GIGA TRONICS INC
Form 10-K
May 29, 2003

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UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended March 29, 2003, 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)	(I.R.S. 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, No par value

(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b of the Act). Yes [ ] No [X]

The aggregate market value of voting stock held by non-affiliates of the Registrant calculated on the closing average bid and asked prices as of May 21, 2003 was $5,180,254. For purposes of this determination only, directors and officers of the Registrant have been assumed to be affiliates. There were a total of 4,693,080 shares of the Registrant s Common Stock outstanding as of May 21, 2003.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated by reference into the parts indicated:

PART OF FORM 10-K	DOCUMENT
PART III Items 10, 11, 12 and 13	Registrant s PROXY STATEMENT for its 2003 annual meeting of shareholders to be filed no later than 120 days after the close of the fiscal year ended March 29, 2003.

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PART I

The forward-looking statements included in this report including, without limitation, statements containing the words believes, anticipates, estimates, expects, intends and words of similar import, which reflect management s best judgment based on factors currently known, involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to those discussed under Certain Factors Which May Adversely Affect Future Operations Or An Investment In Giga-tronics in Item 1 below and in Item 7, Management s Discussion and Analysis .

ITEM 1. BUSINESS

General

Giga-tronics Incorporated (Giga-tronics) includes operations of Giga-tronics Instrument Division, ASCOR, Inc. (ASCOR), DYMATiX, which is a joint venture of Viking Semiconductor Equipment, Inc. (Viking) and Ultracision, Inc. (Ultracision), and Microsource, Inc. (Microsource).

Giga-tronics designs, manufactures and markets through its Giga-tronics Instrument Division, 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. These products are used primarily in the design, production, repair and maintenance of commercial telecommunications, radar, and electronic warfare.

Giga-tronics was incorporated on March 5, 1980, and its principal executive offices are located at 4650 Norris Canyon Road, San Ramon, California, and its telephone number at that location is (925) 328-4650.

Effective July 23, 1996, Giga-tronics acquired ASCOR. ASCOR, located in Fremont, California, designs, manufactures, and markets a line of switching and connecting devices that link together many specific purpose instruments that comprise a portion of automatic test systems. ASCOR offers a family of switching and interface test adapters as standard VXI configured products, as well as complete system integration services to the Automatic Test Equipment market.

Effective June 27, 1997, Giga-tronics completed a merger with Viking by issuing approximately 420,000 shares of the Company s common stock in exchange for all of the common stock of Viking. Viking, which is now located in Fremont, California, manufactures and markets a line of optical inspection equipment used to manufacture and test semiconductor devices. Products include die attachments, automatic die sorters, tape and reel equipment, and wafer inspection equipment.

Effective December 2, 1997, Giga-tronics completed a merger with Ultracision by issuing approximately 517,000 shares of the Company s common stock in exchange for all of the common stock of Ultracision. Ultracision was a manufacturer of automation equipment for the test and inspection of silicon wafers. Ultracision also produced a line of probers for the testing and inspection of silicon devices.

Effective May 18, 1998, Giga-tronics acquired Microsource. All the outstanding shares of Microsource were exchanged for $1,500,000 plus contingent payments based on earnings from Microsource from 1998 to 2000, which amounts were nominal. Microsource located in Santa Rosa, California develops and manufactures a broad line of YIG (Yttrium, Iron, Garnet) tuned oscillators, filters and microwave synthesizers, which are used by its customers in manufacturing a wide variety of microwave instruments or devices.

Giga-tronics intends to broaden its product lines and expand its market, both by internal development of new products and through the acquisition of other business entities. From time to time, the Company considers a variety of acquisition opportunities.

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Industry Segments

The Company manufactures products used in test, measurement and handling. The Company operates primarily in four operating segments, Giga-tronics Instrument Division, ASCOR Inc., Microsource Inc. and DYMATiX (formerly the Semiconductor Equipment Group).

Products and Markets

Giga-tronics Instrument Division

The Giga-tronics Instrument Division segment produces signal sources, generators and sweepers, and power measurement instruments for use in the microwave and RF frequency range (10 kHz to 75 GHz). Within each product line are a number of different models and options allowing customers to select frequency range and specialized capabilities, features and functions. The end-user markets for these products can be divided into three broad segments: commercial telecommunications, radar and electronic warfare. This segment s instruments are used in the design, production, repair and maintenance and calibration of other manufacturers products, from discrete components to complex systems.

ASCOR Inc.

The ASCOR Inc. segment produces switch modules, and interface adapters that operate with a bandwidth from direct current (DC) to 18 GHz. This segment s switch modules may be incorporated within its customer s automated test equipment. The end-user markets for these products are primarily related to electronic warfare, though the VXI architecture may become more accepted by the telecommunications market.

DYMATiX (formerly the Semiconductor Equipment Group)

The DYMATiX segment manufactures and markets a line of optical inspection equipment used in the testing of semiconductor devices. Products include die attachments, automatic die sorters, tape and reel equipment, and wafer inspection equipment. Until recently, DYMATiX manufactured automation equipment for the test inspection and robotic handling of silicon wafers in addition to a line of probers for the testing and inspection of silicon devices.

Microsource Inc.

The Microsource segment develops and manufactures a broad line of YIG (Yttrium, Iron, Garnet) tuned oscillators, filters and microwave synthesizers, which are used by its customers in manufacturing a wide variety of microwave instruments or devices.

Sources and Availability of Raw Materials and Components

Substantially all of the components required by Giga-tronics to make its assemblies are available from more than one source. The Company occasionally uses sole source arrangements to obtain leading-edge technology, favorable pricing or supply terms, but not in any material volume. In the Company s opinion, the loss of any sole source arrangement it has would not be material to its operations.

Although extended delays in receipt of components from its suppliers could result in longer product delivery schedules for the Company, the Company believes that its protection against this possibility stems from its practice of dealing with well-established suppliers and maintaining good relationships with such suppliers.

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Patents and Licenses

The Company s competitive position is largely dependent upon its ability to provide performance specifications for its instruments and systems that (a) easily, effectively and reliably meet customers needs and (b) selectively surpass competitors specifications in competing products. Patents may occasionally provide some short-term protection of proprietary designs. However, because of the rapid progress of technological development in the Company s industry, such protection is most often, although not always, short-lived. Therefore, although we occasionally pursue patent coverage, we place major emphasis on the development of new products with superior performance specifications and the upgrading of existing products toward this same end. This is reflected in a substantial allocation of budget to project development costs.

The Company s products are based on its own designs, which in turn derive from its own engineering abilities. If the Company s new product engineering efforts fall behind, its competitive position weakens. Conversely, effective product development greatly enhances its competitive status.

The Company presently holds 22 patents. None of these is critical to the Company s ongoing business, and the Company does not actively maintain them.

The Company is not dependent on trademarks, licenses or franchises. We do utilize certain software licenses in some functional aspects to some of our products. Such licenses are readily available, non-exclusive and are obtained at either no cost or for a relatively small fee.

Seasonal Nature of Business

The business of the Company is not seasonal.

Working Capital Practices

The Company generally strives to maintain at least 60 days worth of inventory and generally sells to customers on 30 day payment terms. Typically, the Company receives payment terms of 30 days. The Company believes that these practices are consistent with typical industry practices.

Importance of Limited Number of Customers

Commercial business accounted for 61% of net sales in fiscal 2003, 83% in fiscal 2002, and 89% in fiscal 2001. The Company is a leading supplier of microwave and radio frequency (RF) test instruments to various U.S. Government defense agencies, as well as to their prime contractors. Management anticipates sales to U.S. Government agencies will remain significant in fiscal 2004. Defense-related agencies accounted for 39% of net sales in fiscal 2003, 17% in fiscal 2002, and 11% in fiscal 2001. Prior to the current year, where the defense business has improved, sales to the defense industry in general and direct sales to the United States and foreign government agencies in particular had declined. Any decline of defense orders could have a negative effect on the business, operating results, financial condition and cash flows of Giga-tronics.

During fiscal 2003, a Japanese distributor of the Company, Midoriya, accounted for less than 10% of the Company s revenues and a negligible amount outstanding in accounts receivable. During 2002 and 2001, Midoriya accounted for 16% and 10% of the Company s consolidated sales, respectively. At fiscal 2002 year end, Midoriya had a negligible amount outstanding in accounts receivable while they composed about 11% of receivables at the fiscal year end of 2001.

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During fiscal 2003, the U.S. Government defense agencies and their prime contractors made up 25% of the Giga-tronics Instrument Division s 2003 revenue. During fiscal 2002 the Instrument Division had two major customer concentrations. Midoriya, the Division s Japanese distributor, accounted for 30% of the Instrument Division s fiscal 2002 revenue. The U.S. Government defense agencies and their prime contractors made up 10% of the Giga-tronics Instrument Division s 2002 revenue.

In fiscal 2003, ASCOR derived 41% of its revenues from U.S. Government defense agencies and their prime contractors and another 34% from an automated test equipment manufacturer. During fiscal 2002 ASCOR had three major customer concentrations. The U.S. Government defense agencies and their prime contractors made up 18%, an automated test equipment manufacturer comprised 30% and an international communications equipment company comprised 11% of ASCOR s fiscal 2002 revenue, respectively.

In fiscal 2003, DYMATiX derived 21% of its revenues from a major semiconductor device manufacturer and another 11% from a manufacturer of mobile electronics and transportation components. During fiscal 2002, the same manufacturer of mobile electronics and transportation components accounted for 56% of DYMATiX s revenue.

During fiscal 2003 and 2002, Microsource had two major customer concentrations. An electronic instrument manufacturer accounted for 14% and 35% of Microsource s fiscal 2003 and fiscal 2002 revenue, respectively. U.S. Government defense agencies and their prime contractors made up 62% and 35% of Microsource s 2003 and 2002 revenue, respectively.

Other than U.S. government agencies and their defense contractors, no customer accounted for 10% or more of consolidated revenues of the Company in fiscal 2003 and no customer who accounted for 10% or more of revenues of any one segment accounted for 10% or more of any other segment. Other than U.S. Government agencies and their defense contractors, the Company has no customer the loss of which would, in management s opinion, have a material adverse effect on the Company and its subsidiaries as a whole.

The Company s products are largely capital investments for its customers, and the Company s belief is that its customers have economic cycles in which capital investment budgets for the kinds of products that the Company produces expand and contract. The Company, therefore, expects that a major customer in one year will often not be a major customer in the following year. Accordingly, the Company s revenues and earnings will decline if the Company is unable to find new customers or increase its business with other existing customers to replace declining revenues from the previous year s major customers. A substantial decline in revenues from U.S. Government defense agencies and their prime contractors would also have a material adverse effect on the Company s revenues and results of operations unless replaced by revenues from the commercial sector.

Backlog of Orders

On March 29, 2003, the Company s backlog of unfilled orders was $17,192,000 compared to $21,387,000 at March 30, 2002. As of March 29, 2003, there were approximately $9,077,000 in unfilled orders that were scheduled for shipment beyond a year, as compared to approximately $13,912,000 at March 30, 2002. Orders for the Company s products include program orders from both the U.S. Government and defense contractors, with extended delivery dates. Accordingly, the backlog of orders may vary substantially from quarter to quarter and the backlog entering any single quarter may not be indicative of sales for any period.

Backlog includes only those customer orders for which a delivery schedule has been agreed upon between the Company and the customer and, in the case of U.S. Government orders, for which funding has been appropriated.

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Competition

Giga-tronics serves the broad market for electronic instrumentation with applications ranging from the design, test, calibration and maintenance of other electronic devices to providing sophisticated components for complex electronic systems to sub-systems capable of sorting and identifying high frequency communication signals. These applications cut across the commercial, industrial and military segments of the broad market. The Company has a variety of competitors. Several of its competitors are much larger than the Company and have greater resources and substantially broader product lines. Others are of comparable size with more limited product lines.

Competition from numerous existing companies is intense and potential new entrants are expected to increase. The Company s instrument, switch, oscillator and synthesizer products compete with Agilent, Anritsu, Racal, IFR and Rohde & Schwarz while the semiconductor equipment products compete with various other competitors. Many of these companies have substantially greater research and development, manufacturing, marketing, financial, technological, personnel and managerial resources than Giga-tronics. There can be no assurance that any products developed by these competitors will not gain greater market acceptance than any developed by Giga-tronics.

To compete effectively in this circumstance, the Company (a) places strong emphasis on maintaining a high degree of technical competence as it relates to the development of new products and the upgrading of existing products and (b) is highly selective in establishing technological objectives. The Company does not attempt to compete across the board , but selectively based upon its particular strengths and the competitors perceived limitations.

Specification requirements of customers in this market vary widely. The Company is able to compete by offering products that meet a customer s particular specification requirements; by being able to offer certain product specifications at lower cost resulting from the Company s past production of products with those specifications; and by being able to offer certain product specifications at a higher quality level. All of these advantages are attributable to the Company s continuing investment in research and development and in a highly trained engineering staff.

The customer s decision is most often based on the best match of its particular requirements and the supplier s operating specifications. In most cases, attracting and retaining customers does not require the Company to offer the best product with respect to each of the customer s requirements but rather to those few specifications that are most important to the customer.

Occasionally price is a competitive consideration. In that circumstance, the Company believes it has more flexibility in making pricing decisions than its larger and more structured competitors.

Sales and Marketing

Giga-tronics Instrument Division, ASCOR Inc., DYMATiX and Microsource Inc. market their products through various distributors and representatives to commercial and government customers, although not necessarily through the same distributors and representatives.

Product Development

Products of the type manufactured by Giga-tronics historically have had relatively long product life cycles. However, the electronics industry is subject to rapid technological changes at the component level. The future success of the Company is dependent on its ability to steadily incorporate advancements in component technologies into its new products.

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Product development expense was approximately $5,644,000 in fiscal 2003, $7,001,000 in fiscal 2002, and $5,087,000 in fiscal 2001. Activities included the development of new products and the improvement of existing products. It is management s intention to maintain or increase expenditures for product development at levels required to sustain its competitive position. All of the Company s product development activities are internally funded and expensed as incurred.

Giga-tronics expects to continue to make significant investments in research and development. There can be no assurance that future technologies, processes or product developments will not render Giga-tronics current product offerings obsolete or that Giga-tronics will be able to develop and introduce new products or enhancements to existing products, which satisfy customer needs, in a timely manner or achieve market acceptance. The failure to do so could adversely affect Giga-tronics business.

Manufacturing

The assembly and testing of Giga-tronics Instrument Division microwave, RF and power measurement products are done at its San Ramon facility. The assembly and testing of ASCOR s switching and connecting devices and the assembly and testing of DYMATiX semiconductor equipment products are done at its Fremont facility. The assembly and testing of Microsource s line of YIG (Yttrium, Iron, Garnet) tuned oscillators, filters and microwave synthesizers are done at its Santa Rosa facility.

Environment

To the best of its knowledge, the Company is in compliance with all federal, state and local laws and regulations involving the protection of the environment.

Employees

As of March 29, 2003, Giga-tronics employed 174 individuals on a full time basis. Management believes that the future success of the Company depends on its ability to attract and retain skilled personnel. None of the Company s employees are represented by a labor union, and the Company considers its employee relations to be good.

Information about Foreign Operations

The Company sells to its international customers through a network of foreign technical sales representative organizations. Sales to foreign customers were approximately $5,111,000 in fiscal 2003, $17,105,000 in fiscal 2002, and $22,072,000 in fiscal 2001.

The Company closed its United Kingdom (UK) research & development facility as of March 30, 2002. The Company has no other foreign-based operations or material amounts of identifiable assets in foreign countries. Its gross margins on foreign and domestic sales are similar.

Certain Factors Which May Adversely Affect Future Operations Or An Investment In Giga-tronics

Business climate is volatile

Giga-tronics has a significant number of defense-related orders. If the defense market should soften, shipments in the current year could decrease more than current projected shipments with a concurrent decline in earnings. The Company s commercial product backlog has a number of risks and uncertainties such as the cancellation or deferral of orders, dispute over performance and our ability to collect amounts due under these orders. If this occurs, then shipments in the current year could decrease more than current projected shipments resulting in a decline in earnings.

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Giga-tronics sales are substantially dependent on the wireless industry

Giga-tronics sells directly or indirectly to customers and equipment manufacturers in the wireless industry. Currently, this industry is undergoing dramatic and rapid change. As such, the business that Giga-tronics records could decrease or existing recorded backlog could be stretched or deferred resulting in less than projected shipments. These reduced shipments may have a material adverse effect on operations.

Giga-tronics markets involve rapidly changing technology and standards

The market for electronics equipment is characterized by rapidly changing technology and evolving industry standards. Giga-tronics believes that its future success will depend in part upon its ability to develop and commercialize its existing products, develop new products and applications, and in part to develop, manufacture and successfully introduce new products and product lines with improved capabilities and to continue to enhance existing products. There can be no assurance that Giga-tronics will successfully complete the development of current or future products or that such products will achieve market acceptance.

Giga-tronics 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. Giga-tronics is subject to various risks in connection with 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.

Giga-tronics common stock price is volatile

The market price of the Company s common stock could be subject to significant fluctuations in response to variations in quarterly operating results, shortfalls in revenues or earning from levels expected by securities analysts and other factors such as announcements of technological innovations or new products by Giga-tronics or by competitors, government regulations or developments in patent or other proprietary rights. In addition, the NASDAQ National Market and other stock markets have experienced significant price fluctuations in recent periods. These fluctuations often have seemingly been unrelated to the operating performance of the specific companies whose stocks are traded. Broad market fluctuations, as well as general foreign and domestic economic conditions, may adversely affect the market price of the common stock.

Giga-tronics stock at any time has historically traded on thin volume on NASDAQ. Sales of a significant volume of stock could result in a depression of Giga-tronics share prices.

ITEM 2. PROPERTIES

As of March 29, 2003, Giga-tronics principal executive office and the Instrument Division marketing, sales and engineering offices and manufacturing facilities for its microwave and RF signal generator and power measurement products are located in approximately 47,300 square feet in San Ramon, California, which the Company occupies under a lease agreement expiring December 31, 2006.

ASCOR s marketing, sales and engineering offices and manufacturing facilities for its switching and connecting devices and the DYMATiX marketing, sales and engineering offices and manufacturing facilities for its

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automation equipment for the inspection of silicon wafers, prober line and optical inspection equipment for the manufacture and test of semiconductor devices are both located in approximately 18,756 square feet in Fremont, California, under a lease that expires on June 30, 2006.

Microsource s marketing, sales and engineering offices and manufacturing facilities for its YIG tuned oscillators, filters and microwave synthesizers are located in an approximately 33,439 square foot facility in Santa Rosa, California, which the Company occupies under a lease expiring May 25, 2013.

The Company believes that its facilities are adequate for its business activities.

ITEM 3. LEGAL PROCEEDINGS

As of March 29, 2003, the Company has no material pending legal proceedings. From time to time, Giga-tronics is involved in various disputes and litigation matters that arise in the ordinary course of business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 29, 2003.

Executive Officers of the Company are listed in Part III, Item 10 of this Form 10-K.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

Common Stock Market Prices

Giga-tronics common stock is traded over the counter on NASDAQ National Market System using the symbol GIGA . The number of record holders of the Company s common stock as of March 29, 2003 was approximately 1,400. The table below shows the high and low closing bid quotations for the common stock during the indicated fiscal periods. These quotations reflect inter-dealer prices without retail mark-ups, mark-downs, or commission and may not reflect actual transactions.

	2003	High	Low	2002	High	Low
First quarter	(3/31-6/29)	$3.700	$2.330	(4/1-6/30)	$5.810	$3.200
Second quarter	(6/30-9/28)	2.220	1.000	(7/1-9/29)	3.760	2.170
Third quarter	(9/29-12/28)	1.660	0.910	(9/30-12/29)	4.160	2.320
Fourth quarter	(12/29-3/29)	1.510	1.210	(12/30-3/30)	4.630	3.450

Giga-tronics has not paid cash dividends in the past and has no plans to do so in the future, based upon its belief that the best use of its available capital is in the enhancement of its product position.

ITEM 6. SELECTED FINANCIAL DATA

Effective March 26, 2000, the Company changed its method of accounting for revenue recognition to conform with the guidance provided by SAB 101 (see Note 1 to the consolidated financial statements). The impact of adopting SAB 101 was to increase earnings (loss) before the cumulative effect of the accounting change in the year ended March 31, 2001 by $520,000, net of income taxes.

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SELECTED FINANCIAL DATA

Summary of Operations:	**Year Ended**				
(In thousands except per share data)	**March 29, 2003**	**March 30, 2002**	**March 31, 2001**	**March 25, 2000**	**March 27, 1999**
Net sales	$ 22,281	$39,036	$54,159	$47,577	$37,636
Gross profit	5,903	11,535	19,056	15,810	11,534
Operating expenses	12,464	16,085	16,032	14,315	15,293
Interest income, net	60	63	205	59	121
Earnings (loss) before cumulative effect of accounting change and income taxes	(6,664)	(4,462)	3,461	1,633	(3,006)
Earnings (loss) before cumulative effect of accounting change	(10,762)	(2,102)	2,421	1,139	(1,858)
Cumulative effect of accounting change			(520)		
Net earnings (loss)	$(10,762)	$ (2,102)	$ 1,901	$ 1,139	$ (1,858)
Basic earnings (loss) per share:					
Before cumulative effect of accounting change	$ (2.31)	$ (0.46)	$ 0.54	$ 0.26	$ (0.43)
Cumulative effect of accounting change			(0.12)		
Net earnings (loss) per share basic	(2.31)	(0.46)	0.42	0.26	(0.43)
Diluted earning (loss) per share:					
Before cumulative effect of accounting change	(2.31)	(.46)	.51	.24	(.43)
Cumulative effect of accounting change			(.11)		
Net earnings (loss) per share diluted	$ (2.31)	$ (0.46)	$ 0.40	$ 0.24	$ (0.43)
Shares of common stock basic	4,663	4,604	4,474	4,379	4,338
Shares of common stock diluted	4,663	4,604	4,803	4,693	4,338

Financial Position:

(In thousands except ratio)	**March 29, 2003**	**March 30, 2002**	**March 31, 2001**	**March 25, 2000**	**March 27, 1999**
Current ratio	3.49	5.49	4.06	3.17	3.32
Working capital	$13,622	$23,135	$22,924	$21,066	$18,021
Total assets	$21,789	$32,880	$37,318	$37,526	$33,259
Shareholders equity	$15,960	$26,661	$28,475	$26,149	$24,710

Percentage Data:

	March 29, 2003	**March 30, 2002**	**March 31, 2001**	**March 25, 2000**	**March 27, 1999**
Percent of net sales					
Gross profit	26.5%	29.6%	35.2%	33.2%	30.6%
Operating expenses	55.9	41.2	29.6	30.1	40.6
Interest income, net	0.3	0.2	0.4	0.1	0.3
Earnings (loss) before cumulative effect of accounting change and income taxes	(29.9)	(11.4)	6.4	3.4	(8.0)
Cumulative effect of accounting change			1.0		
Net earnings (loss)	(48.3)	(5.4)	3.5	2.4	(4.9)

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SELECTED FINANCIAL DATA

Quarterly Financial Information (Unaudited)
(In thousands except per share data)

	2003				
	First	**Second**	**Third**	**Fourth**	**Year**
Net sales	$6,008	$5,539	$5,506	$5,228	$22,281
Gross profit	1,959	1,888	1,577	479	5,903
Operating expenses	3,644	3,159	2,719	2,942	12,464
Interest income, net	12	18	16	14	60
Loss before cumulative effect of accounting change and income taxes	1,699	1,298	1,180	2,487	6,664
Loss before cumulative effect of accounting change	1,599	1,298	5,478	2,387	10,762
Net loss	1,599	1,298	5,478	2,387	10,762
Net loss per share basic	$ (0.34)	$ (0.28)	$ (1.17)	$ (0.51)	$ (2.31)
Net loss per share diluted	$ (0.34)	$ (0.28)	$ (1.17)	$ (0.51)	$ (2.31)
Shares of common stock - basic	4,656	4,666	4,677	4,682	4,663
Shares of common stock - diluted	4,656	4,666	4,677	4,682	4,663

Quarterly Financial Information (Unaudited)
(In thousands except per share data)

	2002				
	First	**Second**	**Third**	**Fourth**	**Year**
Net sales	$11,797	$9,892	$9,720	$ 7,627	$39,036
Gross profit	3,326	3,612	3,405	1,192	11,535
Operating expenses	4,332	4,060	3,824	3,869	16,085
Interest income, net	19	15	13	16	63
Loss before cumulative effect of accounting change and income taxes	(934)	(435)	(402)	(2,682)	(4,462)
Loss before cumulative effect of accounting change	(566)	(275)	(191)	(1,070)	(2,102)
Net loss	(566)	(275)	(191)	(1,070)	(2,102)
Net loss per share basic	$ (0.12)	$ (0.06)	$ (0.04)	$ (0.23)	$ (0.46)
Net loss per share diluted	$ (0.12)	$ (0.06)	$ (0.04)	$ (0.23)	$ (0.46)
Shares of common stock - basic	4,565	4,591	4,626	4,635	4,604
Shares of common stock - diluted	4,565	4,591	4,626	4,635	4,604

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

MANAGEMENT S DISCUSSION AND ANALYSIS

Results of Operations for Fiscal 2003 as compared to 2002

New orders received in fiscal 2003 were $18,086,000, a decrease of 12% from the $20,461,000 received in fiscal 2002. New orders declined primarily due to the weakness in the commercial wireless market and major customer order cancellations during fiscal 2003 partially offset by increases in new military orders. New orders at Giga-tronics Instrument Division declined 17% to $8,590,000 for the year. Orders at ASCOR increased 48% to $4,866,000 primarily due to increased military orders. DYMATiX experienced a decline of 41% on new orders to $1,738,000 for the fiscal year 2003. Orders at Microsource decreased 25% to $2,892,000, which includes an order reversal of approximately $750,000 due to a contract re-negotiation with a long-term customer. Backlog on March 29, 2003 was $17,192,000 (about $8,115,000 is expected to be shipped within one year) compared to $21,387,000 (about $7,475,000 was expected to be shipped within one year) on March 30, 2002. The decrease in backlog is primarily due to weak order levels at the Giga-tronics Instrument Division and Microsource offset by stronger order levels at ASCOR. Of the $7,475,000 in orders considered shippable within one year at March 30, 2002, Giga-tronics subsequently rescheduled (and reclassified as not shippable within one year) shipments for orders of $782,000 net and recorded cancellations of orders for $605,000 throughout the year that ended March 29, 2003.

Net sales for fiscal 2003 were $22,281,000, a 43% decrease from the $39,036,000 in 2002. The reduction in sales was primarily due to fewer orders booked because of the general slowdown in the commercial wireless market. In fiscal 2003, Microsource revenues decreased 23% or $2,349,000, on weak orders and customer stretch-outs. The Instrument Division sales decreased 57% or $12,254,000 primarily due to weak orders. ASCOR sales increased 2% or $62,000 primarily due to increased orders and higher backlog. Sales at DYMATiX decreased 60% or $2,214,000 on weak orders primarily due to the reduction in capital equipment spending affecting the semiconductor manufacturing market.

Cost of sales decreased 40% in fiscal 2003 to $16,378,000 from the $27,501,000 in 2002. The decrease is primarily attributable to the 43% decline in sales offset with the write-off of inventory related to discontinued products.

Operating expenses decreased 23% or $3,621,000 in fiscal 2003 over 2002 due to decreases of $1,929,000 in Selling, general and administrative, $335,000 in total amortization and $1,357,000 in product development expenses. Product development costs decreased 19% or $1,357,000 in fiscal 2003 primarily due to decreased product development expenses at the Instrument Division and Microsource offset by higher product development costs at DYMATiX related to the newest line of automation equipment. Selling, general and administrative expenses decreased 22% or $1,929,000 for the fiscal year 2003 compared to the prior year. The decrease is a result of lower commission expense of $581,000 on lower sales for the year coupled with $602,000 less in administrative expenses and $746,000 less in marketing expenses. These expense reductions were primarily personnel reductions and less rent expense on renegotiated lease terms. For fiscal year 2003 amortization of intangibles decreased 94% or $335,000 as compared to last fiscal year. The decrease in the amortization of intangibles is primarily a result of reduced amortization of patents and licenses as well as the goodwill write-off at Microsource that occurred last year related to an impairment of this asset. Interest income in 2003 decreased from 2002 due to lower interest rates.

Giga-tronics recorded a net loss of $10,762,000 or $2.31 per fully diluted share for the fiscal year 2003 versus a net loss of $2,102,000 or $0.46 per fully diluted share in 2002. The loss for 2003 includes a one-time charge of approximately $4,098,000 related to an increase in the allowance against the deferred tax benefit, in addition to approximately $1,450,000 in restructuring and inventory write-offs related to discontinued products.

Results of Operations for Fiscal 2002 as compared to 2001

New orders received in fiscal 2002 were $20,461,000, a decrease of 65% from the $57,830,000 received in 2001. New orders declined primarily due to the weakness in the overall wireless market and major customer order cancellations during fiscal 2002 partially offset by increases in new military orders. New orders at Giga-tronics Instrument Division declined 65% to $10,357,000 for fiscal year 2002 after a net order cancellation of $2,900,000. In fiscal 2002, a significant customer of the Instrument Division reduced ordering from the Company, primarily due to lower demand. The company expects the lower levels of business from this customer to continue. Orders at ASCOR declined 28% to $3,296,000. DYMATiX experienced a decline of 55% on new orders to $2,969,000 for the fiscal year 2002. Orders at Microsource decreased 77% to $3,839,000, which includes $5,120,000 order reversal for a customer that commenced liquidation proceedings. At year-end 2002, the Company s backlog of unfilled orders was $21,387,000, compared to $39,964,000 at the end of 2001. The decrease in backlog is primarily due to weak order levels at the Giga-tronics Instrument Division and Microsource. As of year-end 2002, there were approximately $13,912,000 unfilled orders that were scheduled for shipment beyond a year and as of year end 2001 there were $7,245,000 unfilled orders scheduled for shipment beyond a year. The increase in unfilled orders scheduled for shipment beyond a year is attributable primarily to Microsource s customers delaying shipments of their orders.

Net sales for 2002 were $39,036,000, a 28% decrease from the $54,159,000 in 2001. The reduction in sales was primarily due to fewer orders booked because of the slowdown in the commercial wireless market and stretch outs on existing orders in backlog. In fiscal 2002, Microsource revenues decreased 24% or $3,172,000, on weak orders and customer stretch outs. Giga-tronics Instrument Division sales decreased 14% or $3,442,000 and ASCOR sales decreased 50% or $3,735,000 primarily due to weak orders at both of these segments. Sales at DYMATiX decreased 57% or $4,774,000 on weak orders primarily due to customers delaying orders until their new product is released.

Cost of sales decreased 22% in fiscal 2002 to $27,501,000 from the $35,103,000 in 2001. The decrease is primarily attributable to the 28% decline in sales offset with higher costs for labor and material on the products shipped coupled with the write down of inventory and pre-production costs associated with the liquidation of a Microsource customer. Subsequent to year end, a telecommunications equipment customer of the Microsource Division commenced liquidation proceedings. As a result, the orders under the long term production contract with this customer were cancelled and Giga-tronics recorded a write-off of $1,100,000 of inventory and pre-production costs.

Operating expenses increased less than 1% or $50,000 in fiscal 2002 over 2001 due to decreases of $1,984,000 in Selling, general and administrative and $50,000 in total amortization offset by an increase of $1,914,000 in product development expenses. Product development costs increased 38% or $1,914,000 in fiscal 2002 primarily due to increased product development at DYMATiX and increased YIG product development costs at Microsource. Selling, general and administrative expenses decreased 19% or $1,984,000 for the fiscal year 2002 compared to the prior year. The decrease was a result of lower commission expense of $959,000 on lower sales for the year coupled with $752,000 less in administrative expenses and $322,000 less in marketing expenses primarily due to expense reduction measures taken during the year. These expense reductions were primarily personnel related. For fiscal year 2002 amortization of intangibles decreased 22% or $50,000 as compared to last fiscal year. The decrease in the amortization of intangibles is primarily a result of reduced amortization of patents and licenses. The Company wrote off $173,000 of remaining goodwill related to the Microsource acquisition as such goodwill was determined to be impaired. Interest income in 2002 decreased from 2001 due to lower interest rates.

Giga-tronics recorded a net loss of $2,102,000, or $0.46 per diluted share, in 2002 versus net earnings before cumulative effect of accounting change of $2,421,000, or $0.51 per diluted share, in 2001. The Company recorded $520,000 for the cumulative effect of accounting change in fiscal 2001 as a result of the implementation of SAB 101. As a result, Giga-tronics recorded net earnings of $1,901,000, or $0.40 per diluted share, in 2001.

Critical Accounting Policies

Management of Giga-tronics has identified the following as the Company s critical accounting policies:

Revenue

Revenues are recognized when there is evidence of an arrangement, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. This generally occurs when products are shipped and the risk of loss has passed. Upon shipment, the Company also provides for the estimated cost that may be incurred for product warranties. Revenue related to products shipped subject to customers evaluation is recognized upon final acceptance.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. The Company periodically reviews inventory on hand to identify and write down excess and obsolete inventory based on estimated product demand.

Accounts Receivable

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

Deferred Tax Assets

The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets, which may not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based on the historical taxable income and projections for future taxable income over the periods in which the deferred tax assets become deductible, management believes it more likely than not that the Company will not realize benefits of these deductible differences as of March 29, 2003. Management has, therefore, established a valuation allowance against its net deferred tax assets as of March 29, 2003.

Product Development Costs

The Company incurs pre-production costs on certain long-term supply arrangements. The costs, which represent non-recurring engineering and tooling costs, are capitalized as other assets and amortized over their useful life when reimbursable by the customer. Otherwise, they are expensed as incurred.

Financial Condition and Liquidity

As of March 29, 2003, Giga-tronics had $5,005,000 in cash and cash equivalents, compared to $7,180,000 as of March 30, 2002. Cash used by operations amounted to $1,996,000 in 2003 and cash provided by operations amounted to $3,795,000 in 2002 and $1,951,000 in 2001. Cash used by operations in 2003 is primarily attributed to the operating loss in the year offset by non-cash depreciation and amortization expenses, an increase in the deferred tax asset valuation allowance, and by the net change in operating assets and liabilities. Cash provided by operations in 2002 is attributed to accounts receivable collections, reduced inventory purchases and non-cash depreciation and amortization expenses offset by the operating loss in the year, and the net change in operating assets and liabilities. Cash provided by operations in 2001 is attributed to the operating income in the year and non-cash depreciation and amortization expenses, offset by a net change in operating assets and liabilities.

Giga-tronics had working capital at year-end of $13,622,000 compared to $23,135,000 in 2002 and $22,924,000 in 2001. The Company s current ratio at March 29, 2003 was 3.5 compared to 5.5 in 2002 and 4.1 in 2001. The decrease in working capital is primarily a result of the increased allowance against the deferred income tax benefit and its operating loss in the current year.

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Additions to property and equipment were $160,000 in 2003, compared to $811,000 in 2002 and $1,800,000 in 2001. Fiscal 2003 spending reflects continuing investments to support new product development, increased productivity, and improved product quality. Other cash inflows in 2003, 2002 and 2001 consist of $61,000, $239,000 and $367,000, respectively, from the sale of common stock in connection with the exercise of stock options and purchases under the employee stock purchase plan.

The Company leases various facilities under various operating leases that expire through May 2013. Total future minimum lease payments under these leases amount to approximately $6,958,000 as follows:

Fiscal years (In thousands)	
2004	$1,286
2005	1,312
2006	1,325
2007	932
2008	341
Thereafter	1,762
	$6,958

The Company is committed to purchase certain inventory under non-cancelable purchase orders. As of March 29, 2003, total non-cancelable purchase orders were approximately $1,142,000 through fiscal 2004 and $187,000 beyond fiscal 2004 that are scheduled to be delivered to the Company at various dates through July 2004.

Management believes that the Company has adequate resources to meet its anticipated operating and capital expenditure needs for the foreseeable future. Giga-tronics intends to increase research and development expenditures for the purpose of broadening its product base. From time to time, Giga-tronics considers a variety of acquisition opportunities to also broaden its product lines and expand its markets. Such acquisition activity could also increase the Company s operating expenses and require the additional use of capital resources.

Outlook

The commercial wireless telecommunications market continues to be weak. All of our business segments have been impacted by the economic downturn currently affecting the test and measurement and semiconductor industries. Giga-tronics is uncertain of the duration and severity of this downturn in the markets we serve and the ultimate impact this will have on the Company. New orders in the military sector are showing strength, however new orders in many of our commercial markets have been severely impacted. In response to the current market conditions, Giga-tronics has implemented cost reductions, which include personnel reductions, pay cuts across all of the divisions for existing employees and reductions in monthly lease payments for our facilities. Giga-tronics will continue monitoring its cost structure in order to take the appropriate actions to reduce expenses and achieve profitability. Giga-tronics remains fully committed to the investment in new product development to expand our product lines and update our existing lines with additional features. While the Microsource management hopes that prospects for new orders will improve results for the new fiscal year, its short-term growth will be less than previously anticipated as there are timing delays associated with currently booked orders.

Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 143, Accounting Obligations associated with the Retirement of Long-Lived Assets. SFAS No. 143 addresses financial accounting and reporting for the retirement obligation of an asset. SFAS No. 143 states that companies should recognize the asset retirement cost, at its fair value, as part of the asset cost and classify the accrued amount as a liability in the balance sheet. The asset retirement liability is then accreted to the ultimate payout as interest expense. The initial measurement of the liability would be subsequently updated for revised estimates of the discounted cash outflows. SFAS No. 143 was effective for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of SFAS No. 143 will have a material effect on the Company s financial position or results of operations.

In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Statement No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Statement No. 144 retains the fundamental provisions in Statement No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with Statement No. 121. Statement No. 144 also retains the basic provisions of APB Opinion No. 30 on how to present discontinued operations in the statement of operations, but broadens that presentation to include a component of an entity (rather than a segment of a business). The Company adopted the provisions of Statement No. 144 effective March 31, 2002. The impact of adopting Statement No. 144 did not have a material effect on the Company s financial position or results of operations.

SFAS No. 145, Rescission of SFAS Statements No. 4, 44, and 64, Amendment of SFAS Statement No. 13, and Technical Corrections (SFAS 145), updates, clarifies and simplifies existing accounting pronouncements. SFAS 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt. SFAS 145 amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The provisions of SFAS 145 related to SFAS No.4 and SFAS No. 13 are effective for fiscal years beginning and transactions occurring after May 15, 2002, respectively. The Company does not expect the adoption of SFAS No. 145 will have a material effect on its financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, (SFAS 146), requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 replaces Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The provisions of SFAS 146 are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on the Company s financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires a guarantor to (i) include disclosure of certain obligations and (ii) if applicable, at the inception of the guarantee, recognize a liability for the fair value of other certain obligations undertaken in issuing a guarantee. The disclosure provisions of the Interpretation are effective for financial statements of interim or annual reports that end after December 15, 2002. The adoption of FIN 45 required additional warranty activity disclosures for the Company. The recognition and measurement provisions of FIN 45 are effective for guarantees issued or modified after December 29, 2002. The adoption of FIN 45 did not have a material effect on the Company s financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-An Amendment of FASB Statement No. 123. SFAS No. 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for an entity that chooses to change to the fair-value-based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that statement to require prominent disclosure about the effects that accounting for stock-based employee compensation using the fair-value based method would have on reported net income and earnings per share and to require prominent disclosure about the entity s accounting policy decisions with respect to stock-based employee compensation. Certain of the disclosure requirements are required for all companies, regardless of whether the fair value method or intrinsic value method is used to account for stock-based employee compensation arrangements. The Company accounts for its stock option plan in accordance with the recognition and measurement principles of Accounting Principles Opinion No. 25, Accounting for Stock Issued to Employees. The amendments to SFAS No. 123 are effective for financial statements for fiscal years ended after December 15, 2002 and for interim periods beginning after December 15, 2002. The adoption of the disclosure requirements of SFAS No. 148 did not have a material effect on the Company s financial position or results of operations.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

(In thousands except share data)	March 29, 2003	March 30, 2002
Assets		
Current assets		
Cash and cash equivalents	$ 5,005	$ 7,180
Trade accounts receivable, net of allowance of $353 and $358, respectively	3,245	3,881
Inventories	10,244	11,369
Income tax refund receivable	100	701
Prepaid expenses	488	320
Deferred income taxes		4,841
Total current assets	19,082	28,292
Property and equipment		
Leasehold improvements	674	408
Machinery and equipment	16,353	16,590
Office furniture and fixtures	1,162	1,162
Property and equipment	18,189	18,160
Less accumulated depreciation and amortization	15,915	14,098
Property and equipment, net	2,274	4,062
Patents and licenses		20
Other assets	433	506
Total assets	$ 21,789	$ 32,880
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	$ 1,723	$ 1,426
Accrued commissions	249	224
Accrued payroll and benefits	1,038	1,249
Accrued warranty	859	779
Customer advances	796	780
Obligations under capital lease	76	89
Other current liabilities	719	610
Total current liabilities	5,460	5,157
Obligations under capital lease, net of current portion	10	94
Deferred income taxes		546
Deferred rent	359	422
Total liabilities	5,829	6,219
Commitments		
Shareholders equity		
Preferred stock of no par value		
Authorized 1,000,000 shares; no shares outstanding at March 29, 2003 and March 30, 2002		

Common stock of no par value;		
Authorized 40,000,000 shares; 4,693,080 shares at March 29, 2003 and 4,648,944 shares at March 30, 2002 issued and outstanding	12,695	12,634
Retained earnings	3,265	14,027
Total shareholders equity	15,960	26,661
Total liabilities and shareholders equity	$ 21,789	$ 32,880

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended (In thousands except share data)	March 29, 2003	March 30, 2002	March 31, 2001
Net sales	$ 22,281	$ 39,036	$ 54,159
Cost of sales	16,378	27,501	35,103
Gross profit	5,903	11,535	19,056
Product development	5,644	7,001	5,087
Selling, general and administrative	6,800	8,729	10,713
Amortization of intangibles	20	182	232
Goodwill impairment		173	
Operating expenses	12,464	16,085	16,032
Operating income (loss)	(6,561)	(4,550)	3,024
Other income (expense)	(163)	25	232
Interest income, net	60	63	205
Earnings (loss) before provision (benefit) for income taxes and cumulative effect of accounting change	(6,664)	(4,462)	3,461
Provision (benefit) for income taxes	4,098	(2,360)	1,040
Earnings (loss) before cumulative effect of accounting change	(10,762)	(2,102)	2,421
Cumulative effect of accounting change			(520)
Net earnings (loss)	$ (10,762)	$ (2,102)	$ 1,901
Basic earnings (loss) per share:			
Before cumulative effect of accounting change	$ (2.31)	$ (0.46)	$ 0.54
Cumulative effect of accounting change			(0.12)
Basic earnings (loss) per share	$ (2.31)	$ (0.46)	$ 0.42
Diluted earnings (loss) per share:			
Before cumulative effect of accounting change	$ (2.31)	$ (0.46)	$ 0.51
Cumulative effect of accounting change			(0.11)
Diluted earnings (loss) per share	$ (2.31)	$ (0.46)	$ 0.40
Weighted average basic common shares outstanding	4,663	4,604	4,474
Weighted average diluted common shares outstanding	4,663	4,604	4,803

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

(In thousands except share data)	Common Stock Shares	Common Stock Amount	Comprehensive Income (Loss)	Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at March 25, 2000	4,431,008	$11,921	$	$	$ 14,228	$ 26,149
Comprehensive Income net						
Net earnings			1,901		1,901	1,901
Stock issuance under stock option plans	111,686	367				367
Tax benefit associated with exercise of stock options		58				58
Balance at March 31, 2001	4,542,694	$12,346	$	$	$ 16,129	$ 28,475
Comprehensive Income net						
Net earnings			(2,102)		(2,102)	(2,102)
Stock issuance under stock option plans	106,250	239				239
Tax benefit associated with exercise of stock options		49				49
Balance at March 30, 2002	4,648,944	$12,634	$	$	$ 14,027	$ 26,661
Comprehensive Income net						
Net earnings			(10,762)		(10,762)	(10,762)
Stock issuance under stock option plans	44,136	61				61
Balance at March 29, 2003	4,693,080	$12,695	$	$	$ 3,265	$ 15,960

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended (In thousands)	March 29, 2003	March 30, 2002	March 31, 2001
Cash flows provided from operations:			
Net earnings (loss)	$(10,762)	$(2,102)	$ 1,901
Adjustments to reconcile net earnings (loss) to net cash (used in) provided by operations:			
Provision for bad debt	(5)	96	8
Depreciation and amortization	1,954	2,216	2,120
Impairment of Goodwill		173	
Tax benefit from employee stock options		49	58
(Gain) Loss on sales of fixed assets	7	(1)	(20)
Deferred income taxes	4,295	(1,531)	(205)
Changes in operating assets and liabilities:			
Trade accounts receivable	641	3,799	1,419
Inventories	1,125	3,939	(1,072)
Prepaid expenses	(168)	229	20
Accounts payable	297	(1,921)	(718)
Accrued commissions	25	(211)	(190)
Accrued payroll and benefits	(211)	(438)	49
Accrued warranty	80		