 26,461 |
| Comprehensive Income | | | | | | |
| Net loss | — | — | (1,858) | — | (1,858) | (1,858) |
| Unrealized gain on investments, net of income tax benefit of $10 | — | — | 18 | 18 | — | 18 |
| Comprehensive loss | — | — | (1,840) | — | — | — |
| Stock issuance under stock option plans | 35,603 | 89 | — | — | — | 89 |
| **Balance at March 27, 1999** | 4,361,902 | $ 11,621 | $ — | $ — | $ 13,089 | $ 24,710 |
| Comprehensive Income | | | | | | |
| Net earnings | — | — | 1,139 | — | 1,139 | 1,139 |
| Stock issuance under stock Option plans | 69,106 | 174 | — | — | — | 174 |
| Tax benefit associated with exercise of stock options | — | 126 | — | — | — | 126 |
| **Balance at March 25, 2000** | 4,431,008 | $ 11,921 | $ — | $ — | $ 14,228 | $ 26,149 |

*See Accompanying Notes to Consolidated Financial Statements*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years ended (In thousands) | March 25, 2000 | March 27, 1999 | March 28, 1998 |
|---|---|---|---|
| **Cash flows provided from operations:** | | | |
| Net earnings (loss) | $ 1,139 | $(1,858) | $ 767 |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operations: | | | |
| Provision for bad debt | (182) | 142 | (31) |
| Depreciation and amortization | 2,111 | 2,208 | 1,407 |
| Tax benefit from employee stock options | 126 | — | — |
| Tax benefit of pre acquisition NOL utilization | 394 | — | — |
| Gain on sales of fixed assets | (20) | (521) | (3) |
| Deferred income taxes | (81) | (443) | (120) |
| Changes in operating assets and liabilities: | | | |
| Trade accounts receivable | (2,578) | 1,738 | (2,337) |
| Inventories | (1,443) | (1,710) | 196 |
| Prepaid expenses | (61) | 74 | (522) |
| Accounts payable | 1,043 | (622) | 204 |
| Accrued commissions | 256 | (180) | 206 |
| Accrued payroll and benefits | 292 | 67 | (118) |
| Accrued warranty | 86 | (269) | (67) |
| Accrued other expenses | 535 | (209) | (212) |
| Customer advances | (112) | (968) | (469) |
| Income taxes receivable/payable | 560 | 186 | — |
| **Net cash provided by (used in) operations** | 2,065 | (2,365) | (1,099) |
| **Cash flows from investing activities:** | | | |
| Purchases of investments | — | (2,268) | (36,294) |
| Maturities of investments | — | 8,010 | 37,751 |
| Proceeds from sale of property and equipment | 7 | 1,291 | — |
| Additions to property and equipment | (1,361) | (953) | (779) |
| Payment for purchase of Microsource, including transaction costs | (8) | (605) | — |
| Advances to Microsource | — | (940) | — |
| Issuance of notes receivable | — | — | (860) |
| Other assets | 14 | (17) | 57 |
| **Net cash provided by (used in) investing activities** | (1,348) | 4,518 | (125) |
| **Cash flows from financing activities:** | | | |
| Issuance of common stock | 174 | 89 | 69 |
| Dividends paid | — | — | (27) |
| Payment on line of credit | — | (1,500) | (189) |
| Payment on notes payable and other long term liabilities | (45) | (2,497) | (985) |
| Payments on capital lease and other long term obligations | (77) | (170) | (32) |
| **Net cash provided by (used in) financing activities** | 52 | (4,078) | (1,164) |
| **Increase (decrease) in cash and cash equivalents** | 769 | (1,925) | (2,388) |
| **Beginning cash and cash equivalents** | 2,686 | 4,611 | 6,999 |
| **Ending cash and cash equivalents** | 3,455 | 2,686 | 4,611 |
| Supplementary disclosure of cash flow information: | | | |
| Cash paid for income taxes | $ 86 | $ 7 | $ 951 |
| Cash paid for interest | — | — | 58 |
| Non-cash investing and financing activities: | | | |
| Purchases under capital lease obligations | 50 | — | — |

*See Accompanying Notes to Consolidated Financial Statements*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1 Business Combinations

On May 18, 1998, Giga-tronics Incorporated acquired Microsource, Inc. (Microsource) of Santa Rosa, California. Microsource develops and manufactures a broad line of YIG (Yttrium, Iron, Garnet) 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 $1,509,000 was recorded as goodwill and other intangibles (primarily patents).

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):

| | |
|---|---|
| Current assets | $ 5,119 |
| Property and equipment | 4,370 |
| Goodwill and other intangibles | 1,509 |
| Current liabilities | (7,018) |
| Capital lease and other long term obligations, net | (517) |
| | 3,463 |
| Less advances to Microsource, net, and transaction costs | (1,963) |
| | $ 1,500 |

The purchase price was subsequently adjusted to give effect to the contingent payment of $8,000, net paid to Microsource shareholders based on the subsidiary's fiscal year 2000 operating results. In addition, the purchase price allocation was adjusted to give effect in fiscal year 2000 to the recognition of deferred tax assets of $394,000 for which no value was assigned at the date of the acquisition.

Results of operations previously reported by the separate entities prior to the mergers and the pro-forma combined amounts are summarized below.

| Year ended March 28, 1998 (unaudited) | Giga-tronics | Microsource | Pro-forma Adjustments | Pro-forma Combined |
|---|---|---|---|---|
| Net sales | $ 36,813 | $ 6,262 | $ — | $ 43,075 |
| Net earnings (loss) | 767 | (4,531) | (390) | (4,154) |
| Net earnings (loss) per share | $ 0.18 | $ — | $ — | $ (0.96) |

Pro-forma adjustment represents increased depreciation on the step-up basis (to fair market value) on property, plant and equipment, the amortization of goodwill created as a result of the acquisition of Microsource, and interest accrued by Microsource on the notes due to Giga-tronics for which no income had previously been recorded by Giga-tronics.

## 2 Summary of Significant Accounting Policies

*The Company* The accompanying consolidated financial statements include the accounts of Giga-tronics and its wholly owned subsidiaries. Giga-tronics and its subsidiary companies design, manufacture and market 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. The Company also manufactures and markets a line of test, measurement, and handling equipment used in the manufacturing of semiconductor devices. The Company's products are sold worldwide to customers in the test and measurement and semiconductor industries. The Company has no foreign operations, and all non-U.S. sales are made in U.S. dollars.

*Principles of Consolidation* The consolidated financial statements include the accounts of Giga-tronics and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

*Use of Estimates* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Fiscal Year* The Company's financial reporting year consists of either a 52 week or 53 week period ending on the last Saturday of the month of March. Fiscal years 2000, 1999 and 1998 each contained 52 weeks.

*Revenue Recognition* Revenues are recognized when the earnings process has been completed and products are shipped or when services are performed. Upon shipment, the Company also provides for the estimated cost that may be incurred for product warranties.

*Cash Equivalents* The Company considers all highly liquid debt instruments with remaining maturity dates of 90 days or less from date of purchase to be cash equivalents.

*Inventories* Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

*Property and Equipment* Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets, which range from three to ten years for machinery and equipment and office fixtures. Leasehold improvements and assets acquired under capital leases are amortized using the straight-line method over the shorter of the estimated useful lives of the respective assets or the lease term. Recoverability of property and equipment is measured by comparison of its carrying amount, including the unamortized portion of goodwill allocated to property and equipment, to future cash flows the property and equipment are expected to generate. The Company assesses the recoverability of enterprise level goodwill by determining whether the unamortized goodwill balance can be recovered through undiscounted future cash flows of the acquired operation. To date, the Company has made no adjustments to the carrying value of its property and equipment or goodwill due to asset impairment.

*Deferred Rent* Rent expense is recognized in an amount equal to the minimum guaranteed base rent plus future rental increases amortized on the straight-line basis over the terms of the leases, including free rent periods. Included in other long-term liabilities is the excess of rent expense over required rental payments.

*Income Taxes* Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

*Patents and Licenses* Patents and licenses are being amortized using the straight-line method over periods of five to seven years. As of March 25, 2000 and March 27, 1999 accumulated amortization on patents and licenses was $2,084,000 and $1,848,000, respectively.

*Goodwill* Goodwill is being amortized using the straight-line method over a period of five years. As of March 25, 2000 and March 27, 1999 accumulated amortization on goodwill was $1,725,000 and $1,481,000 respectively.

*Product Development Costs* Product development costs are charged to operations in the year incurred.

*Software Development Costs* Development costs included in the research and development of new products and enhancements to existing products are expensed as incurred until technological feasibility in the form of a working model has been established. To date, software development has been concurrent with the establishment of technological feasibility, and accordingly, no costs have been capitalized.

*Stock-based Compensation* The Company uses the intrinsic value method to account for stock-based compensation.

*Earnings (Loss) Per Share* Basic earnings (loss) per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share incorporate the incremental shares issuable upon the assumed exercise of stock options. Antidilutive options are not included in the computation of diluted earnings per share.

*Financial Instruments and Concentration of Credit Risk* Financial instruments, which potentially subject the Company to credit risk as of March 25, 2000, consist principally of cash, cash equivalents and trade accounts receivable. The Company's cash equivalents consist principally of money market funds and certificates of deposits which are held in recognized depository institutions. Concentration of credit risk in trade accounts receivable results primarily from sales to major customers. The Company individually evaluates the creditworthiness of its customers and generally does not require collateral or other security. Historically, the Company has not incurred any significant credit related losses.

*Fair Market Value of Financial Instruments* The carrying amount for the Company's cash equivalents, trade accounts receivable and accounts payable approximates fair market value because of the short maturity of these financial instruments.

*Recent Accounting Pronouncements* The Financial Accounting Standards Board (FASB) issued SFAS No.133, "Accounting for Derivative Instruments and Hedging Activites." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. For a derivative not designated as a hedging instrument, changes in the fair value of the derivative are recognized in earnings in the period of change. The Company must adopt SFAS No. 133 in the first quarter of fiscal 2002. Management does not believe the adoption of SFAS No. 133 will have a material effect on the financial position or operations of the Company.

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) No. 101. SAB 101 presents certain of the SEC's staff views on applying generally accepted accounting principles for revenue recognition in financial statements. The Company has not determined the impact implementation of SAB No. 101 will have on its consolidated results of operations.

The FASB issued Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation – an Interpretation of APB No. 25" (FIN No. 44) in March 2000. The interpretation clarifies the application of Opinion 25 for only certain issues such as the following: (a) the definition of employee for the purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. The Company must adopt FIN No. 44 by July 1, 2000. The Company does not believe that the interpretation will have a material effect on its consolidated results of operations, financial position, or liquidity.

## 3 Cash, Cash Equivalents and Short-term Investments

Cash, cash equivalents, and short-term investments consisted of the following at March 25, 2000 and March 27, 1999:

| March 25, 2000 (In thousands) | Cash and Cash Equivalents | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Cash | $ 1,067 | $ 1,067 |
| Money market funds | 1,933 | 1,933 |
| Other marketable securities | 455 | 455 |
| Total debt securities | $ 3,455 | $ 3,455 |

| March 27, 1999 (In thousands) | Cash and Cash Equivalents | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Cash | $ 1,093 | $ 1,093 |
| Money market funds | 1,593 | 1,593 |
| Total debt securities | $ 2,686 | $ 2,686 |

## 4 Inventories

| Years ended (In thousands) | March 25, 2000 | March 27, 1999 |
|---|---|---|
| Raw materials | $ 8,095 | $ 6,386 |
| Work-in-progress | 5,746 | 6,124 |
| Finished goods | 294 | 305 |
| Loaned inventory | 557 | 434 |
| | $ 14,692 | $ 13,249 |

## 5 Selling Expenses

Selling expenses consist primarily of commissions paid to various marketing agencies. Commission expense totaled $2,360,000, $2,051,000, and $2,155,000 in fiscal 2000, 1999, and 1998, respectively. Advertising costs which are expensed as incurred totaled $511,000, $558,000, and $431,000 for fiscal 2000, 1999, and 1998, respectively.

## 6 Significant Customers and Industry Segment Information

The Company has five reportable segments: Giga-tronics Instruments 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 or devices. DYMATIX, which includes Viking Semiconductor Equipment, Inc. and Ultracision, Inc., manufactures and markets optical inspection equipment used to test semiconductor devices and automation equipment for the test and inspection of silicon wafers. Corporate handles the financing needs of each segment and lends funds to each segment as required.

The accounting policies for the segments are the same as those described in the "Summary of Significant Accounting Policies." The Company evaluates the performance of its segments and allocates resources to them based on earnings before income taxes (pre-tax income (loss)). Segment net sales includes sales to external customers. Segment pre-tax loss includes an allocation for corporate expenses, amortization of goodwill, and interest expense from borrowings from Corporate. Corporate expenses are allocated to the reportable segments based principally on full time equivalent headcount. The interest expense is charged at prime which is currently 9% for cash required by each segment. Goodwill associated with acquisitions are recorded as assets of the individual segments. Assets include accounts receivable, inventories, equipment, cash, deferred income taxes, prepaid expenses, goodwill and other long-term assets. The Company accounts for inter-segment sales and transfers at terms that allow a reasonable profit to the seller. During the periods reported there were no significant inter-segment sales or transfers.

The Company's reportable operating segments are strategic business units that offer different products and services. They are managed separately because each business utilizes different technology and requires different marketing strategies. All of the businesses except for Giga-tronics Instruments were acquired. The Company's chief operating decision maker is considered to be the Company's Chief Executive Officer ("CEO"). The CEO reviews financial information presented on a consolidated basis accompanied by disaggregated information about revenues and pre-tax income by operating segment. The tables below present information for the fiscal years ended in 2000, 1999 and 1998:

| March 25, 2000 (In thousands): | Giga-tronics Instruments | ASCOR | Microsource | DYMATIX | Corporate | Total |
|---|---|---|---|---|---|---|
| Revenue | $ 18,516 | $ 6,705 | $ 15,069 | $ 7,287 | $ — | $ 47,577 |
| Interest income | — | 34 | 1 | — | 70 | 105 |
| Interest expense | 25 | 15 | 634 | 329 | (957) | 46 |
| Amortization & depreciation | 699 | 153 | 1,164 | 95 | — | 2,111 |
| Pre-tax income | 361 | 53 | 132 | 168 | 919 | 1,633 |
| Assets | 13,546 | 5,299 | 11,874 | 5,396 | 1,411 | 37,526 |

| March 27, 1999 (In thousands): | Giga-tronics Instruments | ASCOR | Microsource | DYMATIX | Corporate | Total |
|---|---|---|---|---|---|---|
| Revenue | $ 17,061 | $ 6,484 | $ 8,984 | $ 5,107 | $ — | $ 37,636 |
| Interest income | 35 | 10 | — | 2 | 120 | 167 |
| Interest expense | — | 31 | 455 | 287 | (727) | 46 |
| Amortization & depreciation | 924 | 152 | 1,004 | 128 | — | 2,208 |
| Pre-tax income (loss) | (805) | 546 | (777) | (2,791) | 821 | (3,006) |
| Assets | 10,130 | 4,426 | 11,495 | 5,763 | 1,445 | 33,259 |

| March 28, 1998 (In thousands): | Giga-tronics Instruments | ASCOR | Microsource | DYMATIX | Corporate | Total |
|---|---|---|---|---|---|---|
| Revenue | $ 20,441 | $ 5,070 | $ — | $ 11,302 | $ — | $ 36,813 |
| Interest income | — | 40 | — | 5 | 470 | 515 |
| Interest expense | 5 | — | — | 183 | (130) | 58 |
| Amortization & depreciation | 1,110 | 163 | — | 134 | — | 1,407 |
| Pre-tax income (loss) | 1,626 | 62 | — | (1,192) | 600 | 1,096 |
| Assets | 12,778 | 3,425 | — | 7,326 | 9,143 | 32,672 |

The Company's Giga-tronics Instruments, ASCOR, and Microsource segments sell to agencies of the U.S. Government and U.S. defense-related customers. In fiscal 2000, 1999, and 1998 U.S. Government and U.S. defense-related customers accounted for 16%, 24%, and 12% of sales, respectively.

Export sales accounted for 30%, 20%, and 28% of the Company's sales in fiscal 2000, 1999, and 1998, respectively. Export sales by geographical area are shown below:

| Years ended (In thousands) | March 25, 2000 | March 27, 1999 | March 28, 1998 |
|---|---|---|---|
| Americas | $ 1,989 | $ 445 | $ 345 |
| Europe | 6,448 | 3,446 | 3,990 |
| Asia | 4,981 | 3,371 | 5,747 |
| Rest of world | 1,050 | 403 | 328 |
| | $ 14,468 | $ 7,665 | $ 10,410 |

## 7 Earnings (loss) per Share

Shares used in per share computations for the years ended March 25, 2000, March 27, 1999, and March 28, 1998 are as follows:

| Years ended (In thousands except per share data) | March 25, 2000 | March 27, 1999 | March 28, 1998 |
|---|---|---|---|
| Net earnings (loss) | $ 1,139 | $ (1,858) | $ 767 |
| Weighted average: | | | |
| Common shares outstanding | 4,379 | 4,338 | 4,319 |
| Common share equivalents | 314 | — | 58 |
| Common shares assuming dilution | 4,693 | 4,338 | 4,377 |
| Net earnings per share of common stock | $ 0.26 | $ (0.43) | $ 0.18 |
| Net earnings per share of common stock assuming dilution | $ 0.24 | $ (0.43) | $ 0.18 |
| Stock options not included in computation | 24 | 537 | 177 |

The number of stock options not included in the computation of diluted EPS for the period ended March 27, 1999 is a result of the Company's loss from continuing operations and therefore the options are antidilutive. The number of stock options not included in the computation of diluted EPS for the periods ending March 25, 2000 and March 28, 1998 reflects stock options where the exercise prices were greater than the average market price of the common shares and are therefore antidilutive.

## 8 Income Taxes

Following are the components of the provision (benefit) for income taxes:

| Years ended (In thousands) | March 25, 2000 | March 27, 1999 | March 28, 1998 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 46 | $ (720) | $ 413 |
| State | 7 | 4 | 20 |
| | 53 | (716) | 433 |
| Deferred: | | | |
| Federal | (180) | (205) | 50 |
| State | 100 | (227) | (154) |
| | (80) | (432) | (104) |
| Charge in lieu of taxes attributable to employer stock option plans | 127 | — | — |
| Goodwill, for initial recognition of acquired tax benefits that previously were included in the valuation reserve | 394 | — | — |
| Provision (benefit) for income taxes | $ 494 | $ (1,148) | $ 329 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

| Years ended (In thousands) | March 25, 2000 | March 27, 1999 |
|---|---|---|
| Current tax assets, net | $ 3,570 | $ 2,309 |
| Noncurrent tax asset (liabilities), net | (1,011) | 169 |
| Net deferred taxes | $ 2,559 | $ 2,478 |
| Future state tax effect | (188) | (238) |
| Allowance for doubtful accounts | 196 | 187 |
| Fixed asset depreciation | (1,116) | 188 |
| Inventory reserves and additional costs capitalized | 2,747 | 2,797 |
| Deferred revenue | 19 | 52 |
| Accrued vacation | 268 | 251 |
| Accrued warranty | 237 | 162 |
| Other accrued liabilities | 330 | 269 |
| Net operating loss carryforward | 6,452 | 6,576 |
| Unrealized loss (gain) on equity securities | — | (18) |
| Income tax credits | 501 | — |
| Valuation allowances | (6,887) | (7,748) |
| | $ 2,559 | $ 2,478 |

Income tax expense (benefit) differs from the amounts computed by applying the U.S. federal income tax rate to pre-tax income as a result of the following:

| Years ended (In thousands except percentages) | March 25, 2000 | | March 27, 1999 | | March 28, 1998 | |
|---|---|---|---|---|---|---|
| Statutory federal income tax (benefit) | $ 555 | 34.0% | $ (1,022) | 34.0% | $ 372 | 34.0% |
| Beginning of year change in deferred tax asset valuation allowance | (55) | (3.4) | — | — | (85) | (7.8) |
| State income tax, net of federal benefit | 57 | 3.5 | (146) | 4.9 | (87) | (8.0) |
| Nontax deductible expenses | 6 | 0.4 | 14 | (0.4) | 210 | 19.2 |
| Interest income exempt from federal tax | (51) | (3.1) | (19) | 0.6 | (83) | (7.5) |
| Tax credits | (98) | (6.0) | (58) | 1.9 | (24) | (2.2) |
| Goodwill and patent amortization | 88 | 5.4 | 84 | (2.8) | — | — |
| Other | (8) | (0.5) | (1) | — | 26 | 2.3 |
| Effective income tax (benefit) | $ 494 | 30.3% | $ (1,148) | 38.2% | $ 329 | 30.0% |

The change in valuation allowance from March 27, 1999 to March 25, 2000 was $860,000. The change in valuation allowance from March 28, 1998 to March 27, 1999 was $7,648,000. The change in valuation allowance from March 29, 1997 to March 28, 1998 was $272,000.

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 period 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 March 25, 2000.

During the year ended March 27, 1999, the Company acquired approximately $7,600,000 of deferred tax assets in the acquisition of Microsource, which was fully offset by a valuation allowance. Subsequent recognition of tax benefits relating to the valuation allowance for deferred tax assets of Microsource will be allocated to goodwill and the remainder to income tax benefit. At March 25, 2000, goodwill was reduced by the $394,000 for the tax benefits realized from the Microsource deferred tax assets.

During the year ended March 25, 2000, disqualifying employee stock option dispositions resulted in an income tax deduction to the Company of approximately $269,000 and a tax benefit of approximately $127,000. The tax benefit has been reflected as an increase to the Company's paid-in-capital in the accompanying financial statements.

## 9 Stock Options and Employee Benefit Plans

*Stock Option Plan* The Company has established a stock option plan which provides for the granting of options for up to 700,000 shares of common stock at 100% of fair market value at the date of grant, with each grant requiring approval by the Board of Directors of the Company. Options granted vest in one or more installments as set forth in the relevant option agreement and must be exercised while the grantee is employed by the Company or within a certain period after termination of employment. Options granted to employees shall not have terms in excess of 10 years from the grant date. During December 1998, the Company offered options holders the opportunity to have outstanding options repriced to current fair value, with the related vesting period starting over. The Company cancelled and reissued (repriced) 405,250 options pursuant to the repricing. Holders of options may be granted stock appreciation rights (SAR's), which entitle them to surrender outstanding options for a cash distribution under certain changes in ownership of the Company, as defined in the stock option plan. As of March 25, 2000, no SAR's have been granted under the option plan. As of March 25, 2000, the total number of shares of common stock available for issuance is 608,312 under the Giga-tronics stock option plan and 17,048 under the prior Ultracision stock option plan. All outstanding options have a term of five years. With the merger of one of the Company's subsidiaries, the Company also assumed 56,370 options granted under its existing option plan. These options vest 100% after two years and have a term of five years.

Following is a summary of stock option activity:

| | Per Share Weighted Average Fair Value of Options Granted | Options Exercisable | Shares | Weighted Average Exercise Price |
|---|---|---|---|---|
| Outstanding as of March 29, 1997 | | 12,150 | 318,870 | $ 7.058 |
| Exercised | | | (950) | 4.000 |
| Forfeited | | | (16,250) | 4.115 |
| Granted | $ 3.822 | | 89,000 | 7.410 |
| Outstanding as of March 28, 1998 | | 106,682 | 390,670 | 7.268 |
| Exercised | | | (1,400) | 2.660 |
| Forfeited | | | (561,456) | 6.399 |
| Granted | $ 2.914 | | 807,750 | 2.818 |
| Outstanding as of March 27, 1999 | | 48,814 | 635,564 | 2.391 |
| Exercised | | | (28,204) | 2.515 |
| Forfeited | | | (168,875) | 2.118 |
| Granted | $ 2.613 | | 115,500 | 2.613 |
| Outstanding as of March 25, 2000 | | 131,424 | 553,985 | $ 2.514 |

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company is required to disclose the effects on net earnings and earnings per share as if it had elected to use the fair value method to account for employee stock-based compensation plans. Had the Company recorded a charge for the fair value of options granted consistent with SFAS No. 123, net earnings (loss) and net earnings (loss) per share would have been changed to the pro-forma (unaudited) amounts shown below:

| Years ended (In thousands except per share data) | March 25, 2000 | March 27, 1999 | March 28, 1998 |
|---|---|---|---|
| Net earnings (loss) | | | |
| As reported | $ 1,139 | $ (1,858) | $ 767 |
| Pro-forma | 872 | (2,234) | 404 |
| Net earnings (loss) per share – basic | | | |
| As reported | 0.26 | (0.43) | 0.18 |
| Pro-forma | 0.20 | (0.52) | 0.09 |
| Net earnings (loss) per share – diluted | | | |
| As reported | 0.24 | (0.43) | 0.18 |
| Pro-forma | $ 0.19 | $ (0.52) | $ 0.09 |

For purposes of computing pro-forma (unaudited) consolidated net earnings (loss), the fair value of each option grant and Employee Stock Purchase Plan purchase right is estimated on the date of grant using the Black Scholes option pricing model. The assumptions used to value the option grants and purchase rights are stated below:

| Years ended | March 25, 2000 | March 27, 1999 | March 28, 1998 |
|---|---|---|---|
| Expected life of options | 4 years | 4 years | 4 years |
| Expected life of purchase rights | 6 mos | 6 mos | 6 mos |
| Volatility | 60% | 60% | 60% |
| Risk-free interest rate | 5.08 to 5.97 | 4.53 to 5.66 | 5.50 to 6.25 |
| Dividend yield | zero | zero | zero |

Options Outstanding and Exercisable as of March 25, 2000, by Price Range

| Range of Exercise Prices | Number of Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number of Options Exercisable | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $2.09 | 374,187 | 3.71 | $ 2.094 | 84,876 | $ 2.094 |
| From $2.12 to $4.00 | 155,798 | 3.81 | 2.717 | 22,548 | 2.827 |
| $7.75 | 24,000 | 0.79 | 7.750 | 24,000 | 7.750 |
| From $2.09 to $7.75 | 553,985 | 3.61 | $ 2.514 | 131,424 | $ 3.252 |

*Employee Stock Purchase Plan* Under the Company's Employee Stock Purchase Plan (the Purchase Plan), employees meeting specific employment qualifications are eligible to participate and can purchase shares semi-annually through payroll deductions at the lower of 85% of the fair market value of the stock at the commencement or end of the offering period. The Purchase Plan permits eligible employees to purchase common stock through payroll deductions for up to 10% of qualified compensation. As of March 25, 2000, 45,734 shares remain available for issuance under the Purchase Plan. The weighted average fair value of the purchase rights granted in fiscal 2000 was $2.522.

*401(k) Plan* The Company has established 401(k) plans which cover substantially all employees. Participants may make voluntary contributions to the plan up to 20% of their defined compensation. The Company is required to match a percentage of the participants' contributions in accordance with the plan. Participants vest ratably in Company contributions over a four-year period. Company contributions to the plans for fiscal 2000, 1999, and 1998 were approximately $151,000, $153,000, and $151,000, respectively.

## 10 Commitments

The Company leases a 47,300 square foot facility located in San Ramon, California, under a twelve-year lease (as amended) that commenced in April 1994. The Company leases a 18,756 square foot facility located in Fremont, California, under a seven-year lease that commenced in July 1999. The Company leases a 20,400 square foot facility located in Santa Clara, California, under a seven-year lease that commenced in July 1995. The Company leases a 49,090 square foot facility located in Santa Rosa, California, under a twenty-year lease that commenced in July 1993. These facilities accommodate all of the Company's present operations. The Company also has acquired equipment under capital and operating leases. The future minimum lease payments for equipment leases and facilities are shown below:

| Fiscal years (In thousands) | |
|---|---|
| 2001 | $ 1,679 |
| 2002 | 1,692 |
| 2003 | 1,575 |
| 2004 | 1,535 |
| 2005 | 874 |
| Thereafter | 7,127 |
| | $ 14,482 |

The aggregate rental expense was $1,812,000, $1,462,000, and $959,000, in fiscal 2000, 1999, and 1998, respectively.

As of March 25, 2000, Property and Equipment includes equipment under capital lease of $313,000 and related accumulated depreciation of $99,000. As of March 27, 1999, Property and Equipment includes equipment under capital lease of $502,000 and related accumulated depreciation of $111,000. As of March 28, 1998, equipment under capital lease was not significant. The future minimum lease payments for capital equipment leases are shown below:

| Fiscal years (In thousands) | |
|---|---|
| 2001 | $ 140 |
| 2002 | 123 |
| 2003 | 12 |
| Total | 275 |
| Less interest costs | 30 |
| Present value of minimum lease payments | 245 |
| Less current portion | 118 |
| Long term portion of capital lease obligations | $ 127 |

## 11 Line of Credit

The Company has an agreement with a bank for an unsecured revolving line of credit loan for $7,000,000 with interest payable at prime rate or at LIBOR plus 1½ percent. This credit line has not been utilized by the Company and expires July 31, 2000.

# INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Giga-tronics Incorporated:

We have audited the accompanying consolidated balance sheets of Giga-tronics Incorporated and subsidiaries as of March 25, 2000 and March 27, 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for years ended March 25, 2000, March 27, 1999, and March 28, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Giga-tronics Incorporated and subsidiaries as of March 25, 2000, and March 27, 1999, and the results of their operations and their cash flows for the years ended March 25, 2000, March 27, 1999, and March 28, 1998, in conformity with generally accepted accounting principles.


KPMG LLP
Mountain View, California
May 2, 2000

# SELECTED FINANCIAL DATA

**Summary of Operations:**

| (In thousands except per share data) | March 25, 2000 | March 27, 1999 | March 28, 1998 | March 29, 1997 | March 30, 1996 |
|---|---|---|---|---|---|
| Net sales | $ 47,577 | $ 37,636 | $ 36,813 | $ 38,031 | $ 40,804 |
| Gross profit | 15,810 | 11,534 | 15,789 | 14,627 | 15,916 |
| Operating expenses | 14,315 | 15,293 | 15,172 | 13,096 | 13,714 |
| Interest income, net | 59 | 121 | 457 | 533 | 221 |
| Earnings (loss) before income taxes | 1,633 | (3,006) | 1,096 | 2,048 | 2,623 |
| Net earnings (loss) | 1,139 | (1,858) | 767 | 1,509 | 2,193 |
| Net earnings (loss) per share – basic | $ 0.26 | $ (0.43) | $ 0.18 | $ 0.35 | $ 0.52 |
| Net earnings (loss) per share – diluted | $ 0.24 | $ (0.43) | $ 0.18 | $ 0.34 | $ 0.51 |

**Financial Position:**

| (In thousands except current ratio) | March 25, 2000 | March 27, 1999 | March 28, 1998 | March 29, 1997 | March 30, 1996 |
|---|---|---|---|---|---|
| Current ratio | 3.23 | 3.32 | 5.06 | 4.32 | 3.15 |
| Working capital | $ 21,645 | $ 18,021 | $ 23,484 | $ 22,692 | $ 19,638 |
| Total assets | 37,526 | 33,259 | 32,672 | 33,618 | 33,448 |
| Shareholders' equity | $ 26,149 | $ 24,710 | $ 26,461 | $ 25,654 | $ 23,475 |
| Shares of common stock – basic | 4,379 | 4,338 | 4,319 | 4,300 | 4,232 |
| Shares of common stock – diluted | 4,693 | 4,338 | 4,377 | 4,376 | 4,297 |

**Percentage Data:**

| | March 25, 2000 | March 27, 1999 | March 28, 1998 | March 29, 1997 | March 30, 1996 |
|---|---|---|---|---|---|
| Percent of net sales | | | | | |
| Gross profit | 33.2 | 30.6 | 42.9 | 38.5 | 39.0 |
| Operating expenses | 30.1 | 40.6 | 41.2 | 34.4 | 33.6 |
| Interest income, net | 0.1 | 0.3 | 1.2 | 1.4 | 0.5 |
| Earnings (loss) before income taxes | 3.4 | (8.0) | 3.0 | 5.4 | 6.4 |
| Net earnings (loss) | 2.4 | (4.9) | 2.1 | 4.0 | 5.4 |

## Quarterly Financial Information (Unaudited)

| (In thousands except per share data) | 2000 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Year |
| Net sales | $ 11,505 | $ 11,834 | $ 11,314 | $ 12,924 | $ 47,577 |
| Gross profit | 3,451 | 3,948 | 3,990 | 4,421 | 15,810 |
| Operating expenses | 3,315 | 3,638 | 3,568 | 3,794 | 14,315 |
| Interest income, net | (1) | 3 | 22 | 35 | 59 |
| Earnings (loss) before income taxes | 162 | 324 | 460 | 687 | 1,633 |
| Net earnings (loss) | 112 | 227 | 322 | 478 | 1,139 |
| Net earnings (loss) per share – basic | $ 0.03 | $ 0.05 | $ 0.07 | $ 0.11 | $ 0.26 |
| Net earnings (loss) per share – diluted | $ 0.03 | $ 0.05 | $ 0.07 | $ 0.10 | $ 0.24 |
| Equivalent shares of common stock - basic | 4,362 | 4,368 | 4,383 | 4,402 | 4,379 |
| Equivalent shares of common stock - diluted | 4,372 | 4,483 | 4,611 | 4,846 | 4,693 |

## Quarterly Financial Information (Unaudited)

| (In thousands except per share data) | 1999 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Year |
| Net sales | $ 8,677 | $ 9,030 | $ 11,343 | $ 8,586 | $ 37,636 |
| Gross profit | 3,313 | 2,834 | 3,690 | 1,697 | 11,534 |
| Operating expenses | 3,806 | 3,950 | 3,672 | 3,865 | 15,293 |
| Interest income, net | 112 | 6 | 2 | 1 | 121 |
| Earnings (loss) before income taxes | (377) | (1,076) | 47 | (1,600) | (3,006) |
| Net earnings (loss) | (264) | (753) | 34 | (875) | (1,858) |
| Net earnings (loss) per share – basic | $ (0.06) | $ (0.17) | $ 0.01 | $ (0.20) | $ (0.43) |
| Net earnings (loss) per share – diluted | $ (0.06) | $ (0.17) | $ 0.01 | $ (0.20) | $ (0.43) |
| Equivalent shares of common stock - basic | 4,326 | 4,331 | 4,344 | 4,350 | 4,338 |
| Equivalent shares of common stock - diluted | 4,326 | 4,331 | 4,362 | 4,350 | 4,338 |

## Common Stock Market Prices

Giga-tronics' common stock is traded over the counter on NASDAQ/NMS National Market System using the symbol "GIGA". The number of record holders of the Company's common stock as of March 25, 2000 was close to 1,400. The table below shows the high and low closing bid quotations for the common stock during the indicated fiscal periods.

| | 2000 | High | Low | 1999 | High | Low |
|---|---|---|---|---|---|---|
| First quarter | (3/28-6/26) | 3 | 1 3/4 | (3/29-6/27) | 7 | 4 3/4 |
| Second quarter | (6/27-9/25) | 3 5/16 | 1 13/16 | (6/28-9/26) | 5 | 2 13/32 |
| Third quarter | (9/26-12/25) | 7 1/2 | 2 1/2 | (9/27-12/28) | 3 1/4 | 2 |
| Fourth quarter | (12/26-3/25) | 22 | 6 1/2 | (12/29-3/27) | 3 7/16 | 2 1/8 |

# CORPORATE INFORMATION

## DIRECTORS

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

James A. Cole [1,2]
General Partner, Windward Ventures
General Partner, Spectra Enterprises

Robert C. Wilson [1,2]
Chairman
Wilson & Chambers

William E. Wilson [1,2]
Chairman and Chief Executive Officer
Microwave Technology, Inc.

[1] Member, Compensation Committee
[2] Member, Audit Committee

## EXECUTIVE OFFICERS

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

Mark H. Cosmez II
Vice President, Finance /
Chief Financial Officer & Secretary

James R. Koehn
President, Giga-tronics Instrument Division

Jeffrey T. Lum
President, ASCOR, Inc.

Daniel S. Markowitz
President, DYMATIX
(Ultracision, Inc. and Viking Semiconductor Equipment, Inc.)

Robert A. Smith
President, Microsource, Inc.

## HEADQUARTERS

Giga-tronics Incorporated
George H. Bruns, Jr.
Chairman and Chief Executive Officer
4650 Norris Canyon Road
San Ramon, CA 94583
(925) 328-4650
(925) 328-4700 (FAX)

*www.gigatronics.com*

## SUBSIDIARIES

ASCOR, Inc.
4384 Enterprise Place
Fremont, CA 94539
(510) 490-2300
(510) 490-8493 (FAX)

*www.ascor-inc.com*

Microsource, Inc.
1269 Corporate Center Parkway
Santa Rosa, CA 95407
(707) 527-7010
(707) 527-7176 (FAX)

*www.microsource-inc.com*

DYMATIX
Ultracision, Inc.
Viking Semiconductor Equipment, Inc.
3380 Montgomery Drive
Santa Clara, CA 95054
(408) 980-0666
(408) 980-0670 (FAX)

*www.dymatix.com*

# CORPORATE INFORMATION

## LEGAL COUNSEL

Gibson, Dunn & Crutcher LLP
One Montgomery Street
Telesis Tower
San Francisco, CA 94104
www.gdclaw.com

## TRANSFER AGENT

ChaseMellon Shareholder Services
253 Montgomery Street, 23rd Floor
San Francisco, CA 94104
www.chasemellon.com

## INDEPENDENT AUDITORS

KPMG Peat Marwick LLP
500 East Middlefield Road
Mountain View, CA 94043
www.kpmg.com

## ANNUAL MEETING

The Company's Annual Meeting of Shareholders will be held at 9:30 a.m. on August 30, 2000 at Giga-tronics' offices located at 4650 Norris Canyon Road, San Ramon, CA 94583.

## FORM 10-K

A copy of the Company's Annual Report on Form 10-K for 2000, filed with the Securities and Exchange Commission, may be obtained by shareholders without charge by a written request to:

Company Secretary
4650 Norris Canyon Road
San Ramon, CA 94583

Giga-tronics Incorporated
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