

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 29, 2014,

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

(State or other jurisdiction of incorporation or organization)

94-2656341

(I.R.S. Employer Identification No.)

4650 Norris Canyon Road, San Ramon, CA

(Address of principal executive offices)

94583

(Zip Code)

Registrant's telephone number, including area code: (925) 328-4650

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

Title of each class

Common Stock, No par value

Name of each exchange on which registered

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes [] No [X]

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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes No

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the price at which the common equity was sold or the average bid and asked prices as of September 28, 2013 was \$6,321,121.

There were a total of 5,181,247 shares of the Registrant's Common Stock outstanding as of June 16, 2014.

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	Registrant's PROXY STATEMENT for its 2014 Annual Meeting of Shareholders to be filed no later than 120 days after the close of the fiscal year ended March 29, 2014.

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PART 1

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, or the Company) includes the operations of the Giga-tronics Division and Microsource Inc. (Microsource), a wholly owned subsidiary. Giga-tronics Division designs, manufactures and markets 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 equipment.

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

Giga-tronics was incorporated on March 5, 1980, and Microsource was acquired by Giga-tronics on May 18, 1998.

The combined Company principal executive offices are located at 4650 Norris Canyon Road, San Ramon, California, and its telephone number at that location is (925) 328-4650.

Giga-tronics intends to broaden its product lines and expand its market primarily through internal development of new products.

Industry Segments

The Company manufactures products used in test, measurement and control. The Company has two reporting segments: Giga-tronics Division and Microsource.

Products and Markets

Giga-tronics

The Giga-tronics Division produces signal sources, generators, power measurement and amplification instruments for use in the microwave and radio frequency (RF) range (10 kilohertz (kHz) to 50 gigahertz (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: electronic warfare, radar and commercial telecommunications. These instruments are used in the design, production, repair and maintenance and calibration of other manufacturers’ products, from discrete components to complex systems.

The Giga-tronics Division also produces switching systems that operate with a bandwidth from direct current (DC) to optical frequencies. These switch systems may be incorporated within customers’ automated test equipment. The end-user markets for these products are primarily related to defense, aeronautics, communications, satellite and electronic warfare, commercial aviation and semiconductors.

Microsource

The Microsource segment develops and manufactures a broad line of YIG tuned oscillators, filters, filter components, and microwave synthesizers, which are used by its customers in operational applications and in manufacturing a wide variety of microwave instruments or devices. The end-user markets for these products are primarily related to defense and commercial aerospace.

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 or 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. Some suppliers are also competitors of Giga-tronics. In the event a competitor-supplier chooses not sell its products to Giga-tronics, production delays could occur as the Company seeks new suppliers; or, the Company re-designs components to its products.

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.

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) are easy to use and 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 the Company occasionally pursues patent coverage, it places major emphasis on the development of new products with superior performance specifications and the upgrading of existing products toward this same end.

The Company's products are based on its own designs, which are derived 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 31 patents. Some of these are critical to the Company's ongoing business, and the Company intends to actively maintain them. Capitalized costs relating to these patents were both incurred and fully amortized prior to March 27, 2011. Accordingly, these patents have no recorded value included in the Company's consolidated financial statements for the fiscal years ended March 29, 2014 ("fiscal 2014") and March 30, 2013 ("fiscal 2013").

The Company is not dependent on trademarks, licenses or franchises. It does utilize certain software licenses in certain functional aspects for some of its 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 adequate levels of inventory and generally sells to customers on 30-day payment terms in the U.S. and generally allows more time for overseas payments. Typically, the Company receives payment terms of 30 days from its suppliers. The Company believes that these practices are consistent with typical industry practices.

Importance of Limited Number of Customers

The Company is a supplier of microwave and RF test instruments to various United States (U.S.) government defense agencies, as well as to their prime contractors. Management anticipates sales to U.S. government agencies and their prime contractors will remain significant in fiscal 2015. U.S. and international defense-related agencies accounted for 57% and 58% of net sales in fiscal 2014 and 2013, respectively. Commercial business accounted for the remaining 43% and 42% of net sales in fiscal 2014 and fiscal 2013, respectively.

At the Giga-tronics Division, U.S. defense agencies and their prime contractors accounted for 25% and 40% of net sales in fiscal 2014 and fiscal 2013, respectively. Microsource reported 96% and 91% of net sales to U.S. defense agencies and their prime contractors during fiscal 2014 and year 2013, respectively.

During fiscal 2014, one customer accounted for 39% of the Company's consolidated revenues and was included in the Microsource reporting segment. A second customer accounted for 16% of the Company's consolidated revenues during fiscal 2014 and was included in the Giga-tronics Division reporting segment.

During fiscal 2013, one customer accounted for 30% of the Company's consolidated revenues and was included in the Microsource reporting segment. A second customer accounted for 12% of the Company's consolidated revenues during fiscal 2013 and was included in the Giga-tronics Division reporting segment.

In management's opinion, the Company could experience a material adverse effect on its financial stability if there was a significant loss of either its defense or commercial customers.

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 net sales and earnings will decline if the Company is unable to find new customers or increase its business with other existing customers to replace declining net sales from the previous year's major customers. A substantial decline in net sales to U.S. government defense agencies and their prime contractors would also have a material adverse effect on the Company's net sales and results of operations unless replaced by net sales in the commercial sector.

Backlog of Orders

On March 29, 2014, the Company's backlog of unfilled orders was approximately \$6.7 million compared to approximately \$7.3 million at March 30, 2013. As of March 29, 2014, there were approximately \$1.2 million of orders scheduled for shipment beyond one year. As of March 30, 2013, there were approximately \$638,000 of orders scheduled for shipment beyond one year. 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 year to year 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.

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 signals. These applications cut across the military, commercial and industrial segments of the broader market. The Company has a variety of competitors. Several of its competitors such as Agilent/Keysight, Anritsu and Rohde & Schwarz are much larger than the Company and have greater resources in research and development and manufacturing with substantially broader product lines and channels. Others are of comparable size or have small product divisions with more limited product lines, such as EADS, VTI, Elcom, Aeroflex and Herley.

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 in less competitive growth areas, (b) is highly selective in establishing technological objectives and (c) focuses sales and marketing activities in areas that are weakly served or underserved. The Company does not attempt to compete 'across the board', but selectively based upon its particular strengths, the competitors' perceived limitations, the customer's needs and market opportunities.

The Company is able to compete by offering differentiated products that meet a customer's particular specification requirements in high value niches; by being able to present the correct product functionality at a high quality level, and by configuring its core platforms to fit the application need. All of these advantages are attributable to the Company's continuing investment in platform research and development and in a highly trained engineering staff.

When the opportunity involves custom solutions, satisfying the customer's specific requirements assumes greater importance and the Company has more flexibility in making modifications and enhancements than its larger and more structured competitors.

Sales and Marketing

Giga-tronics and Microsource market their products through various independent distributors and representatives to commercial and government customers for its instrument products but sell primarily direct on its switch and component products, 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. In fiscal 2014 and fiscal 2013, product development expenses totaled approximately \$3.9 million and \$4.3 million including non-recurring engineering (NRE) costs, respectively.

Activities included the development of new products and the improvement of existing products. It is management's intention to maintain product development at levels required to sustain its competitive position. The Company's product development activities are funded internally, or through outside equity investment and debt. Product development activities are 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 that 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 Division and Microsource's products are done at its San Ramon 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, 2014, Giga-tronics employed 76 individuals on a full-time basis compared to 90 as of March 30, 2013. 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. All transactions between the Company and its international customers are in U.S. dollars.

Geographic Distribution of Net Sales

(Dollars in thousands)	2014	2013	2014	2013
Domestic	\$ 11,832	\$ 11,260	88.9%	79.0%
International	1,477	2,927	11.1%	21.0%
Total	\$ 13,309	\$ 14,187	100.0%	100.0%

See Item 8, footnote 8 of the consolidated financial statements for further breakdown of international sales for the last two years.

ITEM 1A. RISK FACTORS

Future liquidity is uncertain

The Company incurred net losses of \$3.7 million in fiscal 2014, and \$4.2 million in fiscal 2013. These losses have contributed to an accumulated deficit of \$18.3 million at March 29, 2014, and have resulted in the Company using cash in its operations of \$2.5 million in fiscal 2014. These matters, along with recurring losses in prior years, raise substantial doubt as to the ability of the Company to continue as a going concern.

In fiscal 2014 and 2013 the Company invested heavily in the development of a new Giga-tronics Division product platform. The Company anticipates long-term revenue growth and improved gross margins from the new product platform, but delays in completing it have contributed to the losses of the Company. The new product platform is currently forecasted to start shipping in the second quarter of fiscal 2015, but further delays could cause additional losses.

To help fund operations, the Company relies on advances under its line of credit with Silicon Valley Bank ("SVB"). However the SVB may terminate or suspend advances under the line of credit if SVB determines there has been a material adverse change in the Company's general affairs, financial forecasts or general ability to repay. (see Note 15, Line of Credit).

To address this matter, the Company's management has taken several actions to address liquidity concerns during fiscal 2014, and reduce the costs and expenses going forward. These actions are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements (Note 2, Going Concern and Management's Plan).

Management believes that through the actions described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements (Note 2, Going Concern and Management's Plan), the Company should have the necessary liquidity to continue its operations at least for the next twelve months, though no assurances can be made in this regard.

Delivery of new products in development

The Company continues to invest heavily in the development of a new product platform forecasted to start shipping in the second quarter of fiscal 2015. The Company anticipates long-term revenue growth and improved gross margins from the new product platform. No assurances can be made that the new product platform will be delivered to customers in the second quarter of fiscal 2015 or that there will be sufficient market acceptance of it.

Ability to stay listed for trading on The Nasdaq Capital Market

On February 12, 2014, the Company received a notification letter from The NASDAQ Stock Market ("NASDAQ") advising the Company of its failure to comply with the required minimum of \$2.5 million in shareholders' equity for continued listing on The Nasdaq Capital Market, pursuant to NASDAQ listing rule 5550(b)(1). The Company fell below the minimum requirement with reported shareholders' equity of \$2.0 million in its Form 10-Q for the quarterly period ended December 28, 2013.

NASDAQ stated in the February 12, 2014 letter that under the NASDAQ listing rules the Company had 45 calendar days to submit a plan to regain compliance. The Company submitted a plan on March 31, 2014. On April 10, 2014, the Company received a notification letter from NASDAQ advising the Company that an extension to August 11, 2014, had been granted to take the steps necessary to regain compliance with NASDAQ listing rule 5550(b)(1) and promptly thereafter to file a report describing the transaction or event enabling the company to satisfy the applicable requirement for continued listing.

There can be no assurance that the Company's plans to comply with the required minimum of \$2.5 million in shareholders' equity will be successful by August 11, 2014. If the Company's Common Stock ceases to be listed for trading on the Nasdaq Capital Market, the Company expects that its Common Stock would be traded on the Over-the-Counter Bulletin Board on or about the same day.

The market price of the Company's Common Stock may be adversely affected if it ceases to be listed for trading on the Nasdaq Capital Market.

Giga-tronics' sales are substantially dependent on the defense industry

Giga-tronics has a significant number of defense-related orders. If the defense market demand decreases, actual shipments could be less than projected shipments with a resulting decline in sales. The Company's product backlog has a number of risks and uncertainties such as the cancellation or deferral of orders, dispute over performance and the Company's ability to collect amounts due under these orders. If any of these events occur, actual shipments could be lower than projected shipments and revenues could decline.

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, 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. The inability to develop new products in a timely manner could have a material adverse impact on operating performance and liquidity.

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, reduction in revenues or lower earnings or increased losses and reduced levels of liquidity when compared to previous quarterly periods, 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 Capital Market and other stock markets have experienced significant price fluctuations in recent years. Some of these fluctuations often have been unrelated to the reported 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 low volume on The Nasdaq Capital Market. Sales of a significant volume of stock could result in a decline of Giga-tronics' share price.

Performance problems in Giga-tronics' products or problems arising from the use of its products together with other vendors' products may harm its business and reputation

Products as complex as those Giga-tronics produces may contain unknown and undetected defects or performance problems. For example, it is possible that a product might not comply with stipulated specifications under all circumstances. In addition, Giga-tronics' customers generally use its products together with their own products and products from other vendors. As a result, when problems occur in a combined environment, it may be difficult to identify the source of the problem. A defect or performance problem could result in lost revenues, increased warranty costs, diversion of engineering and management time and effort, impaired customer relationships and injury to Giga-tronics' reputation generally. To date, performance problems in Giga-tronics' products or in other products used together with Giga-tronics' products have not had a material adverse effect on its business. However, management cannot be certain that a material adverse impact will not occur in the future.

Giga-tronics' competition has greater resources

The Company's instrument, switch, oscillator and synthesizer products compete with Agilent/Keysight, Anritsu, EADS, Aeroflex and Rohde & Schwarz. Many of these companies have substantially greater research and development, manufacturing, marketing, financial, and technological personnel and managerial resources than Giga-tronics. These resources also make these competitors better able to withstand difficult market conditions than the Company. There can be no assurance that any products developed by the competitors will not gain greater market acceptance than any developed by Giga-tronics.

Giga-tronics acquisitions may not be effectively integrated and their integration may be costly

As part of its business strategy, Giga-tronics may 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.

The Company has not made any acquisitions in the past several years.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Giga-tronics' principal executive office and the marketing, sales and engineering offices and manufacturing facilities are located in approximately 47,300 square feet in San Ramon, California, which the Company occupies under a lease agreement expiring December 31, 2016.

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

ITEM 3. LEGAL PROCEEDINGS

As of March 29, 2014, 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. MINE SAFETY DISCLOSURES

Not Applicable

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES

Common Stock Market Prices

Giga-tronics' common stock is traded on the Nasdaq Capital Market using the symbol 'GIGA'. The number of record holders of the Company's common stock as of March 29, 2014 was approximately 1,500. 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 mark-ups, mark-downs, or commission and may not reflect actual transactions.

	2014	High	Low	2013	High	Low
First Quarter	(4/1 - 6/30)	\$ 1.79	\$ 1.37	(4/1 - 6/30)	\$ 1.21	\$ 0.92
Second Quarter	(7/1 - 9/28)	1.44	1.22	(7/1 - 9/29)	1.80	1.01
Third Quarter	(9/29 - 12/28)	1.24	0.90	(9/30 - 12/29)	1.75	1.25
Fourth Quarter	(12/29 - 3/29)	1.55	0.92	(12/30 - 3/30)	1.71	1.32

On February 12, 2014, the "Company received a notification letter from The NASDAQ Stock Market ("NASDAQ") advising the Company of its failure to comply with the required minimum of \$2.5 million in shareholders' equity for continued listing on The Nasdaq Capital Market, pursuant to NASDAQ listing rule 5550(b)(1). The Company fell below the minimum requirement with reported shareholders' equity of \$2.0 million in its Form 10-Q for the quarterly period ended December 28, 2013.

NASDAQ stated in the February 12, 2014 letter that under the NASDAQ listing rules the Company had 45 calendar days to submit a plan to regain compliance. The Company submitted a plan on March 31, 2014. On April 10, 2014, the Company received a notification letter from NASDAQ advising the Company that an extension to August 11, 2014, had been granted to take the steps necessary to regain compliance with NASDAQ listing rule 5550(b)(1) and promptly thereafter to file a report describing the transaction or event enabling the company to satisfy the applicable requirement for continued listing.

As of March 29, 2014, the Company's shareholders' equity was \$877,000. There can be no assurance that the Company's plans to comply with the required minimum of \$2.5 million in shareholders' equity will be successful by August 11, 2014. If the Company's Common Stock ceases to be listed for trading on the Nasdaq Capital Market, the Company expects that its Common Stock would be traded on the Over-the-Counter Bulletin Board on or about the same day.

The market price of the Company's Common Stock may be adversely affected if it ceases to be listed for trading on the Nasdaq Capital Market.

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

In fiscal year 2014 Giga-tronics issued 5,111.86 shares of Series D convertible preferred stock at no par value to Alara Capital AVI II, LLC ("Alara") for \$143 per share and a warrant to purchase up to 511,186 additional shares of common stock at the price of \$1.43 per share in private transactions not registered with the Commission. It also issued warrants for up to 300,000 shares of common stock at an exercise price of \$1.42 per share in connection with debt financing provided by Partners for Growth IV, L.P. in a private transaction without registration. All such transactions were previously reported in current reports on Form 8-K.

Equity Compensation Plan Information

The following table provides information on options and other equity rights outstanding and available at March 29, 2014.

Equity Compensation Plan Information

Plan Category	No. of securities to be issued upon exercise of outstanding options, stock awards, warrants and rights (1)	Weighted average exercise price of outstanding options, stock awards, warrants and rights	No. of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,575,250	\$1.5200	711,427
Equity compensation plans not approved by security holders - options	235,000	\$1.1100	n/a
Equity compensation plans not approved by security holders	50,000	\$0.0000	n/a
Total	1,860,250	\$1.4300	711,427

(1) Includes 189,000 shares issuable under the 2000 Stock Option Plan, 1,386,250 shares issuable under the 2005 Equity Incentive Plan, 285,000 shares issuable outside of the 2005 Equity Incentive Plan.

Issuer Repurchases

The Company did not repurchase any of its equity securities during the fiscal year ended March 29, 2014.

ITEM 6. SELECTED FINANCIAL DATA

Pursuant to Item 301(c) of Regulation S-K., the Company, as a smaller reporting company, is not required to provide the information required by this item.

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

Overview

Giga-tronics produces instruments, subsystems and sophisticated microwave components that have broad applications in both defense electronics and wireless telecommunications. The Company has two reporting segments: Giga-tronics Division and Microsource.

The Giga-tronics Division produces signal sources, generators, power measurement and amplification instruments for use in the microwave and radio frequency (RF) range (10 kilohertz (kHz) to 50 gigahertz (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: electronic warfare, radar and commercial telecommunications. These instruments are used in the design, production, repair and maintenance and calibration of other manufacturers' products, from discrete components to complex systems.

The Giga-tronics Division also produces switching systems that operate with a bandwidth from direct current (DC) to optical frequencies. These switch systems may be incorporated in customers' automated test equipment. The end-user markets for these products are primarily related to defense, aeronautics, communications, satellite and electronic warfare, commercial aviation and semiconductors.

The Microsource segment develops and manufactures a broad line of YIG tuned oscillators, filters, filter components, and microwave synthesizers, which are used by its customers in operational applications and in manufacturing a wide variety of microwave instruments or devices. The end-user markets for these products are primarily related to defense and commercial aerospace.

In fiscal 2014 and fiscal 2013 almost all of the sales for Microsource were to one large aerospace customer associated with programs for retrofitting radar filter components on existing military aircraft, and radar filter components for new military aircraft being manufactured. The timing of orders and the contractual shipment schedule associated with this customer cause significant differences in orders, sales, deferred revenue, inventory and cash flow when comparing one fiscal period to another.

A second large aerospace company has engaged Microsource for design services and a production bid associated with a similar radar filter program. On August 13, 2013 Microsource received an initial order for \$733,000, on May 6, 2014 a follow on order of \$659,000 was received, and then on May 20, 2014 the complete order for an additional \$5.5 million was received. The total orders for the design and production bid for the associated program is \$6.9 million. The Company anticipates the associated multi-year production agreement to be for approximately \$10.0 million and for it to finalize in calendar 2014. No assurances can be given that the parties will agree on the final multi-year production agreement, or what the actual terms will be. (see Note 20, Subsequent Events)

In fiscal 2014 the Company saw a continuation of substantial losses as legacy Giga-tronics Division products sales and gross margins decreased, while the Company continued to invest heavily in the development of a new Giga-tronics Division product platform. The Company anticipates long-term revenue growth and improved gross margins from the new product platform, but delays in completing it have contributed to the existence of substantial doubt about the Company's ability to continue as a going concern.

In fiscal 2014 the Microsource business unit completed its move from Santa Rosa, California, to the Company's headquarters in San Ramon, California. Microsource maintained all defense and manufacturing related certifications during the move and increased revenue shipments by 25% in fiscal 2014 when compared to fiscal 2013. Microsource also started working with a second large aerospace company on another radar filter program, and finalized the total \$6.9 million design and production bid on May 20, 2014. (see Note 20, Subsequent Events)

Since March 2013 the Company has raised additional capital and generated liquidity to support the ongoing development of a new Giga-tronics Division product platform by selling a product line, issuing equity in the Company, increasing its debt, and cutting costs. The Company's management will continue to look at all these strategies in fiscal 2015 in order to complete development of the new product design, market introduction and volume production.

Results of Operations

New orders by reporting segment are as follows for the fiscal years ended:

NEW ORDERS			% change	
			2014	2013
(Dollars in thousands)	2014	2013	vs. 2013	vs. 2012
Giga-tronics Division	\$ 8,684	\$ 9,013	(4.0%)	(20.0%)
Microsource	4,947	8,679	(43.0%)	334.0%
Total	\$ 13,631	\$ 17,692	(23.0%)	33.0%

New orders received in fiscal 2014 decreased 23% to \$13.6 million from the \$17.7 million received in fiscal 2013. The decrease in orders was primarily due to Microsource's receipt in fiscal 2013 of \$8.2 million in long term contracts from a large aerospace company. In fiscal 2014 Microsource received annual extensions of these contracts totaling \$4.0 million, and an initial \$733,000 order from a second large aerospace company for design services and a production bid associated with a similar radar filter program. The decrease in new orders for the Giga-tronics Division in fiscal 2014 was primarily due to the sale of the SCPM product line to Teradyne in April 2013 (see Note 6, Gain on Sale of Product).

New orders received in fiscal 2013 increased 33% to \$17.7 million from the \$13.3 million received in fiscal 2012. The increase was primarily due to Microsource's receipt in fiscal 2013 of \$8.2 million in long term contracts from a large aerospace company compared to \$1.6 million in fiscal 2012. This was partially offset by a \$2.2 million decrease in Giga-tronics Division defense orders, primarily from a decrease of switch modules associated with the older SCPM product line that was sold to Teradyne in April 2013 (see Note 6, Gain on Sale of Product).

The following table shows order backlog and related information at fiscal year-end:

Backlog			% change	
			2014	2013
			vs.	vs.
(Dollars in thousands)	2014	2013	2013	2012
Backlog of unfilled orders	\$ 6,669	\$ 7,344	(9%)	91%
Backlog of unfilled orders shippable within one year	5,438	6,706	(19%)	75%
Long term backlog reclassified during year as shippable within one year	931	2,162	(57%)	31%

The decreases in backlog at the end of fiscal 2014 when compared to fiscal 2013 are primarily due to the Microsource business unit's fulfilling \$6.1 million of scheduled shipments over the past year attributable to long term contracts awarded in fiscal 2013. This was partially offset by the Microsource business unit's receipt in fiscal 2014 of \$4.0 million follow on orders, and an initial order of design services and a production bid for \$733,000 from a second aerospace company for radar filters.

The increase in backlog at year-end 2013 of 91% was primarily due to the Microsource business unit's receipt of long term contracts from a large aerospace company.

The allocation of net sales by reporting segment was as follows for the fiscal years shown:

Allocation of Net Sales			% change	
			2014	2013
			vs.	vs.
(Dollars in thousands)	2014	2013	2013	2012
Giga-tronics Division	\$ 7,290	\$ 9,385	(22%)	(11%)
Microsource	6,019	4,802	25%	84%
Total	\$ 13,309	\$ 14,187	(6%)	8%

Net sales in fiscal 2014 were \$13.3 million, a 6% decrease from \$14.2 million in fiscal 2013. Sales for the Giga-tronics Division decreased 22%, or \$2.1 million, primarily due to a decrease in SCPM switch product sales as a result of the sale of this product line during fiscal 2014 (see Note 6, Gain on Sale of Product). Sales for the Microsource business unit increased 25%, or \$1.2 million, largely due to the contractual timing of shipments associated with long-term contracts from a large aerospace company.

Net sales in fiscal 2013 were \$14.2 million, an 8% increase from \$13.1 million in fiscal 2012. The Microsource business unit's sales increased 84%, or \$2.2 million, primarily due to increased defense sales caused by the fulfillment of radar filter component orders. Sales at Giga-tronics Division decreased 11%, or \$1.1 million, primarily due to lower defense sales caused by the SG VXI product end of life program in fiscal 2012.

The allocation of cost of sales by reporting segment was as follows for the fiscal years shown:

Cost of Sales			% change	
			2014	2013
			vs.	vs.
(Dollars in thousands)	2014	2013	2013	2012
Giga-tronics Division	\$ 5,093	\$ 5,727	(11%)	(18%)
Microsource	3,718	2,983	25%	0%
Total	\$ 8,811	\$ 8,710	1%	(13%)

Cost of sales as a percentage of sales increased in fiscal 2014 to 66.2%, compared to 61.4% for fiscal 2013. The increase in fiscal 2014 was primarily due to the change in product mix of Giga-tronics Division, which saw an increase in the sales of lower margin legacy products in fiscal 2014 when compared to fiscal 2013.

In fiscal 2013 cost of sales as a percentage of sales decreased to 61.4%, compared to 76.2% for fiscal 2012. The decrease is primarily due to a \$1.5 million excess and obsolete inventory reserve charge in fiscal 2012.

Operating expenses were as follows for the fiscal years shown:

Operating Expenses			% change	
	2014	2013	2014	2013
(Dollars in thousands)			vs.	vs.
	2014	2013	2013	2012
Engineering	\$ 3,897	\$ 4,282	(9%)	48%
Selling, general and administrative	4,809	4,976	(3%)	(18%)
Restructuring	331	418	(21%)	1248%
Total	\$ 9,037	\$ 9,676	(7%)	8%

Operating expenses decreased 7%, or \$639,000, in fiscal 2014 compared to fiscal 2013. Engineering expenses decreased \$385,000 during fiscal 2014 when compared to fiscal 2013, the decrease is primarily due to some engineers being assigned to a Microsource nonrecurring engineering project that is recorded as cost of sales. Selling, general and administrative expenses decreased \$167,000 in fiscal 2014 when compared to fiscal 2013, primarily due to reductions in personnel. Restructuring expenses decreased \$87,000 in fiscal 2014 when compared to fiscal 2013, primarily due to the Company's completion of its closure of the Santa Rosa facility in May 2013.

The Company is currently spending approximately \$1.0 million to \$1.1 million in research and development per quarter. The majority of these expenses are associated with the development of the new product platform that experienced delays and is currently forecasted to begin shipping in the second quarter of fiscal 2015. Expenses associated with the development of the new product platform have significantly contributed to the losses in fiscal 2014 and fiscal 2013.

In order to reduce its manufacturing and facilities costs, Giga-tronics made the decision during the fourth quarter of fiscal 2012 to consolidate its Santa Rosa, CA operations with those of its facility in San Ramon, CA. The Company announced its intentions to employees in February 2012, and entered into employment agreements with all key Santa Rosa employees to retain the talent needed to continue shipments during the transition and to help ensure the new operation in San Ramon would run smoothly.

The major types of costs associated with this move and estimates of their respective totals were as follows:

Type of cost (In thousands)		
Retention agreements for employees	\$	542
Preparation of San Ramon facility		59
Training of San Ramon employees		4
Moving expenses		24
Clean-up of Santa Rosa facility		151
Total	\$	780

Of the total estimated expense of \$780,000, \$331,000 was expensed during fiscal 2014; \$418,000 was expensed during fiscal 2013; and \$31,000 was expensed during fiscal 2012. The Company vacated its Santa Rosa facility on May 31, 2013 and does not anticipate any additional expenses.

Gain on the Sale of Product Line

On March 18, 2013, the Company entered into an Asset Purchase Agreement with Teradyne, whereby Teradyne agreed to purchase the Giga-tronics Division product line known as SCPM for \$1.0 million, resulting in a net gain of \$913,000. In April 2013 the Company received \$800,000 in proceeds at the closing of the transaction upon delivery of electronic data associated with the purchase. The Company also earned an additional \$50,000 associated with training of Teradyne employees, which was offset by \$34,000 of associated costs. The balance of the consideration (\$150,000) was subject to a hold back arrangement until December 31, 2013 to cover certain contingencies and the requirement to deliver certain inventory. During fiscal 2014, the Company delivered to Teradyne all of the associated inventory, totaling \$53,000. On December 6, 2013, the Company received the remaining \$150,000 along with confirmation from Teradyne that the holdback provisions were removed. Net sales for the SCPM product line during fiscal 2014 and fiscal 2013 were \$265,000 and \$1.7 million, respectively.

Net Interest Expense

Net interest expense in fiscal 2014 was \$106,000, an increase of \$90,000 over fiscal 2013 and was primarily due to borrowings under the SVB line of credit. In order to support operations during the last seven months of fiscal 2014 the Company borrowed on substantially all eligible receivables under the Line of Credit.

Giga-tronics recorded a pre-tax loss of \$3.7 million for fiscal 2014 versus pre-tax loss of \$4.2 million for fiscal 2013. The lower pre-tax loss in fiscal 2014 compared to fiscal 2013 was primarily due to lower operating expenses and the gain on the sale of the SCPM product line discussed above, which was partially offset by a decline in gross margin.

Net Inventories

Inventories consisted of the following:

Net Inventories				% change
	March 29,	March 30,		2014
(Dollars in thousands)	2014	2013		vs.
				2013
Raw materials	\$ 1,501	\$ 2,157		(30%)
Work-in-progress	1,400	2,049		(32%)
Finished goods	353	50		606%
Demonstration inventory	67	304		(78%)
Total	\$ 3,321	\$ 4,560		(27%)

Net inventories decreased by \$1.2 million from March 30, 2013 to March 29, 2014. The decrease was primarily due to the sale of lower margin legacy products, or demonstration inventory, and a reduction of raw materials on hand supporting the Giga-tronics manufacturing production line.

Financial Condition and Liquidity

As of March 29, 2014, Giga-tronics had \$1.1 million in cash and cash-equivalents, compared to \$1.9 million as of March 30, 2013.

Working capital at the end of fiscal year 2014 was \$1.0 million as compared to \$3.2 million at the end of fiscal year 2013.

The current ratio (current assets divided by current liabilities) at March 29, 2014 was 1.17 as compared to 1.60 at March 30, 2013. The decrease in working capital was primarily attributable to the net loss of \$3.7 million for fiscal 2014, which was partially offset by \$817,000 of cash proceeds from the issuance of preferred stock.

Cash used in operating activities amounted to \$2.5 million in fiscal 2014 and \$1.6 million in fiscal 2013. Cash used in fiscal year 2014 operating activities was primarily attributed to the net loss of \$3.7 million for the year, which was partially offset by a \$1.2 million decrease in inventories. Cash used in fiscal year 2013 operating activities was primarily attributed to the net loss of \$4.2 million for the year, which was partially offset by a \$2.3 million increase in deferred revenue associated with progress billings for completed contract milestones prior to final delivery of the finished product.

Additions to property and equipment were \$482,000 in fiscal 2014, of which \$254,000 were related to capital lease obligations, compared to \$349,000 in fiscal 2013, of which \$170,000 were related to capital lease obligations. The increase in property and equipment in fiscal 2014 was primarily attributable to leasehold improvements associated with the move of the Microsource business unit's manufacturing to the San Ramon facility. The increase in property and equipment in fiscal 2013 was primarily attributable to test equipment needed to prepare a manufacturing line for the new Giga-tronics product platform.

Cash provided by financing activities in fiscal year 2014 was \$2.1 million, primarily due to \$1.0 million in proceeds from a term loan with Partners For Growth IV, L.P. ("PFG"), \$817,000 in net proceeds from the issuance of Series D convertible preferred stock, and \$308,000 of net proceeds from the Company's line of credit with Silicon Valley Bank ("SVB"). Cash provided by financing activities in fiscal year 2013 of \$1.3 million was primarily due to \$857,000 in net proceeds from the Company's line of credit with SVB, and \$457,000 in net proceeds from the issuance of Series C convertible preferred stock.

On March 13, 2014 the Company entered into a three year, \$2.0 million term loan agreement with PFG under which the Company received \$1.0 million on March 14, 2014. Pursuant to the agreement, the Company may borrow an additional \$1.0 million following the Company's achievement of certain performance milestones which includes achieving \$7.5 million in net sales during the first half of fiscal 2015 and two consecutive quarters of net income greater than zero during fiscal 2015. The PFG loan agreement provides for a fixed interest rate of 9.75% and requires monthly interest only payments during the first six months of the agreement followed by monthly principal and interest payments over the remaining thirty months. The Company may prepay the loan at any time prior to maturity by paying all future scheduled principal and interest payments. The PFG Loan is secured by all of the assets of the Company under a lien that is junior to the SVB position described in Note 15, and limits borrowing under the SVB credit line limit to \$3.0 million. The loan agreement contains financial covenants associated with the Company achieving minimum quarterly net sales and maintaining a minimum monthly shareholders' equity. In the event of default by the Company, all or any part of the Company's obligation to PFG could become

immediately due.

The loan agreement also provided for the issuance of warrants convertible into 300,000 shares of the Company's common stock, of which 180,000 were exercisable upon receipt of the First Draw and 120,000 would be exercisable if the Second Draw is funded. Each warrant issued under the loan agreement has a term of five years and an exercise price of \$1.42 which is equal to the average NASDAQ closing price of the Company's common stock for the ten trading days prior to the First Draw. The number of shares exercisable under the warrant agreements is subject to downward adjustment from 180,000 to 155,000 and from 120,000 to 95,000 if the Company achieves in fiscal 2015 net sales of at least \$18.0 million and net income of at least \$1.0 million.

In the event of any acquisition or other change in control of the Company, future public issuance of Company securities, liquidation (or substantially similar event) of the Company, or expiration of the warrants, the warrants associated with the First Draw can be exchanged for \$150,000 in cash and the warrants associated with the Second Draw can be exchanged for \$100,000 in cash. The Company has no plans for public offering, so the cash out date is estimated to be the expiration date unless warrants are exercised before then. Due to the fixed payment amount on the expiration date, the warrant structure in substance is a debt arrangement (Warrant Debt) with a zero interest rate, a fixed maturity date and a feature that makes the debt convertible to common stock. For accounting purposes, the conversion feature is bifurcated and accounted for separately from the host debt instrument as a derivative liability measured at fair value which resulted in an initial carrying value of \$128,000.

The proceeds from the First Draw were allocated between the PFG Debt and the Warrant Debt (inclusive of its conversion feature) based on their relative fair values on the date of issuance which resulted in initial carrying values of \$822,000 and \$178,000, respectively. The conversion feature is bifurcated from the Warrant Debt and recorded at fair value resulting in a remaining carrying value of \$50,000 associated with the Warrant Debt. The resulting discounts of \$178,000 and \$100,000, respectively, will be accreted to interest expense under the effective interest method over the three-year term of the PFG Debt and the five-year term of the Warrant Debt. (See Note 16, Term Loan).

On June 11, 2013 the Company entered into an amendment to the Second Amended Credit Facility (the "New Amended Credit Facility") with SVB. The New Amended Credit Facility amended the Second Amended Credit Facility by expanding the definition of eligible accounts, increasing the maximum limit, and extending the maturity date. The New Amended Credit Facility, which expires on April 15, 2015, is secured by all assets of the Company and provides for a borrowing capacity equal to 80% of eligible accounts receivable (70% of eligible foreign accounts receivable) on an aggregate basis, up to a maximum \$3.0 million, provided the Company maintains borrowing base eligibility, that is, a minimum of \$750,000 of cash in excess of its line of credit liability.

As of March 29, 2014, the Company's outstanding borrowings under the New Amended Credit Facility were \$1.2 million. Management intends to draw upon the New Amended Credit Facility throughout fiscal 2015 to meet projected cash requirements. As of March 29, 2014, the line of credit was at its maximum borrowing capacity. SVB may terminate or suspend advances under the line of credit if SVB determines there has been a material adverse change in the Company's general affairs, financial forecasts or general ability to repay.

The Company has incurred net losses of \$3.7 million in fiscal 2014, and \$4.2 million in fiscal 2013. These losses have contributed to an accumulated deficit of \$18.3 million at March 29, 2014, and have resulted in the Company using cash in its operations of \$2.5 million in fiscal 2014.

In fiscal 2014 and 2013 the Company invested heavily in the development of a new Giga-tronics Division product platform. The Company anticipates long-term revenue growth and improved gross margins from the new product platform, but delays in completing it have contributed significantly to the losses of the Company. The new product platform is forecasted to start shipping in the second quarter of fiscal 2015, but further delays could cause additional losses.

To help fund operations, the Company relies on advances under the line of credit with Silicon Valley Bank. However the Bank may terminate or suspend advances under the line of credit if the Bank determines there has been a material adverse change in the Company's general affairs, financial forecasts or general ability to repay. (see Note 15, Line of Credit). As of March 29, 2014, the line of credit was at its maximum borrowing capacity.

These matters, along with recurring losses in prior years, raise substantial doubt as to the ability of the Company to continue as a going concern.

To address this matter, the Company's management has taken several actions to provide additional liquidity during fiscal 2014, and reduce costs and expenses going forward. These actions are described in the following paragraph.

- On March 13, 2014 the Company entered into a three year, \$2.0 million term loan agreement with PFG under which the Company received \$1.0 million on March 14, 2014. Pursuant to the agreement, the Company may borrow an additional \$1.0 million following the Company's achievement of certain performance milestones which includes achieving \$7.5 million in net sales during the first half of fiscal 2015 and two consecutive quarters of net income greater than zero during fiscal 2015. The PFG loan agreement provides for a fixed interest rate of 9.75% and requires monthly interest only payments during the first six months of the agreement followed by monthly principal and interest payments over the remaining thirty months. The Company may prepay the loan at any time prior to maturity by paying all future scheduled principal and interest payments. The PFG Loan is secured by all of the assets of the Company under a lien that is junior to the SVB position described in Note 15, and limits borrowing under the SVB credit line limit to \$3.0 million. The loan agreement contains financial covenants associated with the Company achieving minimum quarterly net sales and maintaining a minimum monthly shareholders' equity. In the event of default by the Company, all or any part of the Company's obligation to PFG could become immediately due. (see Note 16, Term Loan).

On June 16, 2014 the Company amended the term loan agreement with PFG creating a \$500,000 revolving line of credit that the Company drew \$500,000. (see note 20, Subsequent Events).

- On July 8, 2013 the Company received \$817,000 in net cash proceeds from Alara Capital AVI II, LLC, a Delaware limited liability company (the "Investor"). Under a Securities Purchase Agreement ("SPA"), the Company sold to the Investor 5,111.86 shares of a new Series D Convertible Voting Perpetual Preferred Stock and warrants to purchase up to 511,186 additional shares of common stock at the price of \$1.43 per share. (see Note 19, Series D Convertible Voting Perpetual Preferred Stock and Warrants).
- To assist with the upfront purchases of inventory required for future product deliveries, the Company entered into an advance payment arrangements with a large customer, whereby the customer reimburses the Company for raw material purchases prior to the shipment of the finished products. In fiscal 2014 the Company entered into advance payment arrangements totaling \$1.3 million, and will seek similar terms in future agreements with this customer, and other customers.
- A second large aerospace company has engaged Microsource for design services and a production bid associated with a similar radar filter program. On August 13, 2013 Microsource received an initial order for \$733,000, on May 6, 2014 a follow on order of \$659,000 was received, and then on May 20, 2014 the complete order for an additional \$5.5 million was received. The total orders for the design and production bid for the associated program is \$6.9 million. The Company anticipates the associated multi-year production agreement to be for approximately \$10.0 million and for it to finalize in calendar 2014. No assurances can be given that the parties will agree on the final multi-year production agreement, or what the actual terms will be. (see Note 20, Subsequent Events)

Management also plans to further improve asset management by continuing to reduce product inventories that are on hand at March 29, 2014. In addition, management will continue to review all aspects of the business in an effort to improve cash flow and reduce costs and expenses, while continuing to invest, to the extent possible, in new product development for future revenue streams.

Management will also continue to seek additional working capital through debt, equity financing or possible product line sales, but there are no assurances that such financings or sales will be available at all, or on terms acceptable to the Company.

The current year losses and the impacts of recurring losses in prior years have had a significant negative impact on the financial condition of the Company and raise substantial doubt about the Company's ability to continue as a going concern. Management believes that through the actions to date and possible future actions described above, the Company should have the necessary liquidity to continue its operations at least for the next twelve months, though no assurances can be made in this regard based on uncertainties with respect to the continued development, manufacturing and marketing efforts of the Company's new product platform and the material adverse change clause in the Company's line of credit agreement discussed above. The Consolidated Financial Statements have been prepared assuming the Company will continue as a going concern and do not include any adjustments that might result if the Company were unable to do so.

Contractual Obligations

The Company leases its facility under an operating lease that expires in December 2016 and leases certain equipment under operating leases. Total future minimum lease payments under these leases amount to approximately \$2.0 million.

The Company leases equipment under capital leases that expire through September 2018. The future minimum lease payments under these leases are approximately \$245,000.

The Company is committed to pay the PFG loan with a maturity date of March 2017. Future payments under this loan consist of \$1.0 million in principal and \$175,000 in interest.

The Company is committed to purchase certain inventory under non-cancelable purchase orders. As of March 29, 2014, total non-cancelable purchase orders were approximately \$2.1 million through fiscal 2015 and are scheduled to be delivered to the Company at various dates through March 2015.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and the results of operations are based upon the consolidated financial statements included in this report and the data used to prepare them. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and management is required to make judgments, estimates and assumptions in the course of such preparation. The Summary of Significant Accounting Policies included with the consolidated financial statements describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. On an ongoing basis, the Company re-evaluates its judgments, estimates and assumptions, including those related to revenue recognition, product warranties, accounts receivable and allowance for doubtful accounts, valuation of inventories, income taxes and valuation allowance on deferred tax assets, and share based compensation. The Company bases its judgment and estimates on historical experience, knowledge of current conditions, and its beliefs of what could occur in the future considering available information. Actual results may differ from these estimates under different assumptions or conditions. Management of Giga-tronics has identified the following as the Company's critical accounting policies:

Revenue Recognition

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. Revenue related to products shipped subject to customers' evaluation is recognized upon final acceptance. Revenue recognized under the milestone method is recognized once milestones are met. Determining whether a milestone is substantive is a matter of judgment and that assessment is performed only at the inception of the arrangement. The consideration earned from the achievement of a milestone must meet all of the following for the milestone to be considered substantive:

- a. It is commensurate with either of the following:
 1. The Company's performance to achieve the milestone
 2. The enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the Company's performance to achieve the milestone.
- b. It relates solely to past performance.
- c. It is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

Milestones for revenue recognition are agreed upon with the customer prior to the start of the contract and some milestones will be tied to product shipping while others will be tied to design review.

On certain contracts with one of the Company's significant customers the Company receives payments in advance of manufacturing. Advanced payments are recorded as deferred revenue until the revenue recognition criteria described above has been met.

Product Warranties

The Company's warranty policy generally provides one to three years of coverage depending on the product. The Company records a liability for estimated warranty obligations at the date products are sold. The estimated cost of warranty coverage is based on the Company's actual historical experience with its current products or similar products. For new products, the required reserve is based on historical experience of similar products until sufficient historical data has been collected on the new product. Adjustments are made as new information becomes available.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at their net realizable values. The Company has estimated an allowance for uncollectible accounts based on analysis of specifically identified problem accounts, outstanding receivables, consideration of the age of those receivables, the Company's historical collection experience, and adjustments for other factors management believes are necessary based on perceived credit risk.

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.

Income Taxes

Income taxes are accounted for using 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. Future tax benefits are subject to a valuation allowance when management is unable to conclude that its deferred tax assets will more likely than 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 both positive and negative evidence and tax planning strategies in making this assessment.

The Company considers all tax positions recognized in the consolidated financial statements for the likelihood of realization. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the positions taken or the amounts of the positions that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above, if any, would be reflected as unrecognized tax benefits, as applicable, in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of the provision for income taxes in the consolidated statements of operations.

Share Based Compensation

The Company has a stock incentive plan that provides for the issuance of stock options and restricted stock to employees and directors. The Company calculates share based compensation expense for stock options using a Black-Scholes-Merton option pricing model and records the fair value of stock option and restricted stock awards expected to vest over the requisite service period. In so doing, the Company makes certain key assumptions in making estimates used in the model. The Company believes the estimates used, which are presented in Note 1 of Notes to Consolidated Financial Statements, are appropriate and reasonable.

Off-Balance-Sheet Arrangements

The Company has no other off-balance-sheet arrangements (including standby letters of credit, guaranties, contingent interests in transferred assets, contingent obligations indexed to its own stock or any obligation arising out of a variable interest in an unconsolidated entity that provides credit or other support to the Company), that have or are likely to have a material effect on its financial conditions, changes in financial conditions, revenue, expense, results of operations, liquidity, capital expenditures or capital resources.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

March 29, 2014 March 30, 2013

Assets		
Assets		
Current assets:		
Cash and cash-equivalents	\$ 1,059	\$ 1,882
Trade accounts receivable, net of allowance of \$44 and \$35, respectively	1,846	1,666
Inventories, net	3,321	4,560
Prepaid expenses and other current assets	349	442
Total current assets	6,575	8,550
Property and equipment, net	949	751
Other long term-assets	69	59
Total assets	\$ 7,593	\$ 9,360
Liabilities and shareholders' equity		
Current liabilities:		
Line of credit	\$ 1,165	\$ 577
Current portion of long term debt	200	-
Accounts payable	1,430	788
Accrued payroll and benefits	755	1,047
Deferred revenue	1,329	2,278
Deferred rent	104	81
Capital lease obligations	147	66
Other current liabilities	472	505
Total current liabilities	5,602	5,342
Long term obligation - line of credit	-	280
Long term loan and warrant debt, net of discounts	672	-
Derivative liability, at estimated fair value	128	-
Long term obligations - deferred rent	237	341
Long term obligations - capital lease	77	89
Total liabilities	6,716	6,052
Commitments and contingencies	-	-
Shareholders' equity:		
Convertible preferred stock of no par value;		
Authorized - 1,000,000 shares		
Series A - designated 250,000 shares; no shares at March 29, 2014 and March 30, 2013 issued and outstanding	-	-
Series B - designated 10,000 shares; 9,997 shares at March 29, 2014 and March 30, 2013 issued and outstanding; (liquidation preference of \$2,309)	1,997	1,997
Series C - designated 3,500 shares; 3,424.65 shares at March 29, 2014 and March 30, 2013 issued and outstanding; (liquidation preference of \$500)	457	457
Series D - designated 6,000 shares; 5,111.86 shares at March 29, 2014 and no shares at March 30, 2013 issued and outstanding; (liquidation preference of \$731)	457	-
Common stock of no par value; Authorized - 40,000,000 shares; 5,181,247 shares at March 29, 2014 and 5,079,747 at March 30, 2013 issued and outstanding	16,224	15,132
Accumulated deficit	(18,258)	(14,278)
Total shareholders' equity	877	3,308
Total liabilities and shareholders' equity	\$ 7,593	\$ 9,360

See Accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands except per-share data)	Years Ended	
	March 29, 2014	March 30, 2013
Net sales	\$ 13,309	\$ 14,187
Cost of sales	8,811	8,710
Gross margin	4,498	5,477
Operating expenses:		
Engineering	3,897	4,282
Selling, general and administrative	4,809	4,976
Restructuring	331	418
Total operating expenses	9,037	9,676
Operating loss	(4,539)	(4,199)
Gain on sale of product line	913	-
Other income (loss)	(8)	11
Interest expense, net	(106)	(16)
Loss before income taxes	(3,740)	(4,204)
Provision for income taxes	2	2
Net loss	\$ (3,742)	\$ (4,206)
Loss per common share – basic	\$ (0.74)	\$ (0.84)
Loss per common share – diluted	\$ (0.74)	\$ (0.84)
Weighted average common shares used in per share calculation:		
Basic	5,058	5,030
Diluted	5,058	5,030

See Accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands except share data)	Preferred Stock		Common Stock		Accumulated	Total
	Shares	Amount	Shares	Amount	Deficit	
Balance at March 31, 2012	9,997	1,997	5,079,747	14,822	(10,072)	6,747
Net loss					(4,206)	(4,206)
Share based compensation	-	-	-	310	-	310
Series C preferred stock issuance, net of offering costs of \$43	3,425	457	-	-	-	457
Balance at March 30, 2013	13,422	\$ 2,454	5,079,747	\$ 15,132	\$ (14,278)	\$ 3,308
Net loss					(3,742)	(3,742)
Restricted stock granted			71,500	-		-
Stock granted without restrictions			30,000	-		-
Share based compensation	-	-	-	494	-	494
Series D preferred stock issuance, net of offering costs of \$41	5,112	457	-	598	(238)	817
Balance at March 29, 2014	18,534	\$ 2,911	5,181,247	\$ 16,224	\$ (18,258)	\$ 877

See Accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended	
	March 29, 2014	March 30, 2013
Cash flows from operating activities:		
Net loss	\$ (3,742)	\$ (4,206)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	284	209
Share based compensation	494	310
Change in deferred rent	(81)	(70)
Changes in operating assets and liabilities:		
Trade accounts receivable	(180)	(396)
Inventories	1,239	140
Prepaid expenses and other assets	83	(157)
Accounts payable	642	175
Accrued payroll and benefits	(292)	308
Deferred revenue	(949)	2,271
Other current liabilities	(33)	(152)
Net cash used in operating activities	(2,535)	(1,568)
Cash flows from investing activities:		
Purchases of property and equipment	(228)	(179)
Net cash used in investing activities	(228)	(179)
Cash flows from financing activities:		
Payments on capital leases	(185)	(50)
Proceeds from line of credit	5,917	1,552
Proceeds from issuance of term debt	1,000	-
Repayments of line of credit	(5,609)	(695)
Proceeds from issuance of preferred stock, net of stock offering costs of \$41 and \$43	817	457
Net cash provided by financing activities	1,940	1,264
Decrease in cash and cash-equivalents	(823)	(483)
Beginning cash and cash-equivalents	1,882	2,365
Ending cash and cash-equivalents	\$ 1,059	\$ 1,882
Supplementary disclosure of cash flow information:		
Cash paid for income taxes	\$ 2	\$ 2
Cash paid for interest	106	17
Supplementary disclosure of noncash financing activities:		
Equipment acquired under capital lease	\$ 254	\$ 170

See Accompanying Notes to Consolidated Financial Statements

1 Summary of Significant Accounting Policies

The Company The accompanying consolidated financial statements include the accounts of Giga-tronics Incorporated (“Giga-tronics”) and its wholly-owned subsidiary, Microsource Incorporated (“Microsource”), collectively the “Company”. The Company’s corporate office and manufacturing facilities are located in San Ramon, California. Giga-tronics and its subsidiary company 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 currently has no foreign-based operations or material amounts of identifiable assets in foreign countries. Its gross margins on foreign and domestic sales are similar, 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 subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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. The allowance for doubtful accounts, inventory reserves, warranty reserves, share-based compensation, income taxes, and warrant derivative liability are particularly subject to change.

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 year 2014, ended on March 29, 2014 resulting in a 52 week year. Fiscal year 2013, ended on March 30, 2013 also resulting in a 52 week year. All references to years in the consolidated financial statements relate to fiscal years rather than calendar years.

Reclassifications Certain reclassifications, none of which affected the prior year’s net loss or shareholders’ equity, have been made to prior year balances in order to conform to the current year presentation.

Revenue Recognition and Deferred Revenue The Company records revenue when there is persuasive evidence of an arrangement, delivery has occurred, the price is fixed and determinable, and collectability is reasonably assured. This occurs when products are shipped or the customer accepts title transfer. If the arrangement involves acceptance terms, the Company defers revenue until product acceptance is received. On certain large development contracts, revenue is recognized upon achievement of substantive milestones. Determining whether a milestone is substantive is a matter of judgment and that assessment is performed only at the inception of the arrangement. The consideration earned from the achievement of a milestone must meet all of the following for the milestone to be considered substantive:

- a. It is commensurate with either of the following:
 1. The Company’s performance to achieve the milestone.
 2. The enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the Company’s performance to achieve the milestone.
- b. It relates solely to past performance.
- c. It is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

Milestones for revenue recognition are agreed upon with the customer prior to the start of the contract and some milestones will be tied to product shipping while others will be tied to design review.

On certain contracts with several of the Company’s significant customers the Company receives payments in advance of manufacturing. Advanced payments are recorded as deferred revenue until the revenue recognition criteria described above has been met.

Accounts receivable are stated at their net realizable value. The Company has estimated an allowance for uncollectable accounts based on analysis of specifically identified accounts, outstanding receivables, consideration of the age of those receivables, the Company’s historical collection experience, and adjustments for other factors management believes are necessary based on perceived credit risk.

The activity in the reserve account is as follows for the years ending March 29, 2014 and March 30, 2013:

(Dollars in thousands)	March 29, 2014	March 30, 2013
Beginning balance	\$ 35	\$ 96
Provisions (reversals of previous provisions) for doubtful accounts	22	(53)
Write-off of doubtful accounts	(13)	(8)
Ending balance	\$ 44	\$ 35

Accrued Warranty The Company's warranty policy generally provides one to three years of coverage depending on the product. The Company records a liability for estimated warranty obligations at the date products are sold. The estimated cost of warranty coverage is based on the Company's actual historical experience with its current products or similar products. For new products, the required reserve is based on historical experience of similar products until such time as sufficient historical data has been collected on the new product. Adjustments are made as new information becomes available.

Inventories Inventories are stated at the lower of cost or fair value using full absorption and standard costing. Cost is determined on a first-in, first-out basis. Standard costing and overhead allocation rates are reviewed by management periodically, but not less than annually. Overhead rates are recorded to inventory based on capacity management expects for the period the inventory will be held. Reserves are recorded within cost of sales for impaired or obsolete inventory when the cost of inventory exceeds its estimated fair value. Management evaluates the need for inventory reserves based on its estimate of the amount realizable through projected sales including an evaluation of whether a product is reaching the end of its life cycle. When inventory is discarded it is written off against the inventory reserve, as inventory generally has already been fully reserved for at the time it is discarded.

Research and Development Research and development expenditures, which include the cost of materials consumed in research and development activities, salaries, wages and other costs of personnel engaged in research and development, costs of services performed by others for research and development on the Company's behalf and indirect costs are expensed as operating expenses when incurred. Research and development costs totaled approximately \$3.9 million and \$4.3 million for the years ended March 29, 2014 and March 30, 2013, respectively.

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.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates that the carrying amount of an asset exceeds the sum of its expected future cash flows on an undiscounted basis, the asset's carrying amount would be written down to fair value. Additionally, the Company reports long-lived assets to be disposed of at the lower of carrying amount or fair value less cost to sell. As of March 29, 2014 and March 30, 2013, management believes there has been no impairment of the Company's long-lived assets.

Derivatives The Company accounts for free standing derivatives and embedded derivatives required to be bifurcated and accounted for on a stand-alone basis at estimated fair value. Changes in fair value are reported in earnings as other income or loss.

Deferred Rent Rent expense is recognized in an amount equal to the guaranteed base rent plus contractual future minimum rental increases amortized on the straight-line basis over the terms of the leases, including free rent periods.

Income Taxes Income taxes are accounted for using 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. Future tax benefits are subject to a valuation allowance when management is unable to conclude that its deferred tax assets will more likely than 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 both positive and negative evidence and tax planning strategies in making this assessment.

The Company considers all tax positions recognized in its financial statements for the likelihood of realization. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the positions taken or the amounts of the positions that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above, if any, would be reflected as unrecognized tax benefits, as applicable, in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of the provision for income taxes in the consolidated statements of operations.

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. All other product development costs are charged to operations as incurred. There were no capitalized pre-production costs included in other assets as of March 29, 2014 or March 30, 2013.

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, completion of software development has been concurrent with the establishment of technological feasibility, and accordingly, no costs have been capitalized.

Share-based Compensation The Company has established the 2005 Equity Incentive Plan, which provides for the granting of options for up to 2,250,000 shares of Common Stock. The Company records share-based compensation expense for the fair value of all stock options and restricted stock that are ultimately expected to vest as the requisite service is rendered.

The cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as cash flows from financing in the statements of cash flows. These excess tax benefits were not significant for the Company for the fiscal years ended March 29, 2014 or March 30, 2013.

In calculating compensation related to stock option grants, the fair value of each stock option is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. The computation of expected volatility used in the Black-Scholes-Merton option-pricing model is based on the historical volatility of Giga-tronics' share price. The expected term is estimated based on a review of historical employee exercise behavior with respect to option grants. The risk free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected dividend yield was not considered in the option pricing formula since the Company has not paid dividends and has no current plans to do so in the future.

The fair value of restricted stock awards is based on the fair value of the underlying shares at the date of the grant. Management makes estimates regarding pre-vesting forfeitures that will impact timing of compensation expense recognized for stock option and restricted stock awards.

Earnings or Loss Per Common Share Basic earnings or loss per common share is 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 and warrants using the treasury stock method. Anti-dilutive options are not included in the computation of diluted earnings per share. Non-vested shares of restricted stock have nonforfeitable dividend rights and are considered participating securities for the purpose of calculating basic and diluted earnings per share under the two-class method.

Comprehensive Income or Loss There are no items of comprehensive income or loss other than net income or loss.

Financial Instruments and Concentration of Credit Risk Financial instruments that potentially subject the Company to credit risk consist of cash, cash-equivalents and trade accounts receivable. The Company's cash-equivalents consist of overnight deposits with federally insured financial 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. At March 29, 2014, three customers combined accounted for 65% of consolidated gross accounts receivable primarily due to the timing of the receivables. At March 30, 2013, three customers combined accounted for 59% of consolidated gross accounts receivable primarily due to the timing of the receivables.

Fair Value of Financial Instruments and Fair Value Measurements The Company's financial instruments consist principally of cash and cash-equivalents, line of credit, term debt, warrant liability and warrant derivative liability. The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants to sell the asset or transfer the liability. The Company uses fair value measurements based on quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access as of the measurement date (Level 1), significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data (Level 2), or significant unobservable inputs reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability (Level 3), depending on the nature of the item being valued.

The carrying amounts of the Company's cash and cash-equivalents and line of credit approximate their fair values at each balance sheet date due to the short-term maturity of these financial instruments. The fair values of term debt and warrant debt are based on the present value of expected future cash flows and assumptions about current interest rates and the creditworthiness of the Company (Level 3) at March 29, 2014 and resulted in the carrying amount approximating fair value due to the fact that the agreement was entered into near the balance sheet date. The fair value of the bifurcated conversion feature represented by the warrant derivative liability which is measured at fair value on a recurring basis is based on a Black Scholes option pricing model with assumptions for stock price, exercise price, volatility, expected term, risk free interest rate and dividend yield similar to those described previously for share-based compensation which were generally observable (Level 2). The Company had no assets or liabilities measured at fair value on a non-recurring basis, nor were there any transfers between Level 1 and Level 2 of the fair value hierarchy.

Adoption of New Accounting Standards In July 2013, the FASB amended existing guidance related to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. These amendments provide that an unrecognized tax benefit, or a position thereof, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. The effect of adopting this standard did not have a material effect on the Company's operating results or financial condition since the Company was already accounting for unrecognized tax benefits in a manner that is consistent with this standard.

2 Going Concern and Management's Plan

The Company has incurred net losses of \$3.7 million in fiscal 2014, and \$4.2 million in fiscal 2013. These losses have contributed to an accumulated deficit of \$18.3 million at March 29, 2014, and have resulted in the Company using cash in its operations of \$2.5 million in fiscal 2014.

In fiscal 2014 and 2013 the Company invested heavily in the development of a new Giga-tronics Division product platform. The Company anticipates long-term revenue growth and improved gross margins from the new product platform, but delays in completing it have contributed significantly to the losses of the Company. The new product platform is forecasted to start shipping in the second quarter of fiscal 2015, but further delays could cause additional losses.

To help fund operations, the Company relies on advances under the line of credit with Silicon Valley Bank ("SVB" or "the Bank"). However the Bank may terminate or suspend advances under the line of credit if the Bank determines there has been a material adverse change in the Company's general affairs, financial forecasts or general ability to repay. (see Note 15, Line of Credit). As of March 29, 2014, the line of credit was at its maximum borrowing capacity.

These matters, along with recurring losses in prior years, raise substantial doubt as to the ability of the Company to continue as a going concern.

To address this matter, the Company's management has taken several actions to provide additional liquidity during fiscal 2014, and reduce costs and expenses going forward. These actions are described in the following paragraph.

- On March 13, 2014 the Company entered into a three year, \$2.0 million term loan agreement with Partners For Growth IV, L.P. ("PFG") under which the Company received \$1.0 million on March 14, 2014. Pursuant to the agreement, the Company may borrow an additional \$1.0 million following the Company's achievement of certain performance milestones which includes achieving \$7.5 million in net sales during the first half of fiscal 2015 and two consecutive quarters of net income greater than zero during fiscal 2015. The PFG loan agreement provides for a fixed interest rate of 9.75% and requires monthly interest only payments during the first six months of the agreement followed by monthly principal and interest payments over the remaining thirty months. The Company may prepay the loan at any time prior to maturity by paying all future scheduled principal and interest payments. The PFG Loan is secured by all of the assets of the Company under a lien that is junior to the SVB position described in Note 15, and limits borrowing under the SVB credit line limit to \$3.0 million. The loan agreement contains financial covenants associated with the Company achieving minimum quarterly net sales and maintaining a minimum monthly shareholders' equity. In the event of default by the Company, all or any part of the Company's obligation to PFG could become immediately due. (see Note 16, Term Loan).

On June 16 the Company amended the term loan agreement with PFG creating a \$500,000 revolving line of credit that the Company drew \$500,000. (see Note 20, Subsequent Events).

- On July 8, 2013 the Company received \$817,000 in net cash proceeds from Alara Capital AVI II, LLC, a Delaware limited liability company (the “Investor”). Under a Securities Purchase Agreement (“SPA”), the Company sold to the Investor 5,111.86 shares of a new Series D Convertible Voting Perpetual Preferred Stock and warrants to purchase up to 511,186 additional shares of common stock at the price of \$1.43 per share. (see Note 19, Series D Convertible Voting Perpetual Preferred Stock and Warrants).
- To assist with the upfront purchases of inventory required for future product deliveries, the Company entered into an advance payment arrangements with a large customer, whereby the customer reimburses the Company for raw material purchases prior to the shipment of the finished products. In fiscal 2014 the Company entered into advance payment arrangements totaling \$1.3 million, and will seek similar terms in future agreements with this customer, and other customers.
- A second large aerospace company has engaged Microsource for design services and a production bid associated with a similar radar filter program. On August 13, 2013 Microsource received an initial order for \$733,000, on May 6, 2014 a follow on order of \$659,000 was received, and then on May 20, 2014 the complete order for an additional \$5.5 million was received. The total orders for the design and production bid for the associated program is \$6.9 million. The Company anticipates the associated multi-year production agreement to be for approximately \$10.0 million and for it to finalize in calendar 2014. No assurances can be given that the parties will agree on the final multi-year production agreement, or what the actual terms will be. (see Note 20, Subsequent Events)

Management also plans to further improve asset management by continuing to reduce product inventories that are on hand at March 29, 2014. In addition, management will continue to review all aspects of the business in an effort to improve cash flow and reduce costs and expenses, while continuing to invest, to the extent possible, in new product development for future revenue streams.

Management will also continue to seek additional working capital through debt, equity financing or possible product line sales, but there are no assurances that such financings or sales will be available at all, or on terms acceptable to the Company.

The current year losses and the impacts of recurring losses in prior years have had a significant negative impact on the financial condition of the Company and raise substantial doubt about the Company’s ability to continue as a going concern. Management believes that through the actions to date and possible future actions described above, the Company should have the necessary liquidity to continue its operations at least for the next twelve months, though no assurances can be made in this regard based on uncertainties with respect to the continued development, manufacturing and marketing efforts of the Company’s new product platform and the material adverse change clause in the Company’s line of credit agreement discussed above. The Consolidated Financial Statements have been prepared assuming the Company will continue as a going concern and do not include any adjustments that might result if the Company were unable to do so.

3 Cash and Cash-Equivalents

Cash and cash-equivalents of \$1.1 million and \$1.9 million at March 29, 2014 and March 30, 2013, respectively, consisted of demand deposits with a financial institution that is a member of the Federal Deposit Insurance Corporation (FDIC). At March 29, 2014, \$929,000 of the Company’s demand deposits exceeded FDIC insurance limits.

4 Inventories

Inventories, net of reserves, consisted of the following:

(Dollars in thousands)	March 29, 2014	March 30, 2013
Raw materials	\$ 1,501	\$ 2,157
Work-in-progress	1,400	2,049
Finished goods	353	50
Demonstration inventory	67	304
Total	\$ 3,321	\$ 4,560

5 Property, Plant and Equipment, net

Property, plant and equipment, net is comprised of the following:

(Dollars in thousands)	March 29, 2014	March 30, 2013
Leasehold improvements	\$ 327	608
Machinery and equipment	3,848	12,889
Computer and software	388	2,729
Furniture and office equipment	325	786
Vehicles	15	23
Construction in progress	227	101
	5,130	17,136
Less: accumulated depreciation and amortization	(4,181)	(16,385)
Total	\$ 949	\$ 751

During the year ended March 29, 2014, fully depreciated equipment was disposed of in connection with the relocation of the Microsource business unit from Santa Rosa to San Ramon. In addition management decided in the current year to effectively retire fully depreciated assets that were held by the Company but were no longer of use with no prospect of return to use. These factors, combined with disposals of assets in the ordinary course of business resulted in the removal of approximately \$12.5 million of assets and accumulated depreciation in the table above. As these assets were fully depreciated, there was no impact on net loss as a result of the action to consider these assets as retired.

6 Gain on Sale of Product Line

On March 18, 2013, the Company entered into an Asset Purchase Agreement with Teradyne Inc. (Teradyne), whereby Teradyne agreed to purchase the Giga-tronics Division product line known as SCPM for \$1.0 million, resulting in a net gain of \$913,000 during fiscal 2014. In April 2013 the Company received \$800,000 in proceeds at the closing of the transaction upon delivery of electronic data associated with the purchase. The Company also earned an additional \$50,000 associated with training of Teradyne employees, which was offset by \$34,000 of associated costs. The balance of the consideration (\$150,000) was subject to a hold back arrangement until December 31, 2013 to cover certain contingencies and the requirement to deliver certain inventory. During fiscal 2014, the Company delivered to Teradyne all of the associated inventory, totaling \$53,000. On December 6, 2013, the Company received the remaining \$150,000 along with confirmation from Teradyne that the holdback provisions were removed. Net sales for the SCPM product line during fiscal 2014 and fiscal 2013 were \$265,000 and \$1.7 million, respectively.

7 Selling and Advertising Expenses

Selling expenses consist primarily of commissions paid to various sales representatives and marketing agencies. Commission expense totaled \$196,000 and \$386,000 for fiscal 2014 and 2013, respectively. Advertising costs, which are expensed as incurred, totaled \$14,000 and \$23,000 for fiscal 2014 and 2013, respectively.

8 Significant Customers and Industry Segment Information

The Company has two reportable segments: Giga-tronics Division and Microsource. Giga-tronics 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 and 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 Yttrium, Iron and Garnet (YIG) tuned oscillators, filters and microwave synthesizers, which are used in a wide variety of microwave instruments or devices.

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. Segment net sales include sales to external customers. Inter-segment activities are eliminated in consolidation. Assets include accounts receivable, inventories, equipment, cash, deferred income taxes, prepaid expenses 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 accounting systems. 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 2014 and 2013.

March 29, 2014 (Dollars in thousands)	Giga-tronics		Total
	Division	Microsource	
Revenue	\$ 7,290	\$ 6,019	\$ 13,309
Interest expense, net	(106)	-	(106)
Depreciation and amortization	251	33	284
Capital expenditures	482	-	482
Loss before income taxes	(3,531)	(209)	(3,740)
Assets	5,442	2,151	7,593

March 30, 2013 (Dollars in thousands)	Giga-tronics		Total
	Division	Microsource	
Revenue	\$ 9,385	\$ 4,802	\$ 14,187
Interest expense, net	(16)	-	(16)
Depreciation and amortization	162	47	209
Capital expenditures	349	-	349
Loss before income taxes	(3,693)	(511)	(4,204)
Assets	6,234	3,126	9,360

The Company's Giga-tronics Division and Microsource segments sell to agencies of the U.S. government and U.S. defense-related customers. In fiscal 2014 and 2013, U.S. government and U.S. defense-related customers accounted for 57% and 58% of sales, respectively. During fiscal 2014, one customer accounted for 39% of the Company's consolidated revenues at March 29, 2014 and was included in the Microsource segment. A second customer accounted for 16% of the Company's consolidated revenues at March 29, 2014 and was included in the Giga-tronics Division. During fiscal 2013, one customer accounted for 30% of the Company's consolidated revenues at March 30, 2013 and was included in the Microsource segment. A second customer accounted for 12% of the Company's consolidated revenues at March 30, 2013 and was included in the Giga-tronics Division.

Export sales accounted for 11% and 21% of the Company's sales in fiscal 2014 and 2013, respectively. Export sales by geographical area for these fiscal years are shown below:

(Dollars in thousands)	March 29, 2014	March 30, 2013
Americas	\$ 169	\$ 213
Europe	661	579
Asia	507	1,597
Rest of world	140	538
Total	\$ 1,477	\$ 2,927

9 Loss per Common Share

Net loss and common shares used in per share computations for the fiscal years ended March 29, 2014 and March 30, 2013 are as follows:

(In thousands except per-share data)	March 29, 2014	March 30, 2013
Net loss	\$ (3,742)	\$ (4,206)
Weighted average:		
Common shares outstanding	5,058	5,030
Potential common shares	-	-
Common shares assuming dilution	5,058	5,030
Loss per common share - basic	\$ (0.74)	\$ (0.84)
Loss per common share - diluted	\$ (0.74)	\$ (0.84)
Stock options not included in computation that could potentially dilute EPS in the future	1,739	1,556
Restricted stock awards not included in computation that could potentially dilute EPS in the future	122	50
Convertible preferred stock not included in computation that could potentially dilute EPS in the future	1,853	1,342
Warrants not included in computation that could potentially dilute EPS in the future	1,317	506

The stock options, restricted stock, convertible preferred stocks and warrants not included in the computation of diluted earnings per share (EPS) for the fiscal years ended March 29, 2014 and March 30, 2013 is a result of the Company's net loss and, therefore, the effect of these instrument would be anti-dilutive.

10 Income Taxes

Following are the components of the provision for income taxes:

Fiscal years ended (In thousands)	March 29, 2014	March 30, 2013
Current		
Federal	\$ -	\$ -
State	2	2
Total current	2	2
Deferred		
Federal	(568)	(1,460)
State	(330)	(198)
Total deferred	(898)	(1,658)
Change in liability for uncertain tax positions	1,579	799
Change in valuation allowance	(681)	859
Provision for income taxes	\$ 2	\$ 2

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

Fiscal years ended (In thousands)	March 29, 2014		March 30, 2013	
Net operating loss carryforwards	\$	14,300	\$	12,666
Income tax credits		143		802
Inventory reserves and additional costs capitalized		2,051		2,363
Accrued vacation		129		142
Deferred rent		136		168
Non-qualified stock options and restricted stock		211		159
Other		114		103
Total deferred tax assets		17,084		16,403
Valuation allowance		(17,084)		(16,403)
Net deferred tax assets	\$	-	\$	-

Fiscal years ended (In thousands except percentages)	March 29, 2014		March 30, 2013		
Statutory federal income tax (benefit)	\$	(1,256)	34.0%	\$ (1,429)	34.0%
Valuation allowance		681	(18.4)	859	(20.4)
State income tax, net of federal benefit		(216)	5.8	(245)	5.8
Net operating loss expiration		-	-	48	(1.1)
Non tax-deductible expenses		132	(3.6)	97	(2.3)
(Write-off) generation of tax credit carryovers		2,238	(60.6)	(148)	3.5
Liability for uncertain tax positions		(1,579)	42.8	799	(19.0)
Other		2	(0.1)	21	(0.5)
Effective income tax	\$	2	(0.1)%	\$ 2	(0.0)%

The increase in valuation allowance from March 30, 2013 to March 31, 2014 was \$681,000.

As of March 30, 2014, the Company had pre-tax federal net operating loss carryforwards of \$36.6 million and state net operating loss carryforwards of \$31.8 million available to reduce future taxable income. The federal and state net operating loss carryforwards begin to expire from fiscal 2022 through 2034 and from 2014 through 2034, respectively. Utilization of net operating loss carryforwards may be subject to annual limitations due to certain ownership change limitations as required by Internal Revenue Code Section 382. The federal income tax credits begin to expire from 2021 through 2034 and state income tax credit carryforwards are carried forward indefinitely.

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 both positive and negative evidence and tax planning strategies in making this assessment.

As of March 30, 2014, the Company recorded unrecognized tax benefits of \$70,000 related to uncertain tax positions. The unrecognized tax benefit is netted against the noncurrent deferred tax asset on the Consolidated Balance Sheet. The Company has not recorded a liability for any penalties or interest related to the unrecognized tax benefits.

The Company files U.S. federal and California state income tax returns. The Company is generally no longer subject to tax examinations for years prior to the fiscal year 2011 for federal purposes and fiscal year 2010 for California purposes, except in certain limited circumstances. The Company does have a California Franchise Tax Board audit that is currently in process. The Company is working with the California Franchise Tax Board to resolve all audit issues and does not believe any material taxes or penalties are due. However, as a result of the ongoing examination, the Company eliminated certain income tax credit carryovers. The write-off of these income tax credit carryovers had no impact on total income tax expense as the majority had an uncertain tax position reserve with the balance having a full valuation allowance against the deferred tax asset.

A reconciliation of the beginning and ending amount of the liability for uncertain tax positions, excluding potential interest and penalties, is as follows:

(In thousands)	Fiscal Year 2014	Fiscal Year 2013
Balance as of beginning of year	\$ 1,649	\$ 850
Additions based on current year tax positions	-	56
(Reductions) additions for prior year tax positions	(1,579)	743
Balance as of end of year	\$ 70	\$ 1,649

The total amount of interest and penalties related to unrecognized tax benefits at March 29, 2014 is not material. The amount of tax benefits that would impact the effective rate, if recognized, is not expected to be material. The Company does not anticipate any significant changes with respect to unrecognized tax benefits within next twelve (12) months.

11 Share-based Compensation and Employee Benefit Plans

Share-based Compensation The Company has established the 2000 Stock Option Plan and the 2005 Equity Incentive Plan, which provide for the granting of options and restricted stock for up to 2,250,000 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. Option grants under the 2000 Stock Option Plan are no longer available. Options granted generally vest in one or more installments in a four or five year period 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. Holders of options may be granted stock appreciation rights (SAR), 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 29, 2014, no SAR's have been granted under the option plan. As of March 29, 2014, the total number of shares of common stock available for issuance is 711,427. All outstanding options have either a five year or a ten year life.

The weighted average grant date fair value of stock options granted during the fiscal years ended March 29, 2014 and March 30, 2013 was \$1.07 and \$0.98, respectively, and was calculated using the following weighted-average assumptions:

Fiscal years ended	March 29, 2014	March 30, 2013
Dividend yield	-	-
Expected volatility	86%	89%
Risk-free interest rate	1.02%	0.59%
Expected term (years)	7.91	6.61

A summary of the changes in stock options outstanding for the fiscal years ended March 29, 2014 and March 30, 2013 is presented below:

(Dollars in thousands)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value
Outstanding at March 31, 2012	1,221,312	\$ 1.74	6.7	\$ 3
Granted	521,000	1.31		
Exercised	-	-		
Forfeited / Expired	186,062	1.58		
Outstanding at March 30, 2013	1,556,250	\$ 1.62	6.8	\$ 252
Granted	430,750	1.32		
Exercised	-	-		
Forfeited / Expired	248,250	1.72		
Outstanding at March 29, 2014	1,738,750	\$ 1.53	6.8	\$ 113
Exercisable at March 29, 2014	548,825	\$ 1.80	4.6	\$ 17
At March 29, 2014, expected to vest in the future	925,460	\$ 1.21	3.5	\$ 74

As of March 29, 2014, there was \$732,000 of total unrecognized compensation cost related to non-vested options and restricted stock granted under the 2005 Plan and outside of the 2005 Plan. That cost is expected to be recognized over a weighted average period of 3.63 years and will be adjusted for subsequent changes in estimated forfeitures. There were 320,525 and 208,425 options vested during the fiscal years ended March 29, 2014 and March 30, 2013 respectively. The total fair value of options vested during the fiscal years ended March 29, 2014 and March 30, 2013 was \$365,000 and \$275,000, respectively. No cash was received from the exercise of stock options during fiscal 2014 and 2013. Share based compensation cost recognized in operating results for the fiscal years ended March 29, 2014 and March 30, 2013 totaled \$310,000 and \$295,000, respectively.

Included in the total options outstanding at March 29, 2014 are performance-based options for 100,000 shares granted, which were granted outside of the 2005 Plan. A portion of the options shall vest following the filing of the Company's Form 10-K for fiscal 2015 provided certain bookings goals are achieved by the Company. No compensation cost was recognized for these stock options during fiscal 2014 because management believes it is not more than likely than not that the performance criteria will be met.

During the year ended March 29, 2014, the vesting for 40,000 options was accelerated in connection with a termination agreement with a former employee. This modification did not result in any incremental compensation expense, however \$7,000 of stock-based compensation expense was accelerated and recognized during the year ended March 29, 2014.

Restricted Stock

The Company granted 71,500 shares of restricted stock during fiscal 2014 to certain members of the Board of Directors in lieu of cash compensation for services to be performed in fiscal 2014. The weighted average grant date fair value was \$1.53. The Company also granted 30,000 shares of unrestricted stock during 2014 as part of a severance agreement with a former employee. The 30,000 shares did not have a restriction period because they vested immediately on the grant date, but are included in the roll forward schedule of restricted stock below because they were granted under the 2005 Plan. The Company granted 50,000 shares of restricted stock outside the 2005 Plan in fiscal 2013. The restricted stock awards are considered fixed awards as the number of shares and fair value at the grant date is amortized over the requisite service period net of estimated forfeitures. Compensation cost recognized for restricted stock awards for 2014 and 2013 totaled \$184,000 and \$15,000, respectively.

A summary of the changes in non-vested restricted stock awards outstanding for the fiscal years ended March 29, 2014 and March 30, 2013 is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at March 31, 2012	60,000	\$ 2.40
Granted	50,000	1.18
Forfeited or cancelled	60,000	2.40
Non-vested at March 30, 2013	50,000	\$ 1.18
Granted	101,500	1.53
Vested	30,000	1.53
Forfeited or cancelled	-	-
Non-vested at March 29, 2014	121,500	\$ 1.39

401(k) Plans The Company has established 401(k) plans which cover substantially all employees. Participants may make voluntary contributions to the plans for up to 100% of their defined compensation. The Company matches a percentage of the participant's contributions in accordance with the plan. Participants vest ratably in Company contributions over a four-year period. Company contributions to the plans for fiscal 2014 and 2013 were approximately \$44,000 and \$47,000, respectively.

12 Commitments

The Company leases a 47,300 square foot facility located in San Ramon, California that expires in December 31, 2016. The Company leased a 33,400 square foot facility located in Santa Rosa, California, under a lease that expired May 31, 2013. The Company did not extend the Santa Rosa lease and vacated the facility on May 31, 2013. All of the Company's operations are in the San Ramon facility as of March 29, 2014.

The Company also leases other equipment under operating leases.

Total future minimum lease payments under these leases amount to approximately \$1,975,000 and are as follows.

Fiscal year (Dollars in thousands)	
2015	\$ 775
2016	677
2017	523
2018	-
Thereafter	-
Total	\$ 1,975

The aggregate rental expense was \$630,000 and \$1,009,000 in fiscal 2014 and 2013, respectively.

The Company leases equipment under capital leases that expire through September 2018. Capital leases with costs totaling \$456,000 and \$201,000 are reported net of accumulated depreciation of \$91,000 and \$34,000 at March 29, 2014 and March 30, 2013, respectively.

Total future minimum lease payments under these leases amount to approximately \$245,000 and are as follows.

Fiscal year (Dollars in thousands)	Principal		Interest		Total
2015	\$ 147	\$ 12	\$ 159		
2016	53	7	60		
2017	9	1	10		
2018	9	1	10		
2019	6	-	6		
Total	\$ 224	\$ 21	\$ 245		

The Company is committed to repay the PFG loan with a maturity date of March 2017. The future payments under this loan, consisting of \$1.0 million in principal and \$175,000 in interest, are as follows as of March 29, 2014.

Fiscal year (Dollars in thousands)	Principal		Interest		Total
2015	\$ 200	\$ 94	\$ 294		
2016	400	60	460		
2017	400	21	421		
Total	\$ 1,000	\$ 175	\$ 1,175		

The future payments reflected in the table above do not include the \$500,000 borrowed by the Company on June 16, 2014 that is discussed Note 20, Subsequent Events, and is due in March 2017.

The Company is committed to purchase certain inventory under non-cancelable purchase orders. As of March 29, 2014, total non-cancelable purchase orders were approximately \$2,118,000 through fiscal 2015 and are scheduled to be delivered to the Company at various dates through March 2015.

13 Warranty Obligations

The Company records a liability in cost of sales for estimated warranty obligations at the date products are sold. Adjustments are made as new information becomes available. The following provides a reconciliation of changes in the Company's warranty reserve. The Company provides no other guarantees.

(Dollars in thousands)	March 29, 2014		March 30, 2013	
Balance at beginning of year	\$ 114	\$ 210		
Provision, net	(5)	(5)		
Warranty costs incurred	(48)	(91)		
Balance at end of year	\$ 61	\$ 114		

14 Restructuring

The Company took steps to reduce current and future expenses by reducing staff and by combining the operations in Santa Rosa into the San Ramon facility. This physical move was completed on May 31, 2013. Certain employee retention agreements were extended through December 2013. Substantially all of the restructuring costs are for the Microsource reportable segment. As of March 29, 2014 the Company had expensed \$780,000 related to these restructuring costs.

Below is a summary of the total restructuring costs, including amounts recognized during the two previous fiscal years and amounts recognized for the twelve months ended March 29, 2014. The company does not anticipate any additional restructuring costs.

Type of cost incurred (In thousands)	Total estimated restructuring cost	Recognized during the fiscal year ended March 31, 2012	Recognized during the fiscal year ended March 30, 2013	Recognized during the fiscal year ended March 29, 2014
Retention agreements for employees	\$ 542	\$ 31	\$ 367	\$ 144
Restoration of Santa Rosa facility	151	-	-	151
Preparation of San Ramon facility	59	-	40	19
Moving expenses	24	-	7	17
Training of San Ramon employees	4	-	4	-
Total	\$ 780	\$ 31	\$ 418	\$ 331

15 Line of Credit

On June 11, 2013 the Company entered into an amendment to the Second Amended Credit Facility (the "New Amended Credit Facility") with Silicon Valley Bank (the "Bank"). The New Amended Credit Facility amended the Second Amended Credit Facility by expanding the definition of eligible accounts, increasing the maximum limit, and extending the maturity date. The New Amended Credit Facility, which expires on April 15, 2015, is secured by all assets of the Company and provides for a borrowing capacity equal to 80% of eligible accounts receivable (70% of eligible foreign accounts receivable) on an aggregate basis, up to a maximum \$3.0 million, provided the Company maintains borrowing base eligibility, that is, a minimum of \$750,000 of cash in excess of its line of credit liability.

The Second Amended Credit Facility and New Amended Credit Facility contain a collateral handling fee of one-tenth of one percent (0.10%) on outstanding financed receivables for each calendar month based upon a 360 day year. When the Company is borrowing base eligible, the collateral handling fee is not applicable. Interest accrues on the average outstanding borrowings at a floating per annum rate equal to the greater of the Prime Rate plus two percent (2.00%) or six percent (6.00%). When the Company is borrowing base eligible, any borrowings under the New Amended Credit Facility can be repaid and such repaid amounts re-borrowed until the maturity date. When the Company is not borrowing base eligible, advances are made on the New Amended Credit facility on individual accounts receivable and the Company is required to instruct its customers to remit payments to a lockbox at the Bank and when the Company is not borrowing base eligible, such payments are applied by the Bank to the line of credit to the extent monies were advanced to the Company based on such specific accounts receivable. As of March 29, 2014, the Company was not borrowing base eligible and, as a result, all of the Company's outstanding borrowings under the New Amended Credit Facility of \$1.2 million are classified as a current liability. As of March 30, 2013, the Company was borrowing base eligible, and outstanding borrowings under the Second Amended Credit Facility were \$857,000, of which \$280,000 was classified as long-term because of management's ability to refinance the line of credit with the amended facility discussed above, and \$577,000 was classified as a current liability because it had been repaid prior to the refinance occurring.

As of March 29, 2014, the maximum borrowing capacity under the Line of Credit was \$1.2 million, of which no additional amount was available. The Bank may terminate or suspend advances under the line of credit if the Bank determines there has been a material adverse change in the Company's general affairs, financial forecasts or general ability to repay.

On June 16, 2014 the Company amended the term loan agreement with PFG creating a \$500,000 revolving line of credit on which the Company drew \$500,000. (see Note 20, Subsequent Events).

16 Term Loan and Warrants

On March 13, 2014 the Company entered into a three year, \$2.0 million term loan agreement with PFG under which the Company received \$1.0 million on March 14, 2014. Pursuant to the agreement, the Company would have been able to borrow an additional \$1.0 million following the Company's achievement of certain performance milestones which includes achieving \$7.5 million in net sales during the first half of fiscal 2015 and two consecutive quarters of net income greater than zero during fiscal 2015, however with the amendment discussed in Note 20, Subsequent Events, an additional \$500,000 was borrowed and the amount potentially available for the Company to borrow if the performance criteria are met was reduced to \$500,000. The PFG loan agreement provides for a fixed interest rate of 9.75% and requires monthly interest only payments during the first six months of the agreement followed by monthly principal and interest payments over the remaining thirty months. The Company may prepay the loan at any time prior to maturity by paying all future scheduled principal and interest payments. The PFG Loan is secured by all of the assets of the Company under a lien that is junior to the SVB position described in Note 15, and limits borrowing under the SVB credit line limit to \$3.0 million. The Company paid a loan fee of

\$30,000 for the first draw and is required to pay a loan fee of \$10,000 upon receipt of the second draw. The initial \$30,000 loan fee is recorded within prepaid expenses and will be amortized to interest expense over the three-year term of the PFG loan.

The future payments under this loan, consisting of \$1.0 million in principal and \$175,000 in interest, were as follows as of March 29, 2014.

Fiscal year (Dollars in thousands)	Principal		Interest		Total
2015	\$	200	\$	94	\$ 294
2016		400		60	460
2017		400		21	421
Total	\$	1,000	\$	175	\$ 1,175

The loan agreement contains financial covenants associated with the Company achieving minimum quarterly net sales and maintaining a minimum monthly shareholders' equity. In the event of default by the Company, all or any part of the Company's obligation to PFG could become immediately due.

The loan agreement also provided for the issuance of warrants convertible into 300,000 shares of the Company's common stock, of which 180,000 were exercisable upon receipt of the first draw, 80,000 became exercisable in connection with the June 16, 2014 amendment discussed in Note 20, Subsequent Events, and 40,000 would become exercisable if the remaining \$500,000 is funded. Each warrant issued under the loan agreement has a term of five years and an exercise price of \$1.42 which is equal to the average NASDAQ closing price of the Company's common stock for the ten trading days prior to the first draw. The number of shares exercisable under the warrant agreements are subject to downward adjustment from 180,000 to 155,000, 80,000 to 67,500 and 40,000 to 27,500, respectively, if the Company achieves in fiscal 2015 net sales of at least \$18.0 million and net income of at least \$1.0 million.

If the warrants are not exercised before expiration on March 13, 2019, the warrants associated with the first draw would be settled for \$150,000 in cash, the warrants associated with the June 16, 2014 amendment would be settled for \$67,000 in cash and the warrants that would be issued if the additional \$500,000 is funded would be settled for \$33,000 in cash. The warrants could be settled for cash at an earlier date in the event of any acquisition or other change in control of the Company, future public issuance of Company securities or liquidation (or substantially similar event) of the Company. The Company currently has no plans for any of the aforementioned events, and as a result, the cash payment date is estimated to be the expiration date unless warrants are exercised before then. Due to the fixed payment amount on the expiration date, the warrant structure in substance is a debt arrangement (Warrant Debt) with a zero interest rate, a fixed maturity date and a feature that makes the debt convertible to common stock. The conversion feature is an embedded derivative and due to the adjustment feature based on sales is not considered indexed to the Company's stock. Thus, for accounting purposes, the conversion feature is bifurcated and accounted for separately from the host debt instrument as a derivative liability measured at fair value which resulted in an initial carrying value of \$128,000.

The proceeds from the first draw were allocated between the PFG Debt and the Warrant Debt (inclusive of its conversion feature) based on their relative fair values on the date of issuance which resulted in initial carrying values of \$822,000 and \$178,000, respectively. The conversion feature was bifurcated from the Warrant Debt and recorded at fair value resulting in a remaining carrying value of \$50,000 associated with the Warrant Debt. The resulting discounts of \$178,000 on the PFG Debt and \$100,000 on the Warrant Debt will be accreted to interest expense under the effective interest method over the three-year term of the PFG Debt and the five-year term of the Warrant Debt.

17 Series B Convertible Voting Perpetual Preferred Stock and Warrant

On November 10, 2011, the Company received \$2,199,000 in cash proceeds from Alara Capital AVI II, LLC, a Delaware limited liability company (the "Investor"), under a Securities Purchase Agreement entered into on October 31, 2011. Under the terms of the Securities Purchase Agreement, the Company issued 9,997 shares of its Series B Convertible Voting Perpetual Preferred Stock ("Series B Preferred Stock") to the Investor at a price of \$220 per share.

Each share of Series B Preferred Stock initially is convertible at the option of the holder into 100 shares of the Company's common stock. The conversion ratio is subject to customary adjustments for stock splits, stock dividends, recapitalizations and similar transactions. Each share of Series B Preferred Stock has a liquidation preference of \$231, equal to 105% of the purchase price. If the Company pays a dividend on its common stock, it is required to pay a dividend on the Series B Preferred Stock equal to 100% of the cash dividend that would be payable on the number of shares of common stock into which each share of Series B Preferred Stock is then convertible. The Series B Preferred Stock generally votes together with the common stock, on an as-converted basis, on each matter submitted to the vote or approval of the holders of common stock, and votes as a separate class with respect to certain actions that adversely affect the rights of the Series B Preferred Stock and on other matters as required by law.

The Company also issued to the Investor a Warrant to purchase up to 848,684 additional shares of common stock of the Company; however, as discussed in Note 19 this warrant was subsequently reduced to 506,219 shares. The exercise price of the Warrant is \$1.43 per share, subject to anti-dilution adjustments for stock splits, stock dividends, reclassifications and similar events. The expiration date was originally August 7, 2014 but has been extended to August 7, 2015.

In accordance with the terms of the SPA, the Company and the Investor entered into an Investor Rights Agreement upon the closing of the sale of the Series B Preferred Stock. In the Investor Rights Agreement, the Company agreed to file certain registration statements for the resale of common stock of the Company that the Investor may acquire upon conversion of the Series C Preferred Stock.

The Company has recorded \$2.0 million as Series B Preferred Stock on the consolidated balance sheet. This amount is net of stock offering costs of approximately \$202,000 and represents the value attributable to both the convertible preferred stock and warrants issued to the Investor. After considering the value of the warrants, the effective conversion price of the preferred stock was greater than the common stock price on date of issue and therefore no beneficial conversion feature was present.

18 Series C Convertible Voting Perpetual Preferred Stock and Warrants

On February 19, 2013, the Company entered into a Securities Purchase Agreement (the "SPA") pursuant to which it agreed to sell 3,424.65 shares of its newly designated Series C Convertible Voting Perpetual Preferred Stock ("Series C Preferred Stock") to the Investor, an investment vehicle sponsored by Active Value Investors, LLC, for aggregate consideration of \$500,000, which is approximately \$146.00 per share. The sale and issuance of Series C Preferred Stock was completed on February 25, 2013 at which time the Company and the Investor amended the outstanding warrant to purchase common stock and entered into an Investor Rights Agreement, as described in more detail below.

Each share of Series C Preferred Stock is initially convertible at the option of the holder into 100 shares of the Company's common stock. The conversion ratio is subject to adjustments for stock splits, stock dividends, recapitalizations and similar transactions. Each share of Series C Preferred Stock has a liquidation preference of \$146. If the Company pays a dividend on its common stock after January 1, 2014, it would be required to pay a dividend on the Series C Preferred Stock equal to 100% of the cash dividend that would be payable on the number of shares of common stock into which each share of Series C Preferred Stock is then convertible. The Series C Preferred Stock generally votes together with the common stock and the Company's Series B Preferred Stock on an as-converted to common stock basis, on each matter submitted to the vote or approval of the holders of common stock, and would vote as a separate class with respect to certain actions that adversely affect the rights of the Series C Preferred Stock and on other matters as required by law.

Under the terms of the SPA, the Company and the Investor agreed to terminate the Investor's right to acquire 342,465 shares of the 848,684 shares underlying the Warrant. As a result, the Warrant as reissued (the "Amended Warrant") represents the right to acquire 506,219 shares of the Company's common stock at the price of \$1.43 per share. The Amended Warrant will expire on August 7, 2015, if and to the extent not exercised earlier.

In accordance with the terms of the SPA, the Company and the Investor entered into an Investor Rights Agreement upon the closing of the sale of the Series C Preferred Stock. In the Investor Rights Agreement, the Company agreed to file certain registration statements for the resale of common stock of the Company that the Investor may acquire upon conversion of the Series C Preferred Stock.

The Company has recorded \$457,000 as Series C Preferred Stock on the consolidated balance sheet, which is net of stock offering costs of approximately \$43,000. After considering the reduction in the value of the warrant from the amendment described above, the effective conversion price of the preferred stock was greater than the common stock price on the date of issue and therefore no beneficial conversion feature was present.

19 Series D Convertible Voting Perpetual Preferred Stock and Warrants

On July 8, 2013 the Company received \$817,000 in net cash proceeds from Alara Capital AVI II, LLC, a Delaware limited liability company (the "Investor"). Under a Securities Purchase Agreement ("SPA"), the Company sold to the Investor 5,111.86 shares of a new Series D Convertible Voting Perpetual Preferred Stock (Series D Preferred Stock) and a warrant to purchase up to 511,186 additional shares of common stock at the price of \$1.43 per share (the "New Warrant").

Each share of Series D Preferred Stock is initially convertible at the option of the holder into 100 shares of the Company's common stock. The conversion ratio is subject to adjustments for stock splits, stock dividends, recapitalizations and similar transactions. Each share of Series D Preferred Stock has a liquidation preference of \$143. If the Company pays a dividend on its common stock after January 1, 2014, it would be required to pay a dividend on the Series D Preferred Stock equal 100% of the cash dividend that would be payable on the number of shares of common stock into which each share of Series D Preferred Stock is then convertible. To date, no dividends have been paid on the Series D Preferred Stock or any other preferred stock. The Series D Preferred Stock generally votes together with the common stock, the Company's Series B Convertible Voting Perpetual Preferred Stock and the Company's Series C Convertible Voting Perpetual Preferred Stock on an as-converted to common stock basis, on each matter submitted to the vote or approval of the holders of common stock, and would vote as a separate class with respect to certain actions that adversely affect the rights of the Series D Preferred Stock and on other matters as required by law.

The Company also issued to the Investor the New Warrant to purchase up to 511,186 additional shares of common stock of the Company. The exercise price of the New Warrant is \$1.43 per share, subject to anti-dilution adjustments for stock splits, stock dividends, reclassifications and similar events. The New Warrant will expire January 8, 2016.

Under the terms of the SPA, the Company and the Investor agreed to terminate the Investor's right to acquire 506,219 common shares at \$3.30 per share from a previously issued warrant and issue a new warrant to purchase 506,219 common shares at \$1.43 per share (the "Amended Warrant"). The Amended Warrant was issued in July 2013 and will expire on August 7, 2015, if and to the extent not exercised earlier.

The Company recorded the issuance of the Series D Preferred Stock using an allocation of the proceeds based on the relative fair values of each of the components included in the consideration given to the Investor. These components included the Preferred Stock which was ascribed an estimated fair value of \$269,000, the conversion feature which was ascribed an estimated fair value of \$558,000, the New Warrant which was ascribed an estimated fair value of \$349,000 and the Amended Warrant, which was ascribed an estimated fair value of \$248,000 representing the incremental fair value of the Amended Warrant over the Existing warrant that was terminated.

The allocation of the \$858,000 in gross proceeds from issuance of Series D Preferred Stock based on the relative fair values noted above resulted in an allocation of \$498,000 (which was recorded net of \$41,000 of issuance costs) to Series D Preferred Stock and \$360,000 to Common Stock. In addition, because the effective conversion rate based on the \$498,000 allocated to Series D Preferred Stock was \$0.97 per common share which was less than the Company's stock price on the date of issuance, a beneficial conversion feature was present at the issuance date. The beneficial conversion feature totaled \$238,000 and was recorded as a reduction of common stock and an increase to accumulated deficit.

As of March 29, 2014 the Investor's beneficial ownership is approximately 36.2% of the Company's common stock, assuming that New Warrant and Amended Warrant are exercised.

20 Subsequent Events

Customer Order Received:

A large aerospace company has engaged Microsource for design services and a production bid associated with a radar filter program. On August 13, 2013 Microsource received an initial order for \$733,000, on May 6, 2014 a follow on order of \$659,000 was received, and then on May 20, 2014 the complete order for an additional \$5.5 million was received. The total orders for the design and production bid for the associated program is \$6.9 million. The Company anticipates the associated multi-year production agreement to be for approximately \$10.0 million and for it to finalize in calendar 2014. No assurances can be given that the parties will agree on the final multi-year production agreement, or what the actual terms will be.

Amended Loan Agreement:

On June 16, 2014, the Company amended its loan agreement with PFG. Under the terms of the amendment, PFG made a revolving loan available to Giga-tronics in the amount of \$500,000, and the Company drew the entire amount on June 17, 2014. The Company now has total debt of \$1.5 million with PFG. The amended loan agreement also provides for the Company's ability to request an additional term loan of up to \$500,000 in Fiscal 2015 if the Company meets the performance criteria discussed in Note 16.

The revolving loan has a three year term, and PFG has the right to convert the revolving loan into a term loan and require principal payments to be amortized over the remaining loan term. Interest on the revolving loan is fixed, calculated on daily basis rate equal to 12.50% per annum. Interest on the initial loan of \$1.0 million remains 9.75% per annum. To stay in compliance with the loan terms, the Company must meet certain financial covenants associated with minimum quarterly revenues and monthly minimum shareholders' equity. The lender can accelerate the maturity of the loan in case of a default. The Company can prepay the loan before maturity, even if PFG converts it to a term loan.

In connection with the original loan to the Company, PFG became entitled to warrants to ultimately purchase up to 300,000 shares of common stock in the future, dependent on the amount borrowed by the Company. With the initial loan of \$1.0 million PFG received warrants for up to 180,000 shares of common stock. With the amendment of the \$500,000 revolving loan PFG received warrants for up to 80,000 shares of common stock. If PFG makes the additional \$500,000 loan later in Fiscal 2015, PFG's warrants entitle PFG to purchase the remaining 40,000 shares of common stock. The warrants were priced when the original loan agreement was entered at \$1.42 per share. The warrant has a net exercise feature. Issuance of the warrant is exempt from registration under Section 4(2) of the Securities Act of 1933.

If the Company meets certain financial goals in Fiscal 2015, the 260,000 warrants associated with the total \$1.5 million borrowed is reduced to 222,500 shares of common stock. Should PFG earn the rights to exercise the warrant for the additional 40,000 shares of common stock, that number will be reduced to 27,500 shares of common stock if the Company meets those financial goals.

In the event of any acquisition or other change in control of the Company, future public issuance of Company securities, liquidation (or substantially similar event) of the Company, or expiration of the warrants, PFG will have the right to exchange the warrant for \$250,000 in cash if all loans are made or \$217,000 if only the two loans totaling \$1.5 million are made.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Giga-tronics Incorporated
San Ramon, California

We have audited the accompanying consolidated balance sheets of Giga-tronics Incorporated (the "Company") as of March 29, 2014 and March 30, 2013 and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated financial position of Giga-tronics Incorporated as of March 29, 2014 and March 30, 2013, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred a current year net loss of \$3.7 million, has an accumulated deficit of \$18.2 million, has experienced delays in the launch of its new product line, and has a line of credit with a material adverse change clause under which the bank may terminate the availability of future borrowings. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Crowe Horwath LLP

San Francisco, California
June 24, 2014

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company periodically reviews the design and effectiveness of its disclosure controls and internal control over financial reporting. The Company makes modifications to improve the design and effectiveness of its disclosure controls and internal control structure, and may take other corrective action, if its reviews identify a need for such modifications or actions. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

As of the end of the period covered by this Form 10-K, an evaluation was completed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, regarding the design and effectiveness of our disclosure controls and procedures. Based on this evaluation, our management, including our principal executive officer and principal financial officer, has concluded that our disclosure controls and procedures were effective as of March 29, 2014.

Report of Management on Internal Control over Financial Reporting

Management of Giga-tronics is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's management, under the supervision of the Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of the Company's internal control over financial reporting as of March 29, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its 1992 Internal Control-Integrated Framework. Our internal control over financial reporting includes policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with United States generally accepted accounting principles and that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

A material weakness is a control deficiency, or combination of control deficiencies, which results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Based on the above described procedures and actions taken, the Company's management, including its Chief Executive Officer and its Chief Financial Officer have concluded that as of March 29, 2014, the Company's internal control over financial reporting was effective based on the criteria described in the 1992 "COSO Internal Control – Integrated Framework."

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of March 29, 2014, has not been audited by the Company's independent registered public accounting firm. Management's report is not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

Material Weakness in Internal Control Over Financial Reporting

The Company determined that as of December 28, 2013 it did not have adequate procedures in place to identify and report on a timely basis the impact of certain triggering events in its line of credit arrangement. The lack of these procedures resulted in the delayed financial reporting of the impacts of the triggering events on the balance sheet classification of borrowings under the line of credit as current liabilities rather than long term liabilities and related disclosures regarding the triggering events.

Remediation of Material Weakness

Management has engaged in a contract review policy that addresses the material weakness reported as of December 28, 2013. The remediation efforts taken are the following:

- Management has adopted a contract agreement review policy
- All material agreements are reviewed by the Chief Financial Officer and Controller
- At the end of each reporting period, the Chief Financial Officer will review and approve the Contract/Agreement Summary spreadsheet prepared by the Controller.

Management believes the above efforts have effectively remediated the material weakness.

Changes in Internal Control

Except as otherwise discussed above, there were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 29, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

The Company is not aware of any information required to be reported on Form 8-K that has not been previously reported.

PART III

ITEM 10. DIRECTOR, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding Directors of the Company is set forth under the heading “Election of Directors” of the Company’s Proxy Statement for its 2014 Annual Meeting of Shareholders, incorporated herein by reference. This Proxy Statement is to be filed no later than 120 days after the close of the fiscal year ended March 29, 2014.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding the Company’s compensation of its executive officers is set for the under the heading “Executive Compensation” of the Company’s Proxy Statement for its 2014 Annual Meeting of Shareholders, incorporated herein by reference. This Proxy Statement is to be filed no later than 120 days after the close of the fiscal year ended March 29, 2014.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management is set forth under the heading “Stock Ownership of Certain Beneficial Owners and Management” of the Company’s Proxy Statement for its 2014 Annual Meeting of Shareholders, incorporated herein by reference. Information about securities authorized for issuance under equity compensation plans is set forth under the heading “Equity Compensation Plan Information” of its Proxy Statement for the 2014 Annual Meeting of Shareholders, incorporated herein by reference. This Proxy Statement is to be filed no later than 120 days after the close of the fiscal year ended March 29, 2014.

ITEM 13. CERTAIN RELATONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information set forth in the Proxy Statement under the section captioned “Transactions with Management and Others” is incorporated herein by reference. This Proxy Statement is to be filed no later than 120 days after the close of the fiscal year ended March 29, 2014.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information set forth in the Proxy Statement under the section captioned “Appointment of Independent Registered Accounting Firm” is incorporated herein by reference. This Proxy Statement is to be filed no later than 120 days after the close of the fiscal year ended March 29, 2014.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) The following consolidated financial statements of Giga-tronics Incorporated and the related independent registered public accounting firm are filed herewith:
1. Financial Statements. See Index to Financial Statements on page 21. The financial statements and Report of Independent Registered Public Accounting Firm are included in Item 8 are filed as part of this report.
 2. Exhibits. The exhibit list required by this item is incorporated by reference to the Exhibit Index filed with this report.

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Securities Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GIGA-TRONICS INCORPORATED

/s/ JOHN R. REGAZZI

Chief Executive Officer

In accordance with the requirements of the Securities Exchange Act, this annual report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>/s/ GARRETT A. GARRETTSON</u> Garrett A. Garrettson	Chairman of the Board of Directors	<u>06/24/2014</u> Date
<u>/s/ JOHN R. REGAZZI</u> John R. Regazzi	Chief Executive Officer (Principal Executive Officer) and Director	<u>06/24/2014</u> Date
<u>/s/ STEVEN D. LANCE</u> Steven D. Lance	Vice President of Finance/ Chief Financial Officer & Secretary (Principal Financial Officer)	<u>06/24/2014</u> Date
<u>/s/ GORDON L. ALMQUIST</u> Gordon L. Almquist	Director	<u>06/24/2014</u> Date
<u>/s/ JAMES A. COLE</u> James A. Cole	Director	<u>06/24/2014</u> Date
<u>/s/ KENNETH A. HARVEY</u> Kenneth A. Harvey	Director	<u>06/24/2014</u> Date
<u>/s/ LUTZ P. HENCKELS</u> Lutz P. Henckels	Director	<u>06/24/2014</u> Date
<u>/s/ WILLIAM J. THOMPSON</u> William J. Thompson	Director	<u>06/24/2014</u> Date

The following exhibits are filed by reference or herewith as a part of this report:

INDEX TO EXHIBITS

- 3.1 Articles of Incorporation of the Registrant, as amended, including Certificate of Determination of Preferences for Preferred Stock Series A, previously filed as Exhibit 3.1 to Form 10-KSB for the fiscal year ended March 27, 1999 and incorporated herein by reference.
- Certificate of Determination for Series B Convertible Voting Perpetual Preferred Stock, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on November 14, 2011.
- Certificate of Determination for Series C Convertible Voting Perpetual Preferred Stock, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on February 27, 2013.
- Certificate of Determination for Series D Convertible Voting Perpetual Preferred Stock, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on July 3, 2013.
- 3.2 Amended and Restated Bylaws of Giga-tronics Incorporated, as amended on March 7, 2008, previously filed as Exhibit 3.2 to Form 10-K for the fiscal year ended March 29, 2008, and incorporated herein by reference.
- 4.1 Form of stock certificate for shares of Series B Convertible Voting Perpetual Preferred Stock, incorporated by reference from exhibits filed with the Company's current report on Form 8-K Filed on November 14, 2011
- 4.2 Rights Agreement between the Company and American Stock Transfer & Trust Company, LLC dated as of January 23, 2013 which includes as Exhibit A the form of Certificate of Determination for the Series A Junior Participating Preferred Stock, as Exhibit B the Form of Rights Certificate and Exhibit C, a summary of Rights to Purchase Shares of Preferred Stock, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on January 25, 2013; Amendment No. 1 thereto between the Company and American Stock Transfer & Trust Company, LLC as Rights Agent, , incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on July 3, 2013.
- 10.1 Standard form Indemnification Agreement for Directors and Officers, previously filed as Exhibit 10.1 to Form 10-K for the fiscal year ended March 27, 2010, and incorporated herein by reference.
- 10.2 First Amendment to Office Lease Agreement between Giga-tronics Incorporated and VIF/ZKS Norris Tech Center, LLC, for 4650 Norris Canyon Road, San Ramon, CA, dated March 29, 2010, previously filed as Exhibit 10.2 to Form 10-K for the fiscal year ended March 27, 2010, and incorporated herein by reference.
- 10.3 2000 Stock Option Plan and form of Incentive Stock Option Agreement, previously filed on September 8, 2000 as Exhibit 99.1 to Form S-8 (33-45476) and incorporated herein by reference. *
- 10.4 2005 Equity Incentive Plan incorporated herein by reference to Attachment A of the Registrant's Proxy Statement filed July 21, 2005. *
- 10.5 Amended and Restated Loan and Security Agreement dated June 16, 2014, between the Company and Partners for Growth IV, L.P..
- 10.6 Amended and Restated Warrant dated June 16, 2014, between the Company and Partners for Growth IV, L.P.
- 10.7 Amended and Restated Warrant dated June 16, 2014, between the Company and SVB Financial Group
- 10.8 Amended and Restated Warrant dated June 16, 2014, between the Company and PFG Equity Investors, LLC
- 10.9 Securities Purchase Agreement dated February 19, 2013, between the Company and Alara Capital AVI II, LLC, incorporated by reference from exhibit 10.1 to the registrant's Form 8-K filed on February 25, 2013.
- 10.10 Securities Purchase Agreement dated June 27, 2013, between the Company and Alara Capital AVI II, LLC, incorporated by reference from exhibit 10.1 to the registrant's Form 8-K filed on July 3, 2013.
- 10.11 Warrant to purchase 511,186 shares of common stock, dated July 8, 2013, between the Company and Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed July 12, 2013.

- 10.12 Warrant to purchase 506,219 shares of common stock, dated July 8, 2013, between the Company and Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed July 12, 2013.
- 10.13 Investor Rights Agreement dated November 10, 2011, between the Company and Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed November 14, 2011.
- 10.14 Investor Rights Agreement dated February 25, 2013, between the Company and Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed on February 27, 2013.
- 10.15 Investor Rights Agreement dated November 10, 2013, between the Company and Alara Capital AVI II, LLC, incorporated by reference from exhibits filed with the Company's current report on Form 8-K filed July 12, 2013.
- 21 Significant Subsidiaries.
- 23 Consent of Independent Registered Public Accounting Firm, Crowe Horwath LLP.
- 31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.1 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, formatted in XBRL ("eXtensible Business Reporting Language"): (i) the Consolidated Balances Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, and (iv) the Notes to the Consolidated Financial Statements, tagged as blocks of text (furnished but not filed).
- * Management contract or compensatory plan or arrangement.

EXHIBIT 10.5

Partners for Growth

Amended and Restated Loan and Security Agreement

Borrower: Giga-tronics Incorporated, a California corporation
Address: 4650 Norris Canyon Road, San Ramon CA, 94583

Borrower: Microsource, Inc., a California corporation
Address: 4650 Norris Canyon Road, San Ramon CA, 94583

Date: June 16, 2014

THIS AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (“Agreement”) is entered into on the above date (the “Effective Date”) and amends and restates in its entirety that certain Loan and Security Agreement dated March 13, 2014 (“Original Loan Agreement” and such date, the “Original Loan Effective Date”), between PARTNERS FOR GROWTH IV, L.P. (“PFG”), whose address is 150 Pacific Avenue, San Francisco, CA 94111 and Borrower(s) named above (jointly and severally, the “Borrower”), whose chief executive offices are located at the above addresses (“Borrower’s Address”). The Schedule to this Agreement (the “Schedule”) being signed by the parties concurrently, is an integral part of this Agreement. (Definitions of certain terms used in this Agreement are set forth in Section 7 below.)

1. LOANS.

1.1 Loans. PFG will make loans to Borrower (the “Loan” or “Loans”) in the amount (s) shown on the Schedule subject at all times to, and notwithstanding any other provision of this Agreement, no Default or Event of Default having occurred and being continuing at any time a Loan is requested or made.

1.2 Interest. All Loans and all other monetary Obligations shall bear interest at the rates shown on the Schedule, except where expressly set forth to the contrary in this Agreement. Interest shall be payable monthly, on the first day of each month for interest accrued during the prior month.

1.3 Fees. Borrower shall pay PFG the fees shown on the Schedule, which are in addition to all interest and other sums payable to PFG and are not refundable.

1.4 Loan Requests. To obtain a Loan, Borrower shall make a Qualifying Request to PFG compliant with Section 8.5. Loan Requests are not deemed made until PFG acknowledges receipt of the same by electronic mail or otherwise in writing. Without limiting the effect of Section 8.22, each Borrower appoints the Responsible Officer(s) as its authorized agent to make Loan Requests and any Loan Request made by such Responsible Officer(s) shall be binding on each Borrower as if made by its own respective officers who are duly authorized to bind Borrower in respect of this Agreement PFG’s obligation to fund a Loan Request shall be subject to its receipt of such reports, certificates and other information as may be set forth in the Schedule. Loan Requests received after 12:00 Noon Pacific time will not be deemed to have been received by PFG until the next Business Day. PFG may rely on any Loan Request given by a person whom PFG believes in good faith is a Responsible Officer, and Borrower will indemnify PFG for any loss PFG suffers as a result of that reliance.

1.5 Late Fee. If any payment of accrued interest for any month is not made within three business days after the later of the date a bill therefor is sent by PFG or three business days after the due date therefor, or if any payment of principal or any other payment is not made within three Business Days after the date due, then Borrower shall pay PFG a late payment fee equal to 5% of the amount of each such late payment. The provisions of this paragraph shall not be construed as PFG’s consent to Borrower’s failure to pay any amounts when due, and PFG’s acceptance of any such late payments shall not restrict PFG’s exercise of any remedies arising out of any such failure. Unless expressly waived in writing by PFG in its sole discretion, interest at the Default Rate shall commence to apply to outstanding monetary Obligations as from the date the above grace periods expire.

2. SECURITY INTEREST.

2.1 Grant of Security Interest. To secure the payment and performance of all of the Obligations when due, Borrower hereby grants to PFG a continuing security interest in, and pledges to PFG, all of the following (collectively, the "Collateral"): all right, title and interest of Borrower in and to all of the following, whether now owned or hereafter arising or acquired and wherever located: all Accounts; all Inventory; all Equipment; all Deposit Accounts; all General Intangibles (including without limitation all Intellectual Property); all Investment Property; all Other Property; and any and all claims, rights and interests in any of the above, and all guaranties and security for any of the above, and all substitutions and replacements for, additions, accessions, attachments, accessories, and improvements to, and proceeds (including proceeds of any insurance policies, proceeds of proceeds and claims against third parties) of, any and all of the above and all Borrower's books relating to any and all of the above.

Notwithstanding anything herein to the contrary, that the Collateral will not include (a) any application for a Trademark that would otherwise be deemed invalidated, cancelled or abandoned due to the grant of a Lien thereon unless and until such time as the grant of such Lien will not affect the validity of such trademark, (b) any lease, license, contract, or agreement, if the grant of a security interest in such lease, license, contract, or agreement under the terms thereof or under applicable law with respect thereto, is prohibited and such prohibition has not been or is not waived or the consent of the other party to such lease, license, contract, or agreement has not been or is not otherwise obtained or under applicable law such prohibition cannot be waived, (c) more than 65% of the voting equity interests of any Subsidiary of Borrower organized in a jurisdiction outside of the United States, provided, however, such percentage shall be 100% unless Borrower demonstrates to PFG's reasonable satisfaction that pledging more than 65% of the voting equity interests of such Subsidiary would result in a material adverse tax consequence; (d) vehicles and other goods subject to a certificate of title, and (e) any deposit accounts used exclusively for payroll or employee benefit payment purposes; provided that (x) any such limitation described in the foregoing clause (b) on the security interests granted hereunder shall only apply to the extent that any such prohibition could not be rendered ineffective pursuant to the UCC or any other applicable law or principles of equity and (y) in the event of the termination or elimination of any such prohibition or the requirement for any consent contained in any applicable law, lease, license, contract or other agreement, to the extent sufficient to permit any such item to become Collateral hereunder, or upon the granting of any such consent, or waiving or terminating any requirement for such consent, a security interest in such lease, license, contract or other agreement shall be automatically and simultaneously granted hereunder and shall be included as Collateral hereunder.

3. REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER.

In order to induce PFG to enter into this Agreement and to make Loans, Borrower represents and warrants to PFG as follows, and Borrower covenants that the following representations will continue to be true, except for representations expressly specified to be made as of a particular date, and that Borrower will at all times comply with all of the following covenants, throughout the term of this Agreement and thereafter until all Obligations (other than inchoate indemnity obligations) have been paid and performed in full:

3.1 Corporate Existence, Authority and Consents. Borrower is and will continue to be, duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation and has in full force and effect all Governmental Authorizations required for Borrower to lawfully conduct its business as conducted on the Effective Date. Borrower shall give PFG 30 days' prior written notice before changing its jurisdiction or form of organization. Borrower is and will continue to be qualified and licensed to do business in all jurisdictions in which any failure to do so could result in a Material Adverse Change. The execution, delivery and performance by Borrower of this Agreement, and all other documents contemplated hereby (i) have been duly and validly authorized, (ii) are enforceable against Borrower in accordance with their terms (except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar Legal Requirements relating to creditors' rights generally), and (iii) do not violate Borrower's Constitutional Documents, or any material Legal Requirement or any material agreement or instrument of Borrower or relating to its property, (iv) does not require any action by, filing, registration or qualification with, or Governmental Authorization from, any Governmental Body (except such Governmental Authorizations which have already been obtained and are in full force and effect), and (v) do not constitute grounds for acceleration of any material Indebtedness or obligation under any agreement or instrument of Borrower or relating to its property. Without limiting the foregoing: (A) the Board has the authority under Borrower's Constitutional Documents to enter into and cause Borrower to perform, or to delegate such authority to a Responsible Officer to enter into and cause Borrower to perform, its Obligations, and (B) no consent is required of any Person other than such consents as have already been obtained or could reasonably result in a cost to or liability of Borrower in excess of \$100,000.

3.2 Name; Trade Names and Styles. As of the Effective Date, the name of Borrower set forth in the heading to this Agreement is its correct name, as set forth in its Constitutional Documents. Listed in the Representations are all prior names of Borrower and all of Borrower's present and prior trade names as of the Effective Date. Borrower has complied, and will in the future comply, in all material respects, with all laws relating to the conduct of business under a fictitious business name, if applicable to Borrower.

3.3 Place of Business; Location of Collateral. As of the Effective Date, the address set forth in the heading to this Agreement is Borrower's chief executive office. In addition, as of the Effective Date, Borrower has places of business and Collateral is located only at the locations set forth in the Representations. Borrower will give PFG at least 30 days prior written notice before opening any additional place of business, changing its chief executive office, or moving any of the Collateral valued at greater than \$10,000 to a location other than Borrower's Address or one of the locations set forth in the Representations, except that Borrower may (x) maintain sales offices in the ordinary course of business at which not more than a total of \$10,000 fair market value of Equipment is located, and (y) provide Inventory to customers on a temporary basis without having sold such Inventory for the purposes of demonstration, consistent in form and substance with Borrower's past practice.

3.4 Title to Collateral; Perfection; Permitted Liens.

(a) Borrower is as of the Effective Date, and will at all times in the future be, the sole owner of all the Collateral, except for Collateral which is leased or licensed to Borrower. The Collateral is as of the Effective Date and will remain free and clear of any and all liens, charges, security interests, encumbrances and adverse claims, except for Permitted Liens. As of the Effective Date, PFG will have, and will continue to have, a First-Priority perfected and enforceable security interest in all of the Collateral, subject only to Permitted Liens, and Borrower will at all times defend the Liens granted to PFG hereunder and use commercially-reasonable efforts to defend the Collateral against all claims of others.

(b) Borrower has set forth in the Representations all of Borrower's Deposit Accounts as of the Effective Date, and Borrower shall (i) give PFG five Business Days advance written notice before establishing any new Deposit Accounts or (ii) depositing any Cash or Cash Equivalents or Investment Property into any new Deposit Account and (iii) subject to the rights of the Senior Lender, shall cause the institution where any such new Deposit Account is maintained to execute and deliver to PFG a Control Agreement in form legally and commercially sufficient to perfect PFG's security interest in the Deposit Account and otherwise reasonably satisfactory to PFG in its good faith business judgment.

(c) In the event that Borrower shall at any time after the Effective Date have any commercial tort claims against others, which it is asserting, and in which the potential recovery exceeds \$100,000, Borrower shall promptly notify PFG thereof in writing and provide PFG with such information regarding the same as PFG shall request (unless providing such information would waive Borrower's attorney-client privilege). Such notification to PFG shall constitute a grant of a security interest in the commercial tort claim and all proceeds thereof to PFG, and Borrower shall execute and deliver all such documents and take all such actions as PFG shall request in connection therewith.

(d) As of the Effective Date, no Collateral with a value in excess of \$100,000 is affixed to any real property in such a manner or with such intent as to become a fixture, except as disclosed in detail in Exhibit A. From and after the Effective Date, without PFG's consent in each instance, no material part of the Collateral or will be affixed to any real property in such a manner, or with such intent, as to become a fixture. Borrower is not, except as set forth in Exhibit A, and will not become a lessee under any real property lease pursuant to which the lessor may obtain any rights in any of the Collateral and no such lease now prohibits, restrains, impairs or will prohibit, restrain or impair Borrower's right to remove any Collateral from the leased premises. Whenever any Collateral is located upon premises in which any third party has an interest, Borrower shall, whenever requested by PFG, use commercially reasonable efforts to cause such third party to execute and deliver to PFG, in form acceptable to PFG, such waivers and subordinations as PFG shall specify in its good faith business judgment; provided that, with respect to any property of Borrower which is considered work-in-process but not yet inventory and is temporarily located for finishing with a third party as part of Borrower's historic manufacturing process, no such third party waiver or subordination will be required with respect to such property so long as (x) temporarily locating such property with a third party is consistent with Borrower's past manufacturing processes and (y) such property is not located with any such third party for a period longer than the time required by such third party to complete the work on such property. Borrower will keep in full force and effect, and will comply with all material terms of, any lease of real property where any of the Collateral now or in the future may be located.

3.5 Maintenance of Collateral. Borrower will maintain the Collateral in good working condition (ordinary wear and tear excepted), and Borrower will not use the Collateral for any unlawful purpose. Borrower will promptly advise PFG in writing of any material loss or damage to the Collateral.

3.6 Books and Records. Borrower has maintained and will maintain at Borrower's Address complete and accurate books and records, comprising an accounting system in accordance with GAAP.

3.7 Financial Condition, Statements and Reports. All Financial Statements now or in the future delivered to PFG have been, and will be, prepared in conformity with GAAP and now and in the future will fairly present the results of operations and financial condition of Borrower in all material respects, in accordance with GAAP, at the times and for the periods therein stated. Between the last date covered by any such statement provided to PFG and the Effective Date, there has been no Material Adverse Change.

3.8 Tax Returns and Payments; Pension Contributions. Borrower has timely filed, and will timely file, all material required Tax Returns, and Borrower has timely paid, and will timely pay, all Taxes now or in the future owed by Borrower. Borrower may, however, defer payment of any of the foregoing which are contested by Borrower in good faith, provided that Borrower (i) contests the same by appropriate proceedings promptly and diligently instituted and conducted, (ii) notifies PFG in writing of the commencement of, and any material development in, the proceedings, and (iii) posts bonds or takes any other steps required to keep the same from becoming a lien upon any of the Collateral. Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional Taxes becoming due and payable by Borrower. Borrower has paid, and shall continue to pay all amounts necessary to fund all present and future pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not and will not withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other Governmental Body.

3.9 Compliance with Law. Borrower has, to the best of its knowledge, complied, and will comply, in all material respects, with all provisions of all Legal Requirements applicable to Borrower, including, but not limited to, those relating to Borrower's ownership of real or personal property, the conduct and licensing of Borrower's business, and all environmental matters.

3.10 Litigation. Except as disclosed in Exhibit A hereto as of the Effective Date or disclosed in an update to the Representations as to future periods, there is no claim, suit, litigation, proceeding or investigation pending or (to Borrower's Knowledge) threatened against or affecting Borrower in any court or before any Governmental Body (or any basis therefor known to Borrower) (i) involving any single claim of \$50,000 or more, or involving \$100,000 or more in the aggregate, or (ii) which could reasonably be expected to result, either separately or in the aggregate, in any Material Adverse Change. Borrower will promptly inform PFG in writing of any claim, proceeding, litigation or investigation in the future threatened or instituted against Borrower involving any single claim of \$50,000 or more, or involving \$100,000 or more in the aggregate.

3.11 Use of Proceeds. All proceeds of all Loans shall be used solely for lawful business purposes, including any purposes detailed in the Schedule. Borrower is not purchasing or carrying any "margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System) and no part of the proceeds of any Loan will be used to purchase or carry any "margin stock" or to extend credit to others for the purpose of purchasing or carrying any "margin stock."

3.12 No Default. At the Effective Date, no Default or Event of Default has occurred, and no Default or Event of Default will have occurred after giving effect to any Loans being made concurrently herewith.

3.13 Protection and Registration of Intellectual Property Rights. Borrower owns or otherwise holds the right to use all Intellectual Property rights material to Borrower's business or necessary for the conduct of its business as currently conducted and reflected in any Borrower's Plans. Borrower shall: (a) protect, defend and maintain the validity and enforceability of its Intellectual Property, other than Intellectual Property that is not material to Borrower's business, has a fair value of less than \$25,000 and that Borrower has affirmatively determined not to maintain or to abandon; (b) promptly advise PFG in writing of infringements of its Intellectual Property material to its business; (c) except as permitted in clause (a), not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without PFG's written consent, and (d) while any Obligations are Outstanding, shall not Transfer (except for Liens permitted under clauses (iii) and (ix) of the definition of Permitted Liens) any Intellectual Property without PFG's consent, which consent shall not be unreasonably withheld if no Default or Event of Default has occurred and is then continuing, the Transfer of such Intellectual Property would not give rise to such a Default or Event of Default, and if such Intellectual Property meets the three criteria set forth as the exceptions to Borrower's duties to protect, defend and maintain under clause (a), above. If, before the Obligations have been paid and/or performed in full, Borrower shall (i) adopt, use, acquire or apply for registration of any trademark, service mark or trade name, (ii) apply for registration of any patent or obtain any patent or patent application; (iii) create or acquire any published or material unpublished works of authorship material to the business that is or is to be registered with the U.S. Copyright Office or any non-U.S. equivalent; or (iv) register or acquire any domain name or domain name rights, then the provisions of Section 2.1 shall automatically apply thereto, and Borrower shall use all commercially reasonable efforts to give PFG advance written notice thereof and in any event shall thereafter give PFG prompt written notice thereof (which for purposes hereof shall be deemed to be not more than five (5) Business Days from the occurrence of each and any of the foregoing). Borrower shall further provide PFG with all information and details relating to the foregoing and take such further actions as PFG may reasonably request from time to time to enable PFG to perfect or continue the perfection of PFG's interest in such Collateral. Except as noted in the Representations, Borrower is not a party to, nor is it bound by, any Restricted License.

3.14 Domain Rights and Related Matters. Borrower (a) is the sole record, legal and beneficial owner of all domain names and domain name rights used in connection with its business and that of its Subsidiaries, free and clear of any rights or claims of any third party; (b) has set forth in the Representations with respect to domain names and ownership thereof, domain registry, domain servers, location and administrative contact information, web hosting and related services and facilities (collectively, "Domain Rights") is true, accurate and complete in all material respects and Borrower shall promptly notify PFG of any material changes to such information; (c) shall maintain all Domain Rights that Borrower has not affirmatively determined to abandon in full force and effect so long as any Obligations remain outstanding; (d) shall, upon request of PFG, notify such third parties (including domain registrars, hosting companies and internet service providers) of PFG's security interest in Borrower's Domain Rights; and (e) shall promptly advise PFG in writing of any material disputes or infringements of its Domain Rights. The obligations of Borrower under this Section shall not be limited by any Borrower obligations under the IP Security Agreement and related Collateral Agreements and Notices executed in connection with this Agreement.

3.15 Internal Controls. Parent maintains a system of internal controls, including, but not limited to, disclosure controls and procedures, internal controls over accounting matters and financial reporting and legal and regulatory compliance controls (collectively, "Internal Controls") that are sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Internal Controls are overseen by the audit committee (the "Audit Committee") of Parent's board of directors (the "Board") in accordance with the Exchange Act rules. Except as specified in Exhibit A, Parent does not reasonably expect to publicly disclose or report to the Audit Committee or the Board, a significant deficiency, material weakness, change in Internal Controls or fraud involving management or other employees who have a significant role in Internal Controls, any violation of, or failure to comply with, the Securities Laws, or any matter that, if determined adversely, would have or reasonably be expected to result, individually or in the aggregate, in a Material Adverse Change.

3.16 SEC Reporting. Parent is and will remain subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act and (i) has filed and will file all required reports under Section 13 or 15(d) of the Exchange Act, as applicable, other than Form 8-K reports; and (ii) has submitted and will submit electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T, during the 12 months preceding such sale.

3.17 SEC Filings; FINRA and the Sarbanes-Oxley Act. Parent has timely filed with or furnished to the Securities and Exchange Commission (the "SEC") each report, statement, schedule, form or other document or filing required to be filed or furnished (or otherwise filed or furnished) by Parent with the SEC from the date of its initial filing with the SEC to the Effective Date (all such documents collectively being the "SEC Documents"). Each SEC Document complied, and each SEC Document filed or furnished to the SEC subsequent to the Effective Date will comply, in all material respects with the applicable requirements of the Securities Act and the Exchange Act, and did not or will not contain any untrue statement of material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. Parent has and at all times will comply in all material respects with its obligations under FINRA and the Sarbanes-Oxley Act of 2002. Parent has provided PFG with a copy of any and all notices of material noncompliance and subsequent resulting written communications received from the SEC, FINRA and the NASDAQ, along with Parent's responses thereto.

3.18 No Injunctions. Neither Borrower nor any of its predecessors or affiliates has been subject to any order, judgment or decree of any court of competent jurisdiction temporarily, preliminarily or permanently enjoining such person for a failure to comply with Regulation D under the Securities Act and Borrower shall comply in all respects with Regulation D in connection with any future securities offerings made in reliance on Regulation D.

4. ADDITIONAL DUTIES OF BORROWER.

Borrower will at all times comply with all of the following covenants throughout the term of this Agreement:

4.1 Financial and Other Covenants. Borrower shall at all times comply with the financial and other covenants set forth in the Schedule.

4.2. Remittance of Proceeds. Subject to the rights of the Senior Lender, all proceeds arising from the disposition of any Collateral shall be delivered, in kind, by Borrower to PFG in the original form in which received by Borrower not later than the following Business Day after receipt by Borrower, to be applied to the Obligations in such order as PFG shall determine; provided that, if no Default or Event of Default has occurred and is continuing, Borrower shall not be obligated to remit to PFG (i) the proceeds of Accounts arising in the ordinary course of business, or (ii) the proceeds of the sale of surplus, worn out or obsolete Equipment disposed of by Borrower in good faith in an arm's length transaction for an aggregate purchase price of \$25,000 or less (for all such transactions in any fiscal year). Borrower agrees that it will not commingle proceeds of Collateral (other than those described in subclauses (i) and (ii) above) with any of Borrower's other funds or property, but will hold such proceeds separate and apart from such other funds and property and in an express trust for PFG, except as set forth above, and subject to the rights of the Senior Lender. Subject to the rights of the Senior Lender, PFG may, in its good faith business judgment, require that all proceeds of Collateral be deposited by Borrower into a Lock-Box account, or such other "blocked account" as PFG may specify, pursuant to a blocked account agreement in such form as PFG may specify in its good faith business judgment. Nothing in this Section limits the restrictions on disposition of Collateral set forth elsewhere in this Agreement. Notwithstanding anything contained herein to the contrary, so long as no Default or Event of Default shall have occurred and be continuing (unless by reason of a conditional waiver or forbearance then being in effect between PFG and Borrower), Borrower shall not be required to deliver such proceeds to PFG in connection with any disposition so long as (x) Borrower reinvests all or any portion of such proceeds in assets used or useful in the business of Borrower, and (y) Borrower has notified PFG in advance of the intended reinvestment of such proceeds.

4.3 Insurance. Borrower shall at all times insure all of the tangible personal property Collateral and carry such other business insurance, with insurers reasonably acceptable to PFG, in such form and amounts as PFG may reasonably require and as are customary and in accordance with standard practices for Borrower's industry and locations, and Borrower shall provide evidence of such insurance to PFG. All such insurance policies shall name PFG as an additional loss payee, and shall contain a lenders loss payee endorsement in form reasonably acceptable to PFG. Upon receipt of the proceeds of any such insurance, subject to the rights of the Senior Lender, PFG shall apply such proceeds in reduction of the Obligations as PFG shall determine in its good faith business judgment, except that, provided no Default or Event of Default has occurred and is continuing, PFG shall release to Borrower insurance proceeds with respect to Collateral totaling less than \$100,000, which shall be utilized by Borrower for the replacement of the Collateral with respect to which the insurance proceeds were paid. PFG may require reasonable assurance that the insurance proceeds so released will be so used. If Borrower fails to provide or pay for any insurance, PFG may, but is not obligated to, obtain the same at Borrower's expense. Borrower shall promptly deliver to PFG copies of all material reports made to insurance companies. Notwithstanding anything contained herein to the contrary, so long as no Default or Event of Default shall have occurred and be continuing (unless by reason of a conditional waiver or forbearance then being in effect between PFG and Borrower), Borrower shall not be required to deliver such proceeds of such insurance to PFG so long as (x) Borrower reinvests all or any portion of such proceeds in assets used or useful in the business of Borrower, and (y) Borrower has notified PFG in advance of the intended reinvestment of such proceeds.

4.4 Reports. Borrower, at its expense, shall provide PFG with the written reports set forth in the Schedule, and such other written reports with respect to Borrower (including budgets, projections, operating plans and other financial documentation), as PFG shall from time to time specify in its good faith business judgment.

4.5 Access to Collateral, Books and Records; Additional Reporting and Notices. At reasonable times, and on three (3) Business Days' notice, PFG, or its agents, shall have the right to inspect the Collateral, and the right to audit and copy Borrower's books and records. The foregoing inspections and audits shall be at Borrower's expense and the charge therefor shall be \$850 per person per day (or such higher amount as shall represent PFG's then current standard charge for the same), plus PFG Expenses, provided that so long as no Default or Event of Default has occurred and is then continuing and no inspection or audit within the one-year period prior to such inspection or audit has revealed material deficiencies or inaccuracies in Borrower's books and records, only one such inspection and audit shall be at Borrower's expense during any calendar year. Notwithstanding the foregoing, Borrower shall not be required to disclose to PFG any document or information (i) where disclosure is prohibited by applicable law, or (ii) is subject to attorney-client or similar privilege or constitutes attorney work product. If Borrower is withholding any information under the preceding sentence, it shall so advise PFG in writing, giving PFG a general description of the nature of the information withheld. Without limiting the scope of reporting under Section 6 of the Schedule, Borrower shall promptly disclose to PFG any efforts to sell Borrower, its business or assets or any material part thereof or to refinance the Loan and shall disclose the salient details of any offers received from time to time in respect of the foregoing. At any time when a Default or Event of Default has occurred and is continuing (whether or not PFG has agreed to forbear), PFG shall be entitled (i) to be briefed by the as to such matters as PFG may require in its business discretion, (ii) to receive advance notice of any and all Board meetings or written consents, together with the agendas for the foregoing, and (iii) to observe any such Board meetings, whether or not formally constituted as such; provided that, but subject to the next succeeding proviso, with respect to the rights contained in clauses (i) through (iii), Borrower may exclude confidential compensation information and any other information relating to this Agreement, any other Loan Document, or Borrower's relationship with the Senior Lender, PFG or any other lender, or any information Borrower reasonably believes may create a conflict of interest for PFG or affect the attorney/client or a similar privilege of any of Borrower and their legal advisors; provided further however, that Borrower's right to exclude information shall be subject to it providing PFG with a general description of the information excluded and the claimed basis for exclusion.

4.6 Negative Covenants. Except as may be permitted in the Schedule, Borrower shall not, without PFG's prior written consent (which shall be a matter of its good faith business judgment and shall be conditioned on Borrower then being in compliance with the terms of this Agreement), do any of the following:

- (i) acquire any assets, except in the ordinary course of business, or make any Investments other than Permitted Investments;
- (ii) enter into any transaction outside the ordinary course of business with a value in excess of \$50,000;
- (iii) Transfer any Collateral (including without limitation the Transfer of Collateral which is then leased back by Borrower), except for (A) the sale of finished Inventory in the ordinary course of Borrower's business, (B) the sale or other disposal of worn-out, obsolete or unneeded Equipment in the ordinary course of business and otherwise in compliance with the terms of this Agreement, (C) the making of Permitted Investments, and (D) the granting of Permitted Liens;
- (iv) store any Inventory or other Collateral with any warehouseman or other third party with an aggregate value (per location) of \$10,000 or greater, unless there is in place a bailee agreement in such form as PFG shall specify in its good faith business judgment between PFG and such warehouseman or other third party;
- (v) sell any Inventory on a sale-or-return, guaranteed sale, consignment, or other contingent basis;
- (vi) make any loans of any money or other assets, other than Permitted Investments;
- (vii) incur any Indebtedness, other than Permitted Indebtedness;
- (viii) guarantee or otherwise become liable with respect to the obligations of another party or entity;
- (ix) pay or declare any dividends on Borrower's stock (except for dividends payable solely in stock of Borrower);
- (x) redeem, retire, purchase or otherwise acquire, directly or indirectly, any of Borrower's equity, except as required in the ordinary course of business and consistent with past practice in connection with redeeming or purchasing equity of departing employees, up to a maximum aggregate of \$25,000 in any fiscal year;
- (xi) engage, directly or indirectly, in any business other than the businesses currently engaged in by Borrower or reasonably related thereto;
- (xii) with respect to Non-Borrower Subsidiaries, after the date hereof (A) cause or permit any Non-Borrower Subsidiary to hold Cash or Cash Equivalents with depository institutions or otherwise of more than \$10,000, or (B) cause or permit Borrower (in the aggregate) to make Permitted Investments in Non-Borrower Subsidiaries or incur Permitted Indebtedness to Non-Borrower Subsidiaries (in the aggregate) of more than \$10,000 at any time;
- (xiii) without at least thirty (30) days prior written notice to PFG: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than \$10,000 in Borrower's assets or property), (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization; or
- (xiv) the Board shall permit or shall resolve to or approve (unless such resolution or approval is expressly conditioned upon the prior consent of PFG), or Borrower shall otherwise take any affirmative steps to effect, any of the foregoing actions in clauses (i) through (xiii), inclusive, which are not otherwise expressly permitted herein unless the result of such actions would result in a repayment of all Obligations in accordance with this Agreement.

Transactions permitted by the foregoing provisions of this Section are only permitted if no Default or Event of Default would occur as a result of such transaction.

4.7 Litigation Cooperation. Should any third-party suit or proceeding be instituted by or instituted or threatened in writing against PFG with respect to any Collateral or relating to Borrower, Borrower shall, without expense to PFG, make available Borrower and its officers, employees and agents and Borrower's books and records, to the extent that PFG may deem them reasonably necessary in order to prosecute or defend any such suit or proceeding.

4.8 Changes. When required under Section 6 of the Schedule, Borrower agrees to promptly notify PFG in writing of any changes in the information set forth in the Representations, provided that Borrower shall only be required to notify PFG of material changes to the Collateral value information set forth in Part A, Sections 3(d)(e) and (g), and to the information solicited in Sections 3(i), 4(b), 4(d), Part B, Sections 8-10, 11(d) and 14.

4.9 Further Assurances. Borrower agrees, at its expense, on reasonable request by PFG, to execute all documents and take all actions, as PFG, may, in its good faith business judgment, reasonably deem necessary in order to perfect and maintain PFG's perfected First-Priority security interest in the Collateral (subject to Permitted Liens), and in order to fully consummate the transactions contemplated by this Agreement, including without limitation, the joinder of any New Subsidiaries to this Agreement and execution of such other agreements and instruments as PFG reasonably request, including execution of a cross-corporate continuing guaranty among Borrowers and any Non-Borrower Subsidiaries. In addition, Borrower shall Deliver to PFG, within five (5) days after the same are sent or received, copies of all material correspondence, reports, documents and other filings with any Governmental Body regarding compliance with or maintenance of Governmental Authorizations or Legal Requirements or that could reasonably be expected to have a material adverse effect on any of the Governmental Authorizations or otherwise on the operations of Borrower or any of its Subsidiaries.

4.10 Collateral Accounts. Subject to Section 8(b) of the Schedule: (a) At all times thereafter, maintain all of its Collateral Accounts with the Senior Lender; and (b) provide PFG five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than the Senior Lender.

4.11 Authorization to File Financing Statements. Borrower hereby authorizes PFG to file financing statements, without notice to Borrower, with all appropriate jurisdictions to perfect or protect PFG's interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower or any other Person, shall be deemed to violate the rights of PFG under the Code. Such financing statements may indicate the Collateral as "all assets of the Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in PFG's discretion.

4.12 Full Disclosure. No written representation, warranty or other statement of Borrower in any certificate or written statement given to PFG, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to PFG, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by PFG that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

5. TERM.

5.1 Maturity Date. This Agreement shall continue in effect until the maturity date(s) set forth on the Schedule (the "Maturity Date"), subject to Sections 5.2, 5.3 and 5.4, below.

5.2 Early Termination. This Agreement may be terminated prior to the Maturity Date as follows: (i) if expressly permitted in the Schedule, by Borrower, effective three Business Days after written notice of termination is given to PFG and payment in full in cash of all Obligations (other than inchoate indemnity obligations); or (ii) by PFG at any time after the occurrence and during the continuance of an Event of Default, without notice, effective immediately. If a Borrower right to prepay Obligations is provided in the Schedule and the exercise of such right is subject to payment of any consideration to PFG as a condition to such exercise, a Borrower Default or Event of Default that results in an acceleration of Obligations and/or termination of this Agreement shall not relieve Borrower of the obligation to pay such consideration, which shall be included in the Obligations required to be paid or performed by Borrower.

5.3 Payment of Obligations. On the Maturity Date or on any earlier effective date of termination, Borrower shall pay and perform in full all Obligations, whether evidenced by installment notes or otherwise, and whether or not all or any part of such Obligations are otherwise then due and payable. Notwithstanding any termination of this Agreement, (i) all of PFG's security interests in all of the Collateral and all of the terms and provisions of this Agreement shall continue in full force and effect until all Obligations have been paid and performed in full, and (ii) no further Loans will be made to Borrower unless PFG otherwise agrees in its sole and absolute discretion. No termination shall in any way affect or impair any right or remedy of PFG, nor shall any such termination relieve Borrower of any Obligation to PFG, until all of the Obligations have been paid and performed in full. Upon payment and performance in full of all the Obligations and termination of this Agreement, PFG shall promptly terminate its financing statements with respect to Borrower and deliver to Borrower such other documents as may be required to fully terminate PFG's security interests.

5.4 Survival of Certain Obligations. Without limiting the survival of obligations addressed otherwise in this Agreement and notwithstanding any other provision of this Agreement, all covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been paid in full and satisfied. The obligation of Borrower in Section 8.9 to indemnify PFG shall survive until the statute of limitations with respect to such claim or cause of action shall have run.

6. EVENTS OF DEFAULT AND REMEDIES.

6.1 Events of Default. The occurrence of any of the following events shall constitute an “Event of Default” under this Agreement regardless of whether notice thereof is given by PFG, and Borrower shall give PFG immediate written notice thereof:

(a) Borrower or any Guarantor or any Person acting for Borrower or any Guarantor makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to PFG or to induce PFG to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect as of the Original Effective Date, the Effective Date or when made; or

(b) Borrower shall fail to pay any Loan or any interest thereon or any other monetary Obligation when due; or

(c) Borrower (i) shall fail to comply with any of the financial covenants set forth in the Schedule, or (ii) shall breach any of the provisions of Section 4.6 hereof, or (iii) shall fail to perform any other non-monetary Obligation which by its nature cannot be cured, or (iv) shall fail to permit PFG to conduct an inspection or audit as provided in Section 4.5 hereof or shall fail to provide the notices, information, briefing and other rights set forth in Section 4.5, or (v) shall fail to provide PFG with a Report under Section 6 of the Schedule within three (3) Business Days after the date due; or

(d) Borrower shall fail to perform any non-monetary Obligation not otherwise addressed in this Section 6.1, or a default or breach shall occur under any other Loan Document (whether or not Borrower is a party), which failure, default or breach is not cured within ten (10) Business Days after the earlier of date performance is due and the date of such failure, default or breach, as the case may be (which cure period, for the avoidance of doubt, shall not apply to events set forth in this Agreement for which a cure period is otherwise specified); or

(e) any levy, assessment, attachment or seizure is made on all or any part of the Collateral which is not cured within five (5) Business Days after the occurrence of the same, or any lien or encumbrance (other than a Permitted Lien) is made on all or any part of the Collateral which is not cured within ten (10) Business Days after the occurrence of the same; or

(f) any default or event of default occurs under any obligation secured by a Permitted Lien, which is not cured within any applicable cure period or waived in writing by the holder of the Permitted Lien; or

(g) there is, under any agreement to which Borrower or any Guarantor is a party with a third party or parties, (i) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of \$100,000; or (ii) any breach or default by Borrower or any Guarantor, the result of which could result in a Material Adverse Change; provided, however, for purposes of this Section 6.1(g) (only), any default or breach which would be reasonably likely to result in an overall adverse financial consequence of \$600,000 or more shall be presumed to constitute a Material Adverse Change unless Borrower is able to demonstrate to PFG’s reasonable satisfaction that such adverse financial consequence is not a Material Adverse Change; or

(h) (i) Dissolution, termination of existence, insolvency or business failure of Borrower or any Guarantor; or (ii) appointment of a receiver, trustee or custodian, for all or any part of the property of, assignment for the benefit of creditors by, or the commencement of any Insolvency Proceeding by, against or in respect of Borrower or any Guarantor under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect, in each above case that is not dismissed or stayed within 45 days (and for the avoidance of doubt, PFG shall have no obligation to advance any Loan while any of the foregoing conditions or those set forth in clauses (iii) and (iv), below, exist); or (iii) Borrower or any Guarantor shall generally not pay its debts as they become due; or (iv) Borrower or any Guarantor shall conceal, remove or Transfer any part of its property, with intent to hinder, delay or defraud its creditors, or make or suffer any Transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or

(i) revocation or termination of, or limitation or denial of liability upon, any guaranty of the Obligations or any attempt to do any of the foregoing, or commencement of proceedings by any guarantor of any of the Obligations under any bankruptcy or insolvency law; or

(j) revocation or termination of, or limitation or denial of liability upon, any pledge of any certificate of deposit, securities or other property or asset of any kind pledged by any third party to secure any or all of the Obligations, or any attempt to do any of the foregoing, or commencement of proceedings by or against any such third party under any bankruptcy or insolvency law; or

(k) Borrower makes any payment on account of any indebtedness or obligation which has been subordinated to the Obligations (other than as permitted in the applicable subordination agreement), or if any Person who has subordinated such indebtedness or obligations terminates or in any way limits his subordination agreement; or

(l) Borrower shall (i) enter into any agreement, binding or non-binding, that would result in a Change in Control, without prompt notice to PFG, or (ii) effect or suffer a Change in Control, unless all Obligations would be repaid in accordance with this Agreement upon or prior to the closing of such Change in Control; or

(m) a Material Adverse Change shall occur.

PFG may cease making any Loans hereunder during any of the cure periods provided above, and thereafter if an Event of Default has occurred and is continuing.

6.2 Remedies. Upon the occurrence and during the continuance of any Event of Default, and at any time thereafter, PFG, at its option, and without notice or demand of any kind (all of which are hereby expressly waived by Borrower), may do any one or more of the following: (a) Cease making Loans or otherwise extending credit to Borrower under this Agreement or any other Loan Document; (b) Accelerate and declare all or any part of the Obligations to be immediately due, payable, and performable, notwithstanding any deferred or installment payments allowed by any instrument evidencing or relating to any Obligation; (c) Take possession of any or all of the Collateral wherever it may be found, and for that purpose Borrower hereby authorizes PFG without judicial process to enter onto any of Borrower's premises without interference to search for, take possession of, keep, store, or remove any of the Collateral, and remain on the premises or cause a custodian to remain on the premises in exclusive control thereof, without charge for so long as PFG deems it necessary, in its good faith business judgment, in order to complete the enforcement of its rights under this Agreement or any other agreement; provided, however, that should PFG seek to take possession of any of the Collateral by court process, Borrower hereby irrevocably waives: (i) any bond and any surety or security relating thereto required by any statute, court rule or otherwise as an incident to such possession; (ii) any demand for possession prior to the commencement of any suit or action to recover possession thereof; and (iii) any requirement that PFG retain possession of, and not dispose of, any such Collateral until after trial or final judgment; (d) Require Borrower to assemble any or all of the Collateral and make it available to PFG at places designated by PFG which are reasonably convenient to PFG and Borrower, and to remove the Collateral to such locations as PFG may deem advisable; (e) Complete the processing, manufacturing or repair of any Collateral prior to a disposition thereof and, for such purpose and for the purpose of removal, PFG shall have the right to use Borrower's premises, vehicles, hoists, lifts, cranes, and other Equipment and all other property without charge; (f) Sell, lease or otherwise dispose of any of the Collateral, in its condition at the time PFG obtains possession of it or after further manufacturing, processing or repair, at one or more public and/or private sales, in lots or in bulk, for cash, exchange or other property, or on credit, and to adjourn any such sale from time to time without notice other than oral announcement at the time scheduled for sale. PFG shall have the right to conduct such disposition on Borrower's premises without charge, for such time or times as PFG deems reasonable, or on PFG's premises, or elsewhere and the Collateral need not be located at the place of disposition. PFG may directly or through any affiliated company purchase or lease any Collateral at any such public disposition, and if permissible under applicable law, at any private disposition. Any sale or other disposition of Collateral shall not relieve Borrower of any liability Borrower may have if any Collateral is defective as to title or physical condition or otherwise at the time of sale; (g) Demand payment of, and collect any Accounts and General Intangibles comprising Collateral and, in connection therewith, Borrower irrevocably authorizes PFG to endorse or sign Borrower's name on all collections, receipts, instruments and other documents, to take possession of and open mail addressed to Borrower and remove therefrom payments made with respect to any item of the Collateral or proceeds thereof, and, in PFG's good faith business judgment, to grant extensions of time to pay, compromise claims and settle Accounts and the like for less than face value; (h) Exercise any and all rights under any present or future Control Agreements relating to Deposit Accounts or Investment Property; and (i) Demand and receive possession of any of Borrower's federal and state income tax returns and the books and records utilized in the preparation thereof or referring thereto. All PFG Expenses, liabilities and obligations incurred by PFG with respect to the foregoing shall be added to and become part of the Obligations, shall be due on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations. Without limiting any of PFG's rights and remedies, from and after the occurrence and during the continuance of any Event of Default, the interest rate applicable to the Obligations shall be the Default Rate.

6.3 Standards for Determining Commercial Reasonableness. Borrower and PFG agree that a sale or other disposition (collectively, "sale") of any Collateral which complies with the following standards will conclusively be deemed to be commercially reasonable: (i) Notice of the sale is given to Borrower at least ten days prior to the sale, and, in the case of a public sale, notice of the sale is published at least five days before the sale in a newspaper of general circulation in the county where the sale is to be conducted; (ii) Notice of the sale describes the collateral in general, non-specific terms; (iii) The sale is conducted at a place designated by PFG, with or without the Collateral being present; (iv) The sale commences at any time between 8:00 a.m. and 6:00 p.m.; (v) Payment of the purchase price in cash or by cashier's check or wire transfer is required; (vi) With respect to any sale of any of the Collateral, PFG may (but is not obligated to) direct any prospective purchaser to ascertain directly from Borrower any and all information concerning the same. PFG shall be free to employ other methods of noticing and selling the Collateral, in its discretion, if they are commercially reasonable. Without limiting the foregoing, if Exigent Circumstances exist, Borrower and PFG agree that notice periods may be shorter than as set forth above and such shorter notice periods are commercially reasonable in Exigent Circumstances. Borrower further acknowledges and agrees that if PFG's or third parties' access to Collateral is inhibited, restricted or denied, it shall be commercially reasonable for PFG to conduct a sale of Collateral under such circumstances even though the lack of access to Collateral would likely give rise to a sale price less than if parties had unfettered access to Collateral for purposes of conducting a sale.

6.4 Power of Attorney. Upon the occurrence and during the continuance of any Event of Default, without limiting PFG's other rights and remedies, Borrower grants to PFG an irrevocable power of attorney coupled with an interest, authorizing and permitting PFG (acting through any of its employees, attorneys or agents) at any time, at its option, but without obligation, with or without notice to Borrower, and at Borrower's expense, to do any or all of the following, in Borrower's name or otherwise, but PFG agrees that if it exercises any right hereunder, it will do so in good faith and in a commercially reasonable manner: (a) Execute on behalf of Borrower any documents that PFG may, in its good faith business judgment, deem advisable in order to perfect and maintain PFG's security interest in the Collateral, or in order to exercise a right of Borrower or PFG, or in order to fully consummate all the transactions contemplated under this Agreement, and all other Loan Documents; (b) Execute on behalf of Borrower, any invoices relating to any Account, any draft against any Account Debtor and any notice to any Account Debtor, any proof of claim in bankruptcy, any Notice of Lien, claim of mechanic's, materialman's or other lien, or assignment or satisfaction of mechanic's, materialman's or other lien; (c) Take control in any manner of any cash or non-cash items of payment or proceeds of Collateral; endorse the name of Borrower upon any instruments, or documents, evidence of payment or Collateral that may come into PFG's possession; (d) Endorse all checks and other forms of remittances received by PFG; (e) Pay, contest or settle any lien, charge, encumbrance, security interest and adverse claim in or to any of the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; (f) Grant extensions of time to pay, compromise claims and settle Accounts and General Intangibles for less than face value and execute all releases and other documents in connection therewith; (g) Pay any sums required on account of Borrower's taxes or to secure the release of any liens therefor, or both; (h) Settle and adjust, and give releases of, any insurance claim that relates to any of the Collateral and obtain payment therefor; (i) Instruct any third party having custody or control of any books or records belonging to, or relating to, Borrower to give PFG the same rights of access and other rights with respect thereto as PFG has under this Agreement; (j) Execute on behalf of Borrower and file in Borrower's name such documents and instruments as may be necessary or appropriate to effect the Transfer of Domain Rights, domain names, domain registry administrative contacts and domain and website hosting services into the name of PFG or its designees, and (k) Take any action or pay any sum required of Borrower pursuant to this Agreement and any other Loan Documents. Any and all reasonable sums paid and any and all PFG Expenses, liabilities, obligations and attorneys' fees incurred by PFG with respect to the foregoing shall be added to and become part of the Obligations, shall be payable on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations. In no event shall PFG's rights under the foregoing power of attorney or any of PFG's other rights under this Agreement be deemed to indicate that PFG is in control of the business, management or properties of Borrower.

6.5 Application of Proceeds. All proceeds realized as the result of any sale of the Collateral shall be applied by PFG first to the PFG Expenses, liabilities, obligations and attorneys' fees incurred by PFG in the exercise of its rights under this Agreement, second to the interest due upon any of the Obligations, and third to the principal of the Obligations, in such order as PFG shall determine in its sole discretion. Any surplus shall be paid to Borrower or other persons legally entitled thereto; Borrower shall remain liable to PFG for any deficiency. If, PFG, in its good faith business judgment, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, PFG shall have the option, exercisable at any time, in its good faith business judgment, of either reducing the Obligations by the principal amount of purchase price or deferring the reduction of the Obligations until the actual receipt by PFG of the cash therefor.

6.6 Remedies Cumulative. In addition to the rights and remedies set forth in this Agreement, PFG shall have all the other rights and remedies accorded a secured party under the Code and under all other applicable laws, and under any other instrument or agreement now or in the future entered into between PFG and Borrower, and all of such rights and remedies are cumulative and none is exclusive. Exercise or partial exercise by PFG of one or more of its rights or remedies shall not be deemed an election, nor bar PFG from subsequent exercise or partial exercise of any other rights or remedies. The failure or delay of PFG to exercise any rights or remedies shall not operate as a waiver thereof, but all rights and remedies shall continue in full force and effect until all of the Obligations have been fully paid and performed.

7. **DEFINITIONS.** As used in this Agreement, the following terms have the following meanings:

“Account Debtor” means the obligor on an Account.

“Accounts” means all present and future “accounts” as defined in the Code in effect on the Effective Date with such additions to such term as may hereafter be made, and includes without limitation all accounts receivable, healthcare receivables and other sums owing to Borrower.

“Affiliate” means, with respect to any Person, a relative, partner, shareholder, director, officer, or employee of such Person, or any parent or Subsidiary of such Person, or any Person directly or indirectly through any other Person controlling, controlled by or under common control with such Person.

“Board” means the Board of Directors or other governing authority of Borrower as authorized in its Constitutional Documents.

“Business Day” means a day on which PFG is open for business.

“Cash” means unrestricted and unencumbered (except for the Liens of PFG and the Senior Lender) cash or cash equivalents in Deposit Accounts or other Collateral Accounts for which there is in effect a Control Agreement among Borrower, PFG and the depository institution in respect of such accounts, unless the requirement for a Control Agreement has been waived by PFG.

“Cash Equivalents” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having a rating of at least A-1 or the equivalent thereof by Standard & Poor's Ratings Group or a rating of P-1 or the equivalent thereof by Moody's Investors Service, Inc.; (c) certificates of deposit held with the Senior Lender maturing no more than one (1) year after issue; and (d) money market funds at least ninety-five percent (95%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition and (e) Investments pursuant to Borrower's Investment Policy, provided that such investment policy (and any such amendment thereto) has been provided by Borrower to PFG and approved in writing by PFG.

“Change in Control” means any event, transaction, or occurrence as a result of which (a) any “person” (as such term is defined in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), other than a trustee or other fiduciary holding securities under an employee benefit plan of Borrower, is or becomes a beneficial owner (within the meaning Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of Borrower, representing thirty-five percent (35%) or more of the combined voting power of Borrower's then outstanding securities; or (b) during any period of twelve consecutive calendar months, individuals who at the beginning of such period constituted the Board of Borrower (together with any new directors whose election by the Board of Borrower was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason other than death or disability to constitute a majority of the directors then in office.

“Code” means the Uniform Commercial Code as adopted and in effect in the State of California from time to time.

“Collateral” has the meaning set forth in Section 2 above.

“Collateral Account” is any Deposit Account, Securities Account, or Commodity Account, each as defined in the Code, and any other account of any kind or type in respect of Investment Property, including each of Borrower's primary operating and other deposit accounts and securities accounts, including all cash management, merchant services, and foreign exchange accounts and facilities.

“Compliance Certificate” means Borrower's certification of its compliance with the terms and conditions of this Agreement and such other matters as PFG may require to be addressed in such certificate, in the form as initially set forth as Exhibit B hereto, as such form may be amended from time to time upon advance notice from PFG.

“Constitutional Document” means for any Person, such Person’s formation documents, as last certified by the Secretary of State (or equivalent Governmental Body) of such Person’s jurisdiction of organization, together with, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or operating or similar agreement), (c) if such Person is a partnership, its partnership agreement (or similar agreement), and (d) if such Person is a statutory joint venture company or similar entity, its joint venture (or similar) agreement, each of the foregoing with all current amendments or modifications thereto.

“Contingent Obligation” is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case directly or indirectly guaranteed, endorsed, co made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but “Contingent Obligation” does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

“continuing” and “during the continuance of” when used with reference to a Default or Event of Default means that the Default or Event of Default has occurred and has not been either waived in writing by PFG or cured within any applicable cure period.

“Control Agreement” means a written agreement among PFG, Borrower and a depository bank or other custodian in respect of Borrower’s Collateral Accounts by which the depository bank or other custodian, as appropriate, agrees to comply with instructions given from time to time by PFG directing the disposition of the funds, investments and securities in Borrower’s Collateral Accounts without further consent of Borrower, which instructions may include not complying with instructions (which term may include the honoring of checks written by Borrower against funds in said accounts) given by Borrower, and containing other terms acceptable to PFG.

“Default” means any event which with notice or passage of time or both, would constitute an Event of Default.

“Default Rate” means the lesser of (i) the applicable rate(s) set forth in the Schedule, plus six percent (6%) per annum, and (ii) the maximum rate of interest that may lawfully be charged to a commercial borrower under applicable usury laws.

“Deposit Accounts” means all present and future “deposit accounts” as defined in the Code in effect on the Effective Date with such additions to such term as may hereafter be made, and includes without limitation all general and special bank accounts, demand accounts, checking accounts, savings accounts and certificates of deposit, and as used in this Agreement, the term “Deposit Accounts” shall be construed to also include securities, commodities and other Investment Property accounts.

“Equipment” means all present and future “equipment” as defined in the Code in effect on the Effective Date with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

“Event of Default” means any of the events set forth in Section 6.1 of this Agreement.

“Exigent Circumstances” means circumstances that substantially inhibit an orderly sale process or that imply urgency due to rapid erosion of value or opportunity, including Borrower closing its business or “going dark”, inability or refusal (express or implied by non-response) to provide for the security of Collateral.

“Financial Statements” means consolidated financial statements of Borrower, including a balance sheet, income statement and cash flow and, in the case of monthly-required financial statements, showing data for the month being reported and a history showing each month from the beginning of the relevant fiscal year.

“First-Priority” means, in relation to PFG’s Lien in Collateral, a security interest that is prior to any other security interest, with the exception of the Liens of the Senior Lender and other Permitted Liens, which other Permitted Liens may only have superior priority to PFG’s Lien as expressly specified herein or pursuant to the terms of a subordination agreement between PFG and the holder of such other Permitted Lien.

“GAAP” means generally accepted accounting principles consistently applied.

“General Intangibles” means all present and future “general intangibles” as defined in the Code in effect on the Effective Date with such additions to such term as may hereafter be made, and includes without limitation all Intellectual Property, payment intangibles, royalties, contract rights, goodwill, franchise agreements, purchase orders, customer lists, route lists, telephone numbers, domain names, claims, income tax refunds, security and other deposits, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

“good faith business judgment” means honesty in fact and good faith (as defined in Section 1201 of the Code) in the exercise of PFG’s business judgment.

“Governmental Authorization” means any: (a) permit, license, certificate, franchise, concession, approval, consent, ratification, permission, clearance, confirmation, endorsement, waiver, certification, designation, rating, registration, qualification or authorization that is, has been issued, granted, given or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement; or (b) right under any Contract with any Governmental Body.

“Governmental Body” means any: (a) nation, principality, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) local, municipal, foreign or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental division, subdivision, department, agency, bureau, branch, office, commission, council, board, instrumentality, officer, official, representative, organization, unit, body or entity and any court or other tribunal); (d) multi-national organization or body; or (e) individual, entity or body exercising, or entitled to exercise, any executive, legislative, judicial, administrative, regulatory, police, military or taxing authority or power of any nature.

“including” means including (but not limited to).

“Indebtedness” means (a) indebtedness for borrowed money or the deferred purchase price of property or services (other than trade payables arising in the ordinary course of business), (b) obligations evidenced by bonds, notes, debentures or other similar instruments, (c) reimbursement obligations in connection with letters of credit, (d) capital lease obligations and (e) Contingent Obligations.

“Insolvency Proceeding” is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law in any jurisdiction, including assignments for the benefit of creditors, compositions, receiverships, administrations, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

“Intellectual Property” means all present and future: (a) copyrights, copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished, (b) trade secret rights, including all rights to unpatented inventions and know-how, and confidential information; (c) mask work or similar rights available for the protection of semiconductor chips; (d) patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same; (e) trademarks, servicemarks, trade styles, and trade names, whether or not any of the foregoing are registered, and all applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by any such trademarks; (f) Domain Rights as described in Section 3.14 hereof, (g) computer software and computer software products; (h) designs and design rights; (i) technology; (j) all claims for damages by way of past, present and future infringement of any of the rights included above; and (k) all licenses or other rights to use any property or rights of a type described above.

“Inventory” means all present and future “inventory” as defined in the Code in effect on the Effective Date with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

“Investment” means any beneficial ownership interest in any Person (including any stock, partnership interest or other equity or debt securities issued by any Person), and any loan, advance or capital contribution to any Person.

“Investment Property” means all present and future investment property, securities, stocks, bonds, debentures, debt securities, partnership interests, limited liability company interests, options, security entitlements, securities accounts, commodity contracts, commodity accounts, and all financial assets held in any securities account or otherwise, and all options and warrants to purchase any of the foregoing, wherever located, and all other securities of every kind, whether certificated or uncertificated.

“Knowledge” or “best of knowledge” and words of similar import mean either (i) the actual knowledge of any of Borrower’s officers, including its Directors, any Chief Executive Officer, President, designated legal representative under the Legal Requirements of any non-U.S. jurisdiction, Chief Information Officer (if any), Chief Technology Officer (or equivalent), Chief Financial Officer and Corporate Controller, or Borrower’s Vice Presidents or General Managers supervising a business unit or division, or any persons succeeding or performing the responsibilities of such identified positions including Directors with executive authority, or (ii) such knowledge as the persons in such identified positions would have assuming (A) Borrower policies in accordance with generally-accepted norms of corporate governance and (B) the actual exercise of reasonable diligence and prudence by such persons in accordance with such policies.

“Legal Requirement” means any written local, municipal, foreign or other law, statute, legislation, constitution, principle of common law, resolution, ordinance, code, edict, decree, proclamation, treaty, convention, rule, regulation, ruling, directive, pronouncement, requirement, specification, determination, decision, opinion or interpretation that is, has been issued, enacted, adopted, passed, approved, promulgated, made, implemented or otherwise put into effect by or under the authority of any Governmental Body.

“Lien” or “lien” is a security interest, claim, mortgage, deed of trust, levy, charge, pledge or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

“Loan Documents” means, collectively, this Agreement, the Representations, and all other present and future documents, instruments and agreements between PFG and Borrower, including, but not limited to those relating to this Agreement, and all amendments and modifications thereto and replacements therefor.

“Loan Request” means any request that may be made by a Borrower in connection with this Agreement, including a borrowing request, consent request, a waiver request and any other accommodation that may be given by PFG under or relating to the Loan Agreement.

“Material Adverse Change” means any of the following: (i) a material adverse change in the business, operations, or condition (financial or otherwise) of Borrower or any Guarantor, or (ii) a material impairment of the prospect of repayment of any portion of the Obligations; or (iii) a material impairment of the perfection or priority of PFG’s Liens in the Collateral.

“Maturity Date” means the Maturity Date(s) set forth in Section 4 of the Schedule, or such earlier date at which Obligations become due by acceleration or otherwise.

“Net Income” means, as calculated on a consolidated basis for Borrower and its Subsidiaries for any period as at any date of determination, the net profit (or loss), after provision for taxes, of Borrower and its Subsidiaries for such period taken as a single accounting period.

“New Subsidiary(ies)” means any person that becomes a Subsidiary of Borrower after the date hereof.

“Non-Borrower Subsidiary(ies)” means any direct or indirect Subsidiary of Borrower not joined as a co-Borrower hereunder and otherwise joined to the Loan Documents.

“Non-Overdue Senior Monetary Obligations” means, at any time, the amount of monetary Obligations other than principal Indebtedness owed by Borrower to the Senior Lender but not then due, such as accrued and unpaid interest not yet due.

“Obligations” means all present and future Loans, advances, debts, liabilities, obligations, guaranties, covenants, duties and indebtedness at any time owing by Borrower to PFG, including obligations and covenants intended to survive the termination of this Agreement, whether evidenced by this Agreement or any note or other instrument or document, or otherwise, including indebtedness under any obligation to purchase equity derivatives (including stock warrants) purchased or otherwise issued to PFG from time to time, whether arising from an extension of credit, opening of a letter of credit, banker’s acceptance, loan, guaranty, indemnification or otherwise, whether direct or indirect (including, without limitation, those acquired by assignment and any participation by PFG in Borrower’s debts owing to others), absolute or contingent, due or to become due, including, without limitation, all interest, charges, expenses, fees, attorney’s fees, expert witness fees, audit fees, collateral monitoring fees, closing fees, facility fees, termination fees, minimum interest charges and any other sums chargeable to Borrower under this Agreement or under any other Loan Documents.

“Ordinary (or “ordinary”) course of business” and derivatives shall apply to an action taken or an action required to be taken and not taken by or on behalf of a Borrower. An action will not be deemed to have been taken in the “ordinary course of business” *unless*: (a) such action is consistent with its past practices (if such type of action has been taken in the past and, if not, such action shall be deemed not in the ordinary course of business) and is similar in nature and magnitude to actions customarily taken by it; (b) such action is taken in accordance with sound and prudent business practices in its jurisdiction of organization; and (c) such action is not required to be authorized by its shareholders and does not require any other separate or special authorization of any nature.

“Other Property” means the following as defined in the Code in effect on the Effective Date with such additions to such terms as may hereafter be made, and all rights relating thereto: all present and future “commercial tort claims” (including without limitation any commercial tort claims identified in the Representations), “documents”, “instruments”, “promissory notes”, “chattel paper”, “letters of credit”, “letter-of-credit rights”, “fixtures”, “farm products” and “money”; and all other goods and personal property of every kind, tangible and intangible, whether or not governed by the Code.

“Parent” means Borrower, Giga-tronics Incorporated, a California corporation.

“Payment” means all checks, wire transfers and other items of payment received by PFG for credit to Borrower’s outstanding Obligations.

“Permitted Indebtedness” means:

- (i) the Loans and other Obligations; and
- (ii) Indebtedness existing on the Effective Date and shown on Exhibit A hereto;
- (iii) Subordinated Debt;
- (iv) Indebtedness owing to Senior Lender not to exceed the Senior Debt Limit specified in the Schedule;
- (v) other Indebtedness secured by Permitted Liens described in clauses (i), (ii), (iii), (v), (vi), (vii), (viii) and (ix) of that definition;
- (vi) unsecured Indebtedness to trade creditors incurred in the ordinary course of business (for purposes of clarification, the permission under this clause (vi) shall include trade payables for the deferred purchase price of property or services incurred in the ordinary course of business);
- (vii) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (i) through (vi) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose materially more burdensome terms upon Borrower;
- (viii) Indebtedness of up to \$100,000 outstanding at any time secured by a Lien described in clause (i) of Permitted Liens; provided such Indebtedness does not exceed the lesser of the cost or fair market value of the property financed with such Indebtedness; and
- (ix) reimbursement obligations in respect of letters of credit in an aggregate face amount outstanding not to exceed \$300,000 at any time outstanding, which have been reported to PFG in writing, and, in the case of reimbursement obligations to the Senior Lender in respect of letters of credit which do not exceed the Senior Debt Limit (taking into account all other Indebtedness to Senior Lender).

“Permitted Investments” are:

- (i) Investments (if any) shown on Exhibit A and existing on the Effective Date;
- (ii) Investments consisting of Cash Equivalents;
- (iii) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;
- (iv) Investments in Subsidiaries existing on the Effective Date.

“Permitted Liens” means the following:

(i) purchase money Liens (including Liens arising under any retention of title, hire purchase or conditional sales arrangement or arrangements having similar effect) (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment securing no more than \$100,000 in the aggregate amount outstanding, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

- (ii) Liens for Taxes not yet payable;

(iii) additional Liens consented to in writing by PFG, which consent may be withheld in its good faith business judgment. PFG shall have the right to require, as a condition to its consent under this subparagraph (iii), that the holder of the additional security interest or lien sign a subordination agreement in PFG's then standard form, acknowledge that the security interest is subordinate to the security interest in favor of PFG, and agree not to take any action to enforce its subordinate security interest so long as any Obligations remain outstanding, and that Borrower agrees that any uncured default in any obligation secured by the subordinate security interest shall also constitute an Event of Default under this Agreement;

(iv) Liens being terminated substantially concurrently with this Agreement;

(v) Liens of materialmen, mechanics, warehousemen, carriers, or other similar liens arising in the ordinary course of business and securing obligations which are not delinquent;

(vi) Liens to secure payment of workers' compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA);

(vii) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by liens of the type described above in clauses (i), (ii), (iii) and (ix), provided that any extension, renewal or replacement lien is limited to the property encumbered by the existing lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase and other terms are not less favorable to Borrower;

(viii) Liens in favor of customs and revenue authorities which secure payment of customs duties in connection with the importation of goods; and

(ix) Liens in favor of Senior Lender securing an amount not in excess of the Senior Debt Limit.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, government, or any agency or political division thereof, or any other entity.

"PFG Expenses" are all audit fees and expenses, costs, and expenses (including reasonable attorneys' fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower or any Guarantor.

"Plan" means Borrower's financial plan as presented to PFG on February 24, 2014 for its 2014 fiscal year, as such financial plan is delivered in subsequent years for future periods.

"Qualifying Request" means a request made by a Responsible Officer of Borrower under Section 1.4 for (i) a Loan that is within Borrower's borrowing availability under this Agreement, satisfies the relevant conditions set forth in Section 9 of the Schedule and is accompanied by such certificates, documents and instruments as may be required under this Agreement or otherwise reasonably required by PFG to confirm Borrower's compliance with the Loan Documents at the time of such request, or (ii) any other matter for which PFG's consent is required under the Loan Documents.

"Representations" means the written Representations and Warranties provided by Borrower to PFG referred to in the Schedule.

"Restricted License" is any material license or other agreement with respect to which Borrower is the licensee (a) that prohibits or otherwise restricts Borrower from granting a security interest in Borrower's interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with PFG's right to sell any Collateral.

"Responsible Officer(s)" means Steven Lance and John Regazzi, and any other person authorized to bind Borrower and notified to PFG in writing by a Responsible Officer as a new Responsible Officer.

"Revenue" means revenues required to be recognized as such under GAAP.

"Security Instruments" means financing statements filed under the Code in any jurisdiction in which such financing statements may be filed, fixed and floating charges, share charges, mortgage debentures, and any other notices, instruments and filings that reflect the "all assets" security granted to PFG by Borrower in this Agreement and the other Loan Documents.

"Senior Lender" has the meaning set forth in Section 8 of the Schedule.

"Subordinated Debt" means debt incurred by Borrower subordinated to Borrower's debt to PFG pursuant to a subordination agreement entered into between PFG, Borrower and the subordinated creditor(s) upon terms acceptable to PFG in its sole business discretion, but which may at PFG's option include: (i) subordination of subordinated creditor Lens, (ii) restrictions or prohibition of payments on subordinated debt until all Obligations to PFG are fully repaid and performed, and (iii) a prohibition on the exercise of remedies by a subordinated creditor until all Obligations to PFG are fully repaid and performed.

“Subordination Agreement” means that certain Subordination Agreement, dated as of the date hereof, by and between PFG and Senior Lender.

“Subsidiary” means, with respect to any Person, (i) any Person of which more than 50% of the voting stock or other equity interests is owned or (ii) a Person controlled, directly or indirectly, by such Person or one or more Affiliates of such Person and which, for the avoidance of doubt, shall include a “sister” company to a Person under common direct or indirect ownership meeting the above specified percentage for being considered a “Subsidiary”.

“Tax” means any tax (including any income tax, franchise tax, capital gains tax, estimated tax, gross receipts tax, value-added tax, surtax, excise tax, ad valorem tax, transfer tax, stamp tax, sales tax, use tax, property tax, business tax, occupation tax, inventory tax, occupancy tax, withholding tax or payroll tax), levy, assessment, tariff, impost, imposition, toll, duty (including any customs duty), deficiency or fee, and any related charge or amount (including any fine, penalty or interest), that is, has been or may in the future be (a) imposed, assessed or collected by or under the authority of any Governmental Body, or (b) payable pursuant to any tax-sharing agreement or similar contract.

“Tax Return” means any return (including any information return), report, statement, declaration, estimate, schedule, notice, notification, form, election, certificate or other document or information that is, has been or may in the future be filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of or compliance with any Legal Requirement relating to any Tax.

“Transfer” or “transfer” shall include any sale, assignment with or without consideration, encumbrance, hypothecation, pledge, or other transfer or disposition of any kind, including, but not limited to, transfers to receivers, levying creditors, trustees or receivers in bankruptcy proceedings or general assignees for the benefit of creditors, whether voluntary or by operation of law, directly or indirectly.

Other Terms. All accounting terms used in this Agreement, unless otherwise indicated, shall have the meanings given to such terms in accordance with GAAP, consistently applied. All other terms contained in this Agreement, unless otherwise indicated, shall have the meanings provided by the Code, to the extent such terms are defined therein.

8. GENERAL PROVISIONS.

8.1 Confidentiality. PFG agrees to use the same degree of care that it exercises with respect to its own proprietary information, to maintain the confidentiality of any and all proprietary, trade secret or confidential information provided to or received by PFG from Borrower prior to and after the Effective Date, which (i) indicates that it is confidential, including business plans and forecasts, non-public financial information, confidential or secret processes, formulae, devices and contractual information, customer lists, and employee relation matters, or (ii) by its very nature should reasonably be understood as confidential; provided, however, in each case of (i) and (ii) above, such information shall actually be treated by Borrower and by policy and conduct of Borrower within its business as confidential and provided, further, that PFG may disclose such information (A) to its officers, directors, employees, attorneys, accountants, affiliates, advisory boards, participants, prospective participants, assignees and prospective assignees, and such other Persons to whom PFG shall at any time be required to make such disclosure in accordance with applicable law or legal process, provided that with respect to voluntary disclosees, such persons shall be subject to confidentiality obligations that reasonably protect against the disclosure of such information, and (B) in its good faith business judgment in connection with the enforcement of its rights or remedies after an Event of Default, or in connection with any dispute with Borrower or any other Person relating to Borrower. The confidentiality agreement in this Section supersedes any prior confidentiality agreement of PFG relating to Borrower.

8.2 Interest Computation. In computing interest on the Obligations, all Payments received after 12:00 Noon, Pacific Time, on any day shall be deemed received on the next Business Day.

8.3 Payments. All Payments may be applied, and in PFG's good faith business judgment reversed and re-applied, to the Obligations, in such order and manner as PFG shall determine in its good faith business judgment.

8.4 Monthly Accountings. PFG may provide Borrower monthly with an account of advances, charges, expenses and payments made pursuant to this Agreement. Such account shall be deemed correct, accurate and binding on Borrower and an account stated (except for reverses and reapplications of payments made and corrections of errors discovered by PFG), unless Borrower notifies PFG in writing to the contrary within 60 days after such account is rendered, describing the nature of any alleged errors or omissions.

8.5 Notices. All notices to be given under this Agreement shall be in writing and shall be given either personally, or by reputable private delivery service, or by regular first-class mail, or certified mail return receipt requested, or by fax to the most recent fax number a party has for the other party (and if by fax, sent concurrently by one of the other methods provided herein), or by electronic mail to the most recent electronic mail address for Borrower provided for the chief financial officer or financial controller executing the Representations (and if by electronic mail, with an electronic delivery and/or read receipt), addressed to PFG or Borrower at the addresses shown in the heading to this Agreement, in the Representations or at any other address designated in writing by one party to the other party. All notices shall be deemed to have been given upon delivery in the case of notices personally delivered, or at the expiration of one Business Day following delivery to the private delivery service, or two Business Days following the deposit thereof in the United States mail, with postage prepaid, or on the first business day of receipt during business hours in the case of notices sent by fax or electronic mail, as provided herein.

8.6 Authorization to Use Borrower Name, Etc. Borrower irrevocably authorizes PFG to: (i) use Borrower's logo on PFG's website and in its marketing materials to denote the lending relationship between PFG and Borrower; (ii) use a "tombstone" to highlight the transaction(s) from time to time between PFG and Borrower; and (iii) to issue press releases in a form reasonable acceptable to Borrower and PFG highlighting and summarizing the credit facilities extended by PFG to Borrower from time to time under this Agreement, as amended from time to time, all of the above (i) through (iii), for marketing purposes.

8.7 Severability. Should any provision of this Agreement be held by any court of competent jurisdiction to be void or unenforceable, such defect shall not affect the remainder of this Agreement, which shall continue in full force and effect.

8.8 Integration. This Agreement and such other written agreements, documents and instruments as may be executed in connection herewith are the final, entire and complete agreement between Borrower and PFG and supersede all prior and contemporaneous negotiations and oral representations and agreements, all of which are merged and integrated in this Agreement. There are no oral understandings, representations or agreements between the parties which are not set forth in this Agreement or in other written agreements signed by the parties in connection herewith.

8.9 Waivers; Indemnity. The failure of PFG at any time or times to require Borrower to strictly comply with any of the provisions of this Agreement or any other Loan Document shall not waive or diminish any right of PFG later to demand and receive strict compliance therewith. Any waiver of any default shall not waive or affect any other default, whether prior or subsequent, and whether or not similar. None of the provisions of this Agreement or any other Loan Document shall be deemed to have been waived by any act or knowledge of PFG or its agents or employees, but only by a specific written waiver signed by an authorized officer of PFG and delivered to Borrower. Borrower waives the benefit of all statutes of limitations relating to any of the Obligations or this Agreement or any other Loan Document, and Borrower waives demand, protest, notice of protest and notice of default or dishonor, notice of payment and nonpayment, release, compromise, settlement, extension or renewal of any commercial paper, instrument, account, General Intangible, document or guaranty at any time held by PFG on which Borrower is or may in any way be liable, and notice of any action taken by PFG, unless expressly required by this Agreement. Borrower hereby agrees to indemnify PFG and its affiliates, subsidiaries, parent, directors, officers, employees, agents, and attorneys, and to hold them harmless from and against any and all claims, debts, liabilities, demands, obligations, actions, causes of action, penalties, costs and PFG Expenses (including reasonable and documented attorneys' fees), of every kind, which they may sustain or incur based upon or arising out of any of the Obligations, or any relationship or agreement between PFG and Borrower, or any other matter, relating to Borrower or the Obligations; provided that this indemnity shall not extend to any indemnified costs, expenses or damages determined by a court of competent jurisdiction in a final judgment to have been proximately caused by the indemnitee's own gross negligence or willful misconduct. Notwithstanding any provision in this Agreement to the contrary, the indemnity agreement set forth in this Section shall survive any termination of this Agreement and shall for all purposes continue in full force and effect.

8.10 No Liability for Ordinary Negligence. Borrower agrees that any and all claims it may have under this Agreement shall be limited to claims against PFG and not its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing PFG. Neither PFG, nor any of its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing PFG shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by Borrower or any other party through the negligence of PFG, or any of its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing PFG, but nothing herein shall relieve PFG from liability for its own willful misconduct.

8.11 Amendment; Electronic Execution of Documents. The terms and provisions of this Agreement may not be waived or amended, except in a writing executed by Borrower and a duly authorized officer of PFG. The words “execution,” “signed,” “signature” and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

8.12 Time of Essence. Time is of the essence in the performance by Borrower of each and every obligation under this Agreement.

8.13 Attorneys’ Fees and Costs. Borrower shall reimburse PFG for all reasonable attorneys’ fees and fees of accounting and consulting professionals, and all filing, recording, search, title insurance, appraisal, audit, and other reasonable costs incurred by PFG, pursuant to, or in connection with, or relating to this Agreement (whether or not a lawsuit is filed), including, but not limited to, any reasonable attorneys’ fees and costs PFG incurs in order to do the following: prepare and negotiate this Agreement and all present and future documents relating to this Agreement; obtain legal advice in connection with this Agreement or Borrower; enforce, or seek to enforce, any of its rights or retain the services of consultants to do so; prosecute actions against, or defend actions by, Account Debtors; commence, intervene in, or defend any action or proceeding; initiate any complaint to be relieved of the automatic stay in bankruptcy; file or prosecute any probate claim, bankruptcy claim, third-party claim, or other claim; examine, audit, copy, and inspect any of the Collateral or any of Borrower's books and records; protect, obtain possession of, lease, dispose of, or otherwise enforce PFG’s security interest in, the Collateral; and otherwise represent PFG in any litigation relating to Borrower. If either PFG or Borrower files any lawsuit against the other predicated on a breach of this Agreement, the prevailing party in such action shall be entitled to recover its reasonable costs and attorneys’ fees, including (but not limited to) reasonable attorneys’ fees and costs incurred in the enforcement of, execution upon or defense of any order, decree, award or judgment. All attorneys’ fees and costs to which PFG may be entitled pursuant to this Paragraph shall immediately become part of Borrower’s Obligations, shall be due on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations.

8.14 Benefit of Agreement. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective successors, assigns, heirs, beneficiaries and representatives of Borrower and PFG; provided, however, that Borrower may not assign or Transfer any of its rights under this Agreement without the prior written consent of PFG, and any prohibited assignment shall be void. No consent by PFG to any assignment shall release Borrower from its liability for the Obligations.

8.15 Joint and Several Liability. If Borrower consists of more than one Person, their liability shall be joint and several, and the compromise of any claim with, or the release of, any Borrower shall not constitute a compromise with, or a release of, any other Borrower.

8.16 Limitation of Actions. Any claim or cause of action by Borrower against PFG, its directors, officers, employees, agents, accountants or attorneys, based upon, arising from, or relating to this Loan Agreement, or any other Loan Document, or any other transaction contemplated hereby or thereby or relating hereto or thereto, or any other matter, cause or thing whatsoever, incurred, done, omitted or suffered to be done by PFG, its directors, officers, employees, agents, accountants or attorneys, shall be barred unless asserted by Borrower by the commencement of an action or proceeding in a court of competent jurisdiction by (a) the filing of a complaint within one year after the earlier to occur of (i) the first act, occurrence or omission upon which such claim or cause of action, or any part thereof, is based, or (ii) the date this Agreement is terminated, and (b) the service of a summons and complaint on an officer of PFG, or on any other person authorized to accept service on behalf of PFG, within thirty (30) days thereafter. Borrower agrees that such one-year period is a reasonable and sufficient time for Borrower to investigate and act upon any such claim or cause of action. The one-year period provided herein shall not be waived, tolled, or extended except by the written consent of PFG in its sole discretion. This provision shall survive any termination of this Loan Agreement or any other Loan Document.

8.17 Loan Monitoring. At reasonable times and upon reasonable advance notice to Borrower, PFG shall have the right to visit personally with Borrower up to two times per calendar year at its principal place of business or such other location as the parties may mutually agree, for the purpose of meeting with Borrower’s management in order to remain as up-to-date with Borrower’s business as is practicable and to maintain best practices in terms of lender loan monitoring and diligence.

8.18 Paragraph Headings; Construction; Counterparts. Paragraph headings are only used in this Agreement for convenience. Borrower and PFG acknowledge that the headings may not describe completely the subject matter of the applicable paragraph, and the headings shall not be used in any manner to construe, limit, define or interpret any term or provision of this Agreement. This Agreement has been fully reviewed and negotiated between the parties with the benefit of independent counsel and no uncertainty or ambiguity in any term or provision of this Agreement shall be construed strictly against PFG or Borrower under any rule of construction or otherwise. References to “Borrower” are construed to mean “each Borrower”, unless otherwise expressly specified. Amounts set off in brackets or parentheses are negative. The word “shall” is mandatory, the word “may” is permissive, and the word “or” is not exclusive. The term “Agreement” includes the Schedule. Obligations of a similar nature addressed in different sections of this Agreement shall be deemed supplemental to one another and not exclusive unless expressly set forth as such. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

8.19 Correction of Loan Documents. PFG may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties so long as PFG provides Borrowers with written notice of such correction and allows Borrower at least ten (10) days to object to such correction. In the event of such objection, such correction shall not be made except by an amendment signed by both PFG and Borrower.

8.20 Governing Law; Jurisdiction; Venue. This Agreement and all acts and transactions hereunder and all rights and obligations of PFG and Borrower shall be governed by the laws of the State of California. As a material part of the consideration to PFG to enter into this Agreement, Borrower (i) agrees that all actions and proceedings relating directly or indirectly to this Agreement shall be litigated in courts located within California and that the exclusive venue therefor shall, at PFG's option, be Santa Clara County; (ii) consents to the jurisdiction and venue of any such court and consents to service of process in any such action or proceeding by personal delivery or by internationally-recognized commercial courier or overnight delivery service or by certified mail, return receipt requested, to the last known address for Borrower; and (iii) waives any and all rights Borrower may have to object to the jurisdiction of any such court, or to transfer or change the venue of any such action or proceeding. Notwithstanding the foregoing, PFG, in pursuit of collection and Collateral or rights therein, may pursue remedies in any jurisdiction in which Borrower or any Collateral resides or is deemed to reside.

8.21 Withholding. Payments received by PFG from Borrower under this Agreement will be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Body (including any interest, additions to tax or penalties applicable thereto). Specifically, however, if at any time any Governmental Body, applicable law, regulation or international agreement requires Borrower to make any withholding or deduction from any such payment or other sum payable hereunder to PFG, Borrower hereby covenants and agrees that the amount due from Borrower with respect to such payment or other sum payable hereunder will be increased to the extent necessary to ensure that, after the making of such required withholding or deduction, PFG receives a net sum equal to the sum which it would have received had no withholding or deduction been required, and Borrower shall pay the full amount withheld or deducted to the relevant Governmental Body. Borrower will, upon request, furnish PFG with proof reasonably satisfactory to PFG indicating that Borrower has made such withholding payment; provided, however, that Borrower need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate and timely proceedings and as to which payment in full is bonded or reserved against by Borrower. The agreements and obligations of Borrower contained in this Section 8.21 shall survive the termination of this Agreement.

8.22 Multiple Borrowers; Suretyship Waivers.

(a) **Borrowers' Agent.** Each Borrower hereby irrevocably appoints each other Borrower, as the agent, attorney-in-fact and legal representative of all Borrowers for all purposes, including requesting disbursement of the Loan and receiving account statements and other notices and communications to Borrowers (or any of them) from PFG. PFG may rely, and shall be fully protected in relying, on any request for a Loan, disbursement instruction, report, information or any other notice or communication made or given by any Borrower, whether in its own name, as Borrowers' agent, or on behalf of one or more Borrowers, and PFG shall not have any obligation to make any inquiry or request any confirmation from or on behalf of any other Borrower as to the binding effect on it of any such request, instruction, report, information, other notice or communication, nor shall the joint and several character of Borrowers' obligations hereunder be affected thereby.

(b) Waivers. Each Borrower hereby waives: (i) any right to require PFG to institute suit against, or to exhaust its rights and remedies against, any other Borrower or any other Person, or to proceed against any property of any kind which secures all or any part of the Obligations, or to exercise any right of offset or other right with respect to any reserves, credits or deposit accounts held by or maintained with PFG or any indebtedness of PFG to any other Borrower, or to exercise any other right or power, or pursue any other remedy PFG may have; (ii) any defense arising by reason of any disability or other defense of any other Borrower or any guarantor or any endorser, co-maker or other Person, or by reason of the cessation from any cause whatsoever of any liability of any other Borrower or any guarantor or any endorser, co-maker or other Person, with respect to all or any part of the Obligations, or by reason of any act or omission of PFG or others which directly or indirectly results in the discharge or release of any other Borrower or any guarantor or any other Person or any Obligations or any security therefor, whether by operation of law or otherwise; (iii) any defense arising by reason of any failure of PFG to obtain, perfect, maintain or keep in force any Lien on, any property of any Borrower or any other Person; (iv) any defense based upon or arising out of any Insolvency Proceeding, liquidation or dissolution proceeding commenced by or against or in respect of any Borrower or any guarantor or any endorser, co-maker or other Person, including without limitation any discharge of, or bar against collecting, any of the Obligations (including without limitation any interest thereon), in or as a result of any such proceeding. Until all of the Obligations have been paid, performed, and discharged in full, nothing shall discharge or satisfy the liability of Borrower hereunder except the full performance and payment of all of the Obligations. If any claim is ever made upon PFG for repayment or recovery of any amount or amounts received by PFG in payment of or on account of any of the Obligations, because of any claim that any such payment constituted a preferential Transfer or fraudulent conveyance, or for any other reason whatsoever, and PFG repays all or part of said amount by reason of any judgment, decree or order of any court or administrative body having jurisdiction over PFG or any of its property, or by reason of any settlement or compromise of any such claim effected by PFG with any such claimant (including without limitation the any other Borrower), then and in any such event, Borrower agrees that any such judgment, decree, order, settlement and compromise shall be binding upon Borrower, notwithstanding any revocation or release of this Agreement or the cancellation of any note or other instrument evidencing any of the Obligations, or any release of any of the Obligations, and Borrower shall be and remain liable to PFG under this Agreement for the amount so repaid or recovered, to the same extent as if such amount had never originally been received by PFG, and the provisions of this sentence shall survive, and continue in effect, notwithstanding any revocation or release of this Agreement. Each Borrower hereby expressly and unconditionally waives all rights of subrogation, reimbursement and indemnity of every kind against any other Borrower, and all rights of recourse to any assets or property of any other Borrower, and all rights to any collateral or security held for the payment and performance of any Obligations, including (but not limited to) any of the foregoing rights which Borrower may have under any present or future document or agreement with any other Borrower or other Person, and including (but not limited to) any of the foregoing rights which Borrower may have under any equitable doctrine of subrogation, implied contract, or unjust enrichment, or any other equitable or legal doctrine. Each Borrower further hereby waives any other rights and defenses that are or may become available to Borrower by reason of California Civil Code Sections 2787 to 2855 (inclusive), 2899, and 3433, as now in effect or hereafter amended, and under all other similar statutes and rules now or hereafter in effect.

(c) Consents. Each Borrower hereby consents and agrees that, without notice to or by Borrower and without affecting or impairing in any way the obligations or liability of Borrower hereunder, PFG may, from time to time before or after revocation of this Agreement, do any one or more of the following in PFG's sole and absolute discretion: (i) accept partial payments of, compromise or settle, renew, extend the time for the payment, discharge, or performance of, refuse to enforce, and release all or any parties to, any or all of the Obligations; (ii) grant any other indulgence to any Borrower or any other Person in respect of any or all of the Obligations or any other matter; (iii) accept, release, waive, surrender, enforce, exchange, modify, impair, or extend the time for the performance, discharge, or payment of, any and all property of any kind securing any or all of the Obligations or any guaranty of any or all of the Obligations, or on which PFG at any time may have a Lien, or refuse to enforce its rights or make any compromise or settlement or agreement therefor in respect of any or all of such property; (iv) substitute or add, or take any action or omit to take any action which results in the release of, any one or more other Borrowers or any endorsers or guarantors of all or any part of the Obligations, including, without limitation one or more parties to this Agreement, regardless of any destruction or impairment of any right of contribution or other right of Borrower; (v) apply any sums received from any other Borrower, any guarantor, endorser, or co-signer, or from the disposition of any Collateral or security, to any indebtedness whatsoever owing from such Person or secured by such Collateral or security, in such manner and order as PFG determines in its sole discretion, and regardless of whether such indebtedness is part of the Obligations, is secured, or is due and payable. Borrower consents and agrees that PFG shall be under no obligation to marshal any assets in favor of Borrower, or against or in payment of any or all of the Obligations. Borrower further consents and agrees that PFG shall have no duties or responsibilities whatsoever with respect to any property securing any or all of the Obligations. Without limiting the generality of the foregoing, PFG shall have no obligation to monitor, verify, audit, examine, or obtain or maintain any insurance with respect to, any property securing any or all of the Obligations.

(d) Foreclosure of Trust Deeds. Each Borrower waives all rights and defenses that Borrower may have because any other Borrower's Obligations are secured by real property. This means, among other things: (1) PFG may collect from Borrower without first foreclosing on any real or personal property collateral pledged by the other Borrower; and (2) If PFG forecloses on any real property collateral pledged by another Borrower: (A) The amount of the Obligations may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price; and (B) PFG may collect from Borrower even if PFG, by foreclosing on the real property collateral, has destroyed any right Borrower may have to collect from the other Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Borrower may have because any other Borrower's Obligations are secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure. Each Borrower waives all rights and defenses arising out of an election of remedies by PFG, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed Borrower's rights of subrogation and reimbursement against another Borrower or any other Person by the operation of Section 580d of the California Code of Civil Procedure or otherwise.

(e) Independent Liability. Each Borrower hereby agrees that one or more successive or concurrent actions may be brought hereon against Borrower, in the same action in which any other Borrower may be sued or in separate actions, as often as deemed advisable by PFG. Each Borrower is fully aware of the financial condition of each other Borrower and is executing and delivering this Agreement based solely upon its own independent investigation of all matters pertinent hereto, and Borrower is not relying in any manner upon any representation or statement of PFG with respect thereto. Each Borrower represents and warrants that it is in a position to obtain, and each Borrower hereby assumes full responsibility for obtaining, any additional information concerning any other Borrower's financial condition and any other matter pertinent hereto as Borrower may desire, and Borrower is not relying upon or expecting PFG to furnish to it any information now or hereafter in PFG's possession concerning the same or any other matter.

(f) Subordination. All indebtedness of a Borrower now or hereafter arising held by another Borrower is subordinated to the Obligations and Borrower holding the indebtedness shall take all actions reasonably requested by PFG to effect, to enforce and to give notice of such subordination.

8.23 Electronic Execution of Documents. The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

8.24 Relationship. The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

8.25 Third Parties. Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

8.26 Mutual Waiver of Jury Trial. BORROWER AND PFG EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO, THIS AGREEMENT OR ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN PFG AND BORROWER, OR ANY CONDUCT, ACTS OR OMISSIONS OF PFG OR BORROWER OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH PFG OR BORROWER, IN ALL OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE. WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, PFG desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then PFG may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and order applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the

selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to the Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of PFG at any time to exercise self-help remedies, foreclose against Collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

27. *Effect of Amendment and Restatement.* Nothing in this Amendment and Restatement is intended or shall be construed as a waiver of PFG's rights or remedies under the Loan Agreement or any agreement to amend, modify, waive or forbear in the future. The Loan Agreement, as amended and restated, remains in full force and effect.

[SIGNATURE PAGE FOLLOWS]

Borrower:
GIGA-TRONICS INCORPORATED

PFG:
PARTNERS FOR GROWTH IV, L.P.

By _____
President or Vice President

By _____

By _____
Secretary or Ass't Secretary

Name: _____

Title: **Manager, Partners for Growth IV, LLC**
Its General Partner

MICROSOURCE, INC.

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

- Signature Page Amended and Restated Loan and Security Agreement -

**Schedule to
Amended and Restated Loan and Security Agreement**

Borrower: Giga-tronics Incorporated, a California corporation
Address: 4650 Norris Canyon Road, San Ramon CA, 94583

Borrower: Microsource, Inc., a California corporation
Address: 4650 Norris Canyon Road, San Ramon CA, 94583

Date: June 16, 2014

This Schedule forms an integral part of the Amended and Restated Loan and Security Agreement between PARTNERS FOR GROWTH IV, L.P. and the above-borrower of even date.

1. LOAN (Section 1.1):

The Loan: The Loan shall consist of term loans of up to an aggregate amount of \$2,000,000, as follows:

Tranche 1: The Tranche 1 Loan shall consist of a Loan in the principal amount of \$1,000,000, all of which was disbursed on the Original Loan Effective Date.

Tranche 2: The Tranche 2 Loan shall consist of a revolving facility in the maximum principal amount of \$500,000, which Borrower may draw in increments of not less than \$50,000 and repay in whole or in part at any time. To make a Tranche 2 borrowing, Borrower shall submit a Loan Request under Section 1.4 within three (3) Business Days of the date of intended drawing, together with such certificates as may be required under this Agreement. Each drawing shall be subject to such conditions as are set forth in Section 10.

Tranche 3: The Tranche 3 Loan shall consist of a Loan in the principal amount of \$500,000, all of which shall be disbursed upon the request of Borrower (if ever) within three (3) Business Days of PFG's determination based on Section 6(g) reports delivered by Borrower to PFG that Borrower has satisfied the Performance Criteria, as defined below, the disbursement of which shall also be subject to Borrower's satisfaction of the conditions set forth in Section 10 of this Schedule (or PFG's waiver or deferral of such conditions, subject to such additional conditions as it may require, in its discretion).

Repayment:

Tranche 1: Borrower shall pay interest only monthly on the principal amount of the Tranche 1 Loan through September 30, 2014. Commencing with the payment due on October 1, 2014, Borrower shall repay the Tranche 1 Loan in thirty (30) equal principal payments of principal and interest, which payments shall continue on the same day of each month thereafter until the Maturity Date on which date the entire unpaid principal balance of the Loan plus any and all accrued and unpaid interest shall be paid.

Tranche 2: Tranche 2 borrowings shall bear interest only monthly, with all principal and any unpaid interest due at the Maturity Date; provided, however, at such time as Borrower's satisfaction of the Performance Criteria is determinable, PFG may (in its sole and absolute discretion) require the then outstanding Tranche 2 borrowings to be repaid in level amortized payments on the same basis as Tranche 3 would, if drawn, be repaid.

Tranche 3: Borrower shall make roughly equal amortized payments of principal and interest monthly on Tranche 3 until the Maturity Date, on which date all unpaid principal and accrued interest shall be due and payable. The amortization period of Tranche 3 shall run from the date of disbursement until the Maturity Date.

Any accrued interest relating to outstanding principal not included in an amortized payment of principal and interest (such as, for example, interest due for a stub period or during an interest-only period) shall be payable on the first day of each such month for interest accrued during the prior month.

Prepayment:

The principal amount of Tranche 1 and Tranche 3 may be prepaid in whole only at any time, subject only to Borrower paying concurrently with such principal prepayment all interest that would have fallen due between the date of such prepayment and the Maturity Date if Borrower had made the regularly-scheduled payments throughout the term of such Tranches. Tranche 2 may be repaid and redrawn (subject to the terms of this Agreement) at such time and times Borrower determines in its discretion.

Performance Criteria:

"Performance Criteria" means, (i) for the six (6) month period ending September 30, 2014, Revenues of not less than \$7,500,000, and (ii) for the fiscal year ending March 31, 2015, Net Income greater than \$0 over any two consecutive fiscal quarters. If Borrower should consummate an acquisition of the assets or stock of another Person after the Effective Date, the parties shall equitably adjust the foregoing Revenues and Net Income thresholds to preserve the intention of the parties in challenging the Company to achieve its projections for Revenues and Net Income.

2. Interest.**Interest Rate** (Section 1.2):

Tranche 1 and Tranche 3 Loans shall bear interest at a fixed per annum rate equal to 9.75%.

Tranche 2 Loans shall bear interest at a fixed per annum rate equal to 12.5%, calculated on a daily basis. Interest on Tranche 2 borrowings shall be paid monthly for interest accrued on outstanding Tranche 2 principal for interest accrued during the prior month.

Interest shall be calculated on the basis of a 360-day year and a year of twelve months of 30 days each for the actual number of days elapsed. Any accrued interest relating to outstanding principal not included in an amortized payment of principal and interest (such as, for example, interest due for a stub period or during an interest-only period) shall be payable on the first day of each such month for interest accrued during the prior month.

3. Fees (Section 1.3):

Commitment Fee: \$40,000, \$30,000 paid on the Original Loan Effective Date, \$5,000 on the date Borrower first draws on Tranche 2, and, if Borrower draws Tranche 3, \$5,000, concurrent with the disbursement of Tranche 3.

Restatement Fee: On the Effective Date, Borrower shall pay PFG a fee in consideration of amending and restating the Loan Agreement in the amount of \$10,000.

4. Maturity Date

(Section 5.1): March 31, 2017.

5. Financial Covenants

(Section 4.1): Borrower shall comply with each of the following covenants:

Minimum Revenues: On a consolidated basis with its Subsidiaries, Borrower shall maintain minimum calendar quarterly Revenues of at least the amounts set forth below for the periods specified. For future periods, the required Revenue thresholds shall be set by PFG each year in consultation with Borrower and shall, assuming quarterly period measurement is continued, be based upon Borrower's Plan for corresponding periods in each of Borrower's future fiscal year(s) and in no event shall such future thresholds be less than Q4-2015 (period ending March 28, 2015) period. For example, the threshold for the quarterly period ending June 28, 2015 would be set by PFG in consultation with Borrower based on Borrower's 2016 Plan, but would in no event be less than \$4,000,000.

Quarterly Period	Minimum Threshold
Q4-2014 (March 29, 2014)	\$2,300,000
Q1-2015 (June 28, 2014)	\$3,000,000
Q2 (9/27/14)	\$3,500,000
Q3 (12/27/14)	\$3,500,000
FY-2015 (ending March 28, 2015)	\$4,000,000

For purposes of the foregoing Minimum Revenues covenant, the term “Revenues” means receipts from customers in the ordinary course of business for the sale of goods and services and required to be recognized as revenues in accordance with GAAP, net of discounts and refunds. For purposes of the foregoing definition, if Borrower (with the consent of PFG) sells a revenue-generating business unit or product line, the parties shall equitably adjust the Revenue thresholds set forth above to reflect the loss of the associated Revenues generated by such business unit or product line.

**Minimum Tangible
Net Worth:**

On a consolidated basis with its Subsidiaries and measured monthly as of the last day of each calendar month, Borrower shall maintain a Tangible Net Worth of not less than the minimum thresholds set forth below for the corresponding periods. For future monthly periods (April 30, 2015 through the Maturity Date), the required minimum Tangible Net Worth thresholds shall be set by PFG each year in consultation with Borrower and shall, assuming monthly period measurement is continued, be based upon Borrower’s Plan for corresponding periods in each of Borrower’s future fiscal year(s) and in no event shall such future thresholds be less than the thresholds in the prior year for the corresponding periods. For example, the threshold for the monthly period ending June 28, 2015 would be set by PFG in consultation with Borrower based on Borrower’s 2016 Plan, but would in no event be less than \$600,000.

May 3, 2014 (April)	negative \$47,000
May 31, 2014	\$3,000
June 28, 2014	\$453,000
August 2, 2014 (July)	\$153,000
August 30, 2014	\$178,000
September 27, 2014	\$703,000
November 1, 2014 (October)	\$353,000
November 29, 2014	\$353,000
December 27, 2014	\$853,000
January 31, 2015	\$653,000
February 28, 2015	\$653,000
March 28, 2015	\$1,153,000

Definitions.

For purposes of the foregoing financial covenants, the following term shall have the following meaning:

“Tangible Net Worth” shall mean Total Assets less Total Liabilities, determined in accordance with GAAP. In determining Tangible Net Worth, the following adjustment may be made: any material charge required by Borrower’s auditors to be taken for non-cash stock compensation that adversely affects Tangible Net Worth may be added or subtracted, as the case may be, in the calculation of Tangible Net Worth. A “one-time” adjustment would not include a monthly, quarterly or annually-recurring adjustment. The term “material” as used above means an adjustment that would be required to be disclosed in an annual or quarterly filing (10K or 10Q) with the Securities and Exchange Commission.

“Total Assets” is on any day, the total assets, tangible and intangible of Borrower and its Subsidiaries on a consolidated basis, as determined in accordance with GAAP.

“Total Liabilities” is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower’s consolidated balance sheet, including all Indebtedness.

6. Reporting.

(Section 4.4):

Borrower shall provide PFG with the following; *provided, however*, at any time, from time to time, on a permanent or temporal basis, PFG shall have the right to require Borrower to redact any information (or categories of information) that might constitute material non-public information under SEC rules and regulations, such requirement to be notified by PFG in writing to Borrower:

- (a) Monthly accounts payable, accounts receivable and deferred Revenue schedules, aged by invoice date, and held check registers, if any, within 20 days after the end of each month. After 6 months from the Effective Date, PFG will consider in its reasonable discretion, converting such reporting from monthly to quarterly with a due date for such reports to 30 days from the end of each quarter.

- (b) Monthly unaudited consolidated and consolidating Financial Statements, as soon as available, and in any event within 20 days after the end of each month. After 6 months from the Effective Date, PFG will consider in its reasonable discretion, converting such reporting from monthly to quarterly with a due date for such reports to 30 days from the end of each quarter.
- (c) Monthly Compliance Certificates within 20 days after the end of each month and at each Loan request, signed by the Chief Financial Officer of Borrower, certifying that as of the end of such month (or quarter as the case may be) or as at such date of Loan request Borrower was in compliance with all of the terms and conditions of this Agreement and setting forth calculations showing compliance with the financial covenants set forth in this Schedule and such other information as PFG shall reasonably request.
- (d) Updates to the Representations, as and when required to render the information therein true, correct, accurate and complete as of the date of such date to the extent required in Section 4.8 of this Agreement.
- (e) Annual Borrower Board-approved Plan, including budgets and forecasts, within the earlier to occur of thirty (30) days following the end of Borrower's fiscal year and approval by Borrower's Board.
- (f) Annual consolidated and consolidating Financial Statements, as soon as available, and in any event within 120 days following the end of Borrower's fiscal year, certified by, and with an unqualified opinion of, independent certified public accountants reasonably acceptable to PFG. If Borrower is required to file and is current in its filings of Form 10-K with the Securities and Exchange Commission and the same is available within said period through EDGAR, this requirement will be deemed satisfied.
- (g) If Borrower intends to request the Tranche 2 Loan, a Certificate of Borrower, together with underlying Financial Statements demonstrating Borrower's compliance with the Performance Criteria.
- (h) Copies of all reports and statements provided by Borrower to the Senior Lender within one (1) Business Day of the same being provided to the Senior Lender.

7. BORROWER INFORMATION:

Borrower represents and warrants that the information set forth in the Representations and Warranties of Borrower dated February 21, 2014¹ and submitted to PFG on such date (the “Representations”) is true, correct, accurate and complete as of the Effective Date.

8. ADDITIONAL PROVISIONS**(a) Senior Lender.**

- (1) Senior Lender. As used herein, “Senior Lender” means Silicon Valley Bank, and “Senior Loan Documents” means all present and future documents instruments and agreements entered into between Borrower and Senior Lender or by third parties relating to Borrower and Senior Lender.
- (2) Senior Debt Limit. Borrower shall not permit the total Indebtedness of Borrower to Senior Lender, other than Non-Overdue Senior Monetary Obligations, to exceed \$3,000,000 at any time outstanding, or such greater amount as PFG may in its absolute discretion otherwise period upon Borrower request (the “Senior Debt Limit”), including, but not limited to, monies borrowed by Borrower, interest on loans due from Borrower, fees and PFG Expenses for which Borrower is obligated, sums due from Borrower in connection with issuance of commercial letters of credit, issuance of forward contracts for foreign exchange reserve, and any other direct or indirect financial accommodation Senior Lender may provide to Borrower.
- (3) Senior Loan Documents. Borrower represents and warrants that it has provided PFG with true and complete copies of all existing Senior Loan Documents, and Borrower covenants that it will, in the future, provide PFG with true and complete copies of any future Senior Loan Documents, including without limitation any amendments to any existing Senior Loan Documents.

¹ Should update Representations for this Amendment and Restatement.

- (b) **Collateral Accounts.** Concurrently, Borrower shall cause the banks and other institutions where its Collateral Accounts are maintained to enter into Control Agreements with PFG, in form and substance legally sufficient and otherwise reasonably satisfactory to PFG in its good faith business judgment and sufficient to perfect PFG's security interest in said Collateral Accounts, subject to the security interest of the Senior Lender. Said Control Agreements shall permit PFG, upon a Default or an Event of Default and for so long as such Default or Event of Default is continuing, to exercise exclusive control over said Collateral Accounts and proceeds thereof (subject to the rights of the Senior Lender). As a continuing obligation, all primary operating accounts and excess Cash of Borrower shall be maintained with the Senior Lender and its affiliates.
- (c) **Subordination of Inside Debt.** All present and future indebtedness of Borrower to its officers, directors and shareholders ("Inside Debt") shall, at all times, be subordinated to the Lien of PFG in respect of and prior payment of Obligations. Borrower represents and warrants that there is no Inside Debt presently outstanding, except as set forth in Exhibit A. Prior to incurring any Inside Debt in the future, Borrower shall cause the person to whom such Inside Debt will be owed to execute and deliver to PFG a subordination agreement on PFG's standard form.

9. CONDITIONS

In addition to any other conditions to the Loan set out in this Agreement, PFG will not make any Loan until PFG shall have received from each Borrower, in form and substance satisfactory to PFG, such documents, and completion of such other matters, as PFG may reasonably deem necessary or appropriate, including that there shall be no discovery of any facts or circumstances which would, as determined by PFG in its sole discretion, significantly and adversely affect or be reasonably expected to significantly and adversely affect the collectability of the Obligations, PFG's security interest in Borrower's Collateral or the value thereof. Notwithstanding the foregoing, Borrower agrees to deliver to PFG each item required to be delivered to PFG under this Agreement as a condition precedent to any Loan. Borrower expressly agrees that a Loan made prior to the receipt by PFG of any such item shall not constitute a waiver by PFG of Borrower's obligation to deliver such item, and the making of any Loan in the absence of a required item shall be in PFG's sole discretion. Without limiting the foregoing, as a condition to the Loan, Borrower shall provide:

(i) duly executed original signatures of Borrower to this Agreement and such other Loan Documents, including reaffirmations of agreements to which Borrower is was party on the Original Loan Effective Date, including without limitation, this Agreement, the Intellectual Property Security Agreement and related Collateral Agreements and Notices and the PFG Warrant;

(ii) If amended since the Original Loan Effective Date, each Borrower's respective Constitutional Documents and, where applicable, a good standing certificate of Borrower certified by the Secretary of State or other Governmental Body of the jurisdiction of formation of each Borrower, as of a date no earlier than thirty (30) days prior to the date hereof, together with, in the case of each Borrower, a foreign qualification certificate from each States in which Borrower is required to register or otherwise qualify to do business;

(iii) An amendment to the PFG Warrant (as issued to PFG, PFG Equity Investors, LLC and SVB Financial Group);

(iv) To the extent requiring amendment or supplementation to reflect any new Collateral Accounts, Control Agreements as required by Section 8(b) of this Schedule, duly executed by Borrower and each relevant depository institution in favor of PFG;

(v) certified copies, dated as of a recent date, of Security Instrument searches, as PFG shall request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any such Security Instruments either constitute Permitted Liens or have been or, in connection with the Loan, will be terminated or released;

(vi) if required, an update to the Representations, duly executed by Borrower;

(vii) as required under the terms of this Agreement and not previously provided, landlord consents executed in favor of PFG by Borrower's principal office lessor in respect of its premises in San Ramon, California and, if required by PFG, each other premises where Borrower holds Collateral with a fair value in excess of \$10,000, and warehouseman's/bailee waivers in respect of third party premises where Collateral with a fair value in excess of \$10,000 is stored or housed;

(viii) to the extent to reflect any changes since the Original Loan Effective Date, the insurance policies and/or endorsements required pursuant to Section 5.2;

(ix) payment of the Fees specified in Section 3 of this Schedule and PFG Expenses incurred and paid in connection with the Loan, for which PFG Expenses PFG will provide Borrower such invoices as Borrower may reasonably require for accounting purposes;

(x) any third party consents required in order for Borrower to enter into and perform the Loan Documents;

(xi) notice of the this Agreement as required under the Subordination Agreement;

(xii) as required, execution, delivery and (as necessary or appropriate) filing of all Security Instruments; and

(xiii) to the extent that the conditions to this Agreement have not been completed as of the Effective Date, a post-closing obligations letter in PFG's customary form by which PFG waives or defers performance of such conditions as PFG is willing to defer in its sole business discretion.

10. CONDITIONS

In addition to any other conditions to Loans set out in this Agreement, PFG will not make any Tranche 2 or Tranche 3 borrowing until PFG shall have received, in form and substance satisfactory to PFG:

(a) a Loan Request that constitutes a Qualifying Request;

(b) satisfaction of any conditions set forth in Section 9 not satisfied at the time of any Tranche 2 or Tranche 3 borrowing.

[Signature Page Follows]

Borrower:
GIGA-TRONICS INCORPORATED

PFG:
PARTNERS FOR GROWTH IV, L.P.

By _____
President or Vice President

By _____

By _____
Secretary or Ass't Secretary

Name: _____

Title: Manager, Partners for Growth IV, LLC
Its General Partner

MICROSOURCE, INC.

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

- Signature Page to Schedule to Amended and Restated Loan and Security Agreement -

Exhibit A to Loan and Security Agreement

Section 3.10 – Litigation:

1. On November 1, 2013 we received a letter from Textron/AAI regarding royalties associated with our Hydra product. They claim they have patents on the technology we are using and we will owe them a royalty. They have yet to see our Hydra product and nor do they know how it works, but we are a threat to their existing market. We have examined the patents they referenced in the letter, and we are not using their patented technology. We have engaged a patent attorney to assist us with this issue and if needed we are prepared to challenge their patent with the US Patent Office.

Section 3.15 – Internal Controls:

1. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are not effective to provide reasonable assurances that (i) the information the Company is required to disclose in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period required by the Commission's rules and forms, and (ii) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Other than the material weakness described below, there were no significant changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Based on the above described procedures and actions taken, the Company's management, including its Chief Executive Officer and its Chief Financial Officer have concluded that as of December 28, 2013, the Company's internal control over financial reporting was not effective based on the criteria described in the "COSO Internal Control – Integrated Framework 1992" as a material weakness in the Company's internal control over financial reporting was identified as described below.

The Company determined that it did not have adequate procedures in place to identify and report on a timely basis the impact of certain triggering events in its line of credit arrangement. The lack of these procedures resulted in the delayed financial reporting of the impacts of the triggering events on the balance sheet classification of borrowings under the line of credit as current liabilities rather than long term liabilities and related disclosures regarding the triggering events.

Management has identified the cause of this delayed reporting as a lack of recurring review of contractual arrangements such that the impact from changes in circumstances are timely accounted for and reported. Management has reported the correct accounting and has included disclosures related to the triggering events in its current reporting in this Form 10-Q.

Management will take steps to ensure the appropriate procedures are put in place to regularly review all ongoing contractual arrangements by an individual with adequate knowledge of financial reporting to ensure the financial statements are fairly stated.

Exhibit B to Loan and Security Agreement – Compliance Certificate

EXHIBIT 10.6

AMENDED AND RESTATED WARRANT

THIS AMENDED AND RESTATED WARRANT ("WARRANT") WAS ORIGINALLY SOLD ON THE ISSUE DATE IN A PRIVATE TRANSACTION AND IS AMENDED AND RESTATED AS OF THE RESTATEMENT DATE, WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE, AND MAY BE OFFERED OR SOLD ONLY IF REGISTERED UNDER THE SECURITIES ACT AND SUCH LAWS OR IF AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND SUCH LAWS IS AVAILABLE.

Company / Issuer:	Giga-tronics Incorporated, a California corporation
Number of Shares:	180,000 shares, subject to adjustment
Class of Shares:	Common Stock, no par value / share
Exchange Price:	\$1.42 per share
Issue Date:	March 13, 2014
Restatement Date:	June 16, 2014
Expiration Date:	March 31, 2019

The term "Holder" shall initially refer to Partners for Growth IV, L.P., a Delaware limited partnership, which is the initial holder of this Warrant and shall further refer to any subsequent permitted holder of this Warrant from time to time.

Giga-tronics Incorporated, a California corporation (the "Company") does hereby certify and agree that, for the sum of \$2,899 paid by Holder on the Issue Date, which the parties agree is fair consideration for this Warrant, Holder, or its permitted successors and assigns, hereby is entitled to Exercise or Exchange this Warrant (each as defined below) in the Company for up to One Hundred Eighty Thousand (180,000) duly authorized, validly issued, fully paid and non-assessable shares of its Common Stock, no par value per share (the "Common Stock") upon the terms and subject to the provisions of this Warrant. The Common Stock issuable upon Exercise or Exchange of this Warrant is referred to herein as the "Warrant Stock". Capitalized terms used but not defined in this Warrant have their meanings as set forth in that certain Loan and Security Agreement of even date herewith between the Company and Holder (as amended, the "Loan Agreement"), regardless of whether the Loan Agreement is then in effect. When the term "convert" or "conversion" in relation to the Warrant is used herein, it includes an Exchange and an Exercise, each as defined below, as applicable.

Section 1 Term, Price, Exercise and Exchange of Warrant.

1.1 Term of Warrant. This Warrant shall be convertible from the Issue Date until the Expiration Date.

1 . 2 Exchange Price. The price per share at which the Warrant Stock is issuable upon conversion of this Warrant shall be \$1.42 per share (the "Exchange Price").

1.3 Exercise of Warrant; Exchange of Warrant.

(a) This Warrant may be Exercised (as defined below) in whole or in part, upon surrender of this Warrant to the Company at its then principal offices in the United States, together with the form of election to Exchange or Exercise attached hereto as Exhibit A (the "Election") duly completed and executed with "Exercise" selected as the mode of conversion, and upon payment to the Company of the Exchange Price for the number of shares of Warrant Stock in respect of which this Warrant is then being converted (an "Exercise"). In lieu of an Exercise, Holder may exchange this Warrant in whole or in part on a cashless basis by indicating so in the Election and proceeding in accordance with the remainder of this Section 1.3 (an "Exchange").

(b) Upon an Exchange, the Holder shall receive Warrant Stock such that, without the payment of any funds, the Holder shall surrender this Warrant in exchange for the number of shares of Warrant Stock equal to "X" (as defined below), computed using the following formula:

$$X = \frac{Y * (A-B)}{A}$$

Where

- X = the number of shares of Warrant Stock to be issued to Holder
- Y = the number of shares of Warrant Stock to be converted under this Warrant
- A = the Fair Market Value of one share of Warrant Stock
- B = the Exchange Price (as adjusted to the date of such calculations)
- * = multiplied by

(c) For purposes of this Warrant, the "Fair Market Value" of one share of Warrant Stock shall be (i) if the Company's Common Stock is becomes listed on a national stock exchange, the highest sale price reported on such exchange over the 90-day period prior to the date Holder delivers its Election to the Company, or (ii) if the Common Stock is traded over-the-counter, the highest average of the bid and ask price for Common Stock over the 90-day period prior to the date Holder delivers its Election to the Company. If another class or series of Company securities is listed or traded as aforesaid, the Fair Market Value shall be adjusted based on the ratio that the Warrant Stock converts into such other class or series or such other class or series converts into Warrant Stock, as appropriate. If the Common Stock is not traded as contemplated in clauses (i) or (ii), above, the Fair Market Value of the Company's Warrant Stock shall be the price per share of Warrant Stock which the Company could obtain from a willing buyer of Warrant Stock sold by the Company from its authorized but unissued shares, initially as the Board of Directors of the Company ("Board") shall determine in its reasonable good faith judgment, but in no event less than the price per share at which Common Stock (or options for Common Stock) are then issuable to Company employees based on a valuation compliant with Section 409A of the United States Internal Revenue Code; provided, however, if Holder disagrees the Fair Market Value of Warrant Stock as determined by the Board, the parties shall jointly engage a valuation expert to value the Warrant Stock based on a valuation of the Company as a going concern using standard valuation methodologies for the Warrant Stock. If the Warrant is to be converted in connection with an Acquisition, the Fair Market Value of a share of Warrant Stock shall be based on the enterprise value specified or implied in such Acquisition and shall be the greater of (A) the value attributable to the Warrant Stock and (B) the value attributable to the Company securities into which the Warrant Stock is (or may be) convertible (but subject to Holder's conversion directly into such other Company securities).

(d) Upon surrender of this Warrant, and the duly completed and executed Election, and payment of the Exchange Price (if an Exercise) or conversion of this Warrant through Exchange, the Company shall promptly issue and deliver to the Holder or such other person as the Holder may designate in writing a certificate or certificates for the number of shares of Warrant Stock issuable pursuant to the terms of this Warrant upon conversion. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Warrant Stock as of the date of the surrender of this Warrant, and the duly completed and executed Election, and payment of the Exchange Price in the case of an Exercise or conversion of this Warrant through Exchange; provided, that if the date of surrender of this Warrant and payment of the Exchange Price is not a business day, the certificates for the Warrant Stock shall be deemed to have been issued as of the next business day (whether before or after the Expiration Date). If this Warrant is converted in part, a new warrant of the same tenor and for the number of shares of Warrant Stock not converted shall be executed by the Company and delivered to Holder.

1 . 4 Fractional Interests. The Company shall not be required to issue fractions of shares of Warrant Stock upon the conversion of this Warrant. If any fraction of a share of Warrant Stock would be issuable upon the exchange of this Warrant (or any portion thereof), the Company shall purchase such fraction for an amount in cash equal to the Fair Market Value of the Warrant Stock.

1 . 5 Automatic Put or Exchange on Expiration Date. In the event that, by the Expiration Date, this Warrant has not been fully converted or put to the Company under Section 1.7, then this Warrant shall be deemed put to the Company under Section 1.7 and the Company shall promptly pay the Exchange Put Price; provided, however, if an Exchange at such time under Section 1.3 would yield a greater value to Holder than exercise of its rights under Section 1.7, then this Warrant shall automatically be deemed on and as of such date to be Exchanged pursuant to Section 1.3 as to all Warrant Stock (or such other securities) for which it shall not previously have been converted, and the Company shall promptly deliver a certificate representing the Warrant Stock (or such other securities) issued upon such conversion to the Holder.

1.6 Treatment of Warrant Upon Acquisition of Company.

(a) “Acquisition”. For the purpose of this Warrant, “Acquisition” means any sale or other disposition of all or substantially all of the assets of the Company in whatever form, or any reorganization, consolidation, or merger of the Company (whether in a single transaction or multiple related transactions) where the holders of the Company’s securities before the transaction beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction(s).

(b) Treatment of Warrant at Acquisition. Upon the closing of any Acquisition, at Holder’s option: (i) if the surviving entity (if applicable in such Acquisition) is willing assume the obligations of the Company under this Warrant, then if Holder so elects this Warrant shall be convertible into the same securities as would be payable for the Warrant Stock issuable upon conversion of the unconverted portion of this Warrant as if such Warrant Stock were outstanding on the record date for the Acquisition (and the Warrant Price and/or number of shares of Warrant Stock shall be adjusted accordingly); or (ii) Holder may exercise its rights under Section 1.7 and put the Warrant to the Company (or the surviving entity as a condition to the Acquisition) for cash; or (iii) the Company or other surviving entity in such Acquisition shall, upon initial closing of such Acquisition purchase this Warrant at its “Fair Value” (the “Purchase Price”). For purposes hereof, “Fair Value” means that value determined by the parties using a Black-Scholes Option-Pricing Model (the “Black-Scholes Calculation”) with the following assumptions: (A) a risk-free interest rate equal to the risk-free interest rate at the time of the closing of the Acquisition (or as close thereto as practicable), (B) a contractual life of the Warrant equal to the remaining term of this Warrant as of the date of the announcement of the Acquisition, (C) an annual dividend yield equal to dividends declared on the underlying Warrant Stock (including securities into which the Warrant Stock may be convertible) during the term of this Warrant (calculated on an annual basis), and (D) a volatility factor of the expected market price of the Company’s Common Stock comprised of: (1) if the Company is publicly traded on a national securities exchange, its volatility over the one year period ending on the day prior to the announcement of the Acquisition, (2) if the Common Stock is traded over-the-counter, its volatility over the one year period ending on the day prior to the announcement of the Acquisition, or (3) if the Company is a non-public company, the volatility, over the one year period prior to the Acquisition, of an average of publicly-traded companies in the same or similar industry to the Company with such companies having similar revenues. The Purchase Price determined in accordance with the above shall be paid upon the initial closing of the Acquisition and shall not be subject to any post-Acquisition closing contingencies or adjustments; provided, however, the parties may take such post-Acquisition closing contingencies or adjustments into account in determining the Purchase Price, and if the parties take any post-Acquisition closing contingencies or adjustments into account, then upon the partial or complete removal of those post-Acquisition closing contingencies or adjustments, a new Black-Scholes Calculation would be made using all of the same inputs except for the value of the Company’s Common Stock (as determined under subclause (D)), and any increase in Fair Value (and, correspondingly, Purchase Price), including, without limitation, as a result of any earn-out or escrowed consideration, would be paid in full to Holder immediately after those post-Acquisition closing contingencies or adjustments can be determined or achieved.

1.7 Immediately Exchangeable and Conditionally Exchangeable Warrant Stock. Notwithstanding the Issue Date of this Warrant or any provision in this Warrant to the contrary, this Warrant is immediately convertible into up to 156,000 shares of Warrant Stock and, in the event the Company borrows under Tranche 3 of the Loan Agreement, shall (as from the date of such borrowing) be convertible into up to an additional 24,000 shares of Warrant Stock (the “Tranche 3 Warrant Stock”).

1.8 Warrant Put. Notwithstanding anything to the contrary set forth in this Warrant, in the event of (i) any Acquisition or other change in control of the Company, (ii) any initial public offering or other listing of Company securities, (iii) any liquidation or the Company or event treated as a liquidation under the Articles of Incorporation of the Company, and (iv) upon expiry of this Warrant, Holder shall have the right (but not the obligation) to exchange this Warrant for the cash sum of \$150,000 (the “Exchange Put Price”); provided, however, if Tranche 3 of the Loan Agreement is not drawn by the Company in whole or in part, the Exchange Put Price shall be reduced by \$19,800 to \$130,200. Holder shall exercise such right by written notice as provided in this Warrant and, upon receipt by the Company of such notice, the Expiration Date of this Warrant shall be deemed extended until such time as the Company has paid the Exchange Put Price to Holder. The Company shall promptly (and in no event later than (five) 5 business days of Holder’s notice to the Company) pay the Exchange Put Price to Holder.

1.9 Adjustment in Number of Shares. Holder’s right to convert this Warrant with respect to 30,000 Shares of Warrant Stock may be terminated if the Company earns at least (i) \$18,000,000 in Revenues and (ii) \$1,000,000 in Net Income, in each case for its fiscal year ending March 31, 2015. Without duplication for the foregoing reduction (i.e., the maximum reduction in Number of Shares under this Section 1.9 is 30,000 shares), If the Tranche 3 Warrant Stock does not become convertible under Section 1.7 (i.e., the Company does not borrow Tranche 3), Holder’s right to convert this Warrant for 22,500 Shares of Warrant Stock may be terminated if the Company achieves the same foregoing performance thresholds. For purposes of this Section, “Revenues” means revenues required to be recognized as such under GAAP, and “Net Income” means, as calculated on a consolidated basis for the Company and its Subsidiaries for any period as at any date of determination, the net profit (or loss), after provision for taxes, of Borrower and its Subsidiaries for such period taken as a single accounting period. If the Company should consummate an acquisition of the assets or stock of another Person after the Issue Date, the parties shall equitably adjust the foregoing Revenues and Net Income thresholds to preserve the intention of the parties in challenging the Company to achieve its projections for Revenues and Net Income.

Section 2. Exchange and Transfer of Warrant.

(a) This Warrant may be transferred, in whole or in part, without restriction, subject to (i) Holder’s compliance with applicable securities laws (including, without limitation, the delivery of investment representation letters and legal opinions in legally sufficient and customary form), and (ii) the transferee holder of the new Warrant assuming in writing the obligations of the Holder and making the representations and warranties set forth in this Warrant. Notwithstanding and without the necessity of delivering an opinion of counsel, Holder may at any time transfer this Warrant in whole or in part to any affiliate. By its acceptance of this Warrant, each such affiliate transferee will be deemed to have made to the Company each of the representations and warranties set forth in Section 7 hereof and agrees to be bound by all of the terms and conditions of this Warrant as if the original Holder hereof. A transfer may be registered with the Company by submission to it of this Warrant, together with the Assignment Form attached hereto as Exhibit B duly completed and executed. After the Company’s receipt of this Warrant and the Assignment Form so completed and executed, the Company will issue and deliver to the transferee a new warrant (representing the portion of this Warrant so transferred) at the same Exchange Price per share and otherwise having the same terms and provisions as this Warrant, which the Company will register in the new holder’s name. In the event of a partial transfer of this Warrant, the Company shall concurrently issue and deliver to the transferring holder a new warrant that entitles the transferring holder to purchase the balance of this Warrant not so transferred and that otherwise is upon the same terms and conditions as this Warrant. Upon the due delivery of this Warrant for transfer, the transferee holder shall be deemed for all purposes to have become the holder of the new warrant issued for the portion of this Warrant so transferred, effective immediately prior to the close of business on the date of such delivery, irrespective of the date of actual delivery of the new warrant representing the portion of this Warrant so transferred. Notwithstanding any contrary provision herein, at all times prior to the IPO, Holder may not, without the Company’s prior written consent, transfer this Warrant or any portion hereof, or any shares issued upon any exercise hereof to any person or entity who directly competes with the Company, except in connection with an Acquisition of the Company by such a direct competitor.

(b) In the event of the loss, theft or destruction of this Warrant, the Company shall execute and deliver an identical new warrant to the Holder in substitution therefor upon the Company's receipt of (i) evidence reasonably satisfactory to the Company of such event and (ii) if requested by the Company, an indemnity agreement reasonably satisfactory in form and substance to the Company. In the event of the mutilation of or other damage to the Warrant, the Company shall execute and deliver an identical new warrant to the Holder in substitution therefor upon the Company's receipt of the mutilated or damaged warrant.

(c) The Company shall pay all reasonable costs and expenses incurred in connection with any conversion (by Exercise or Exchange), transfer or replacement of this Warrant, including, without limitation, the costs of preparation, execution and delivery of a new warrant and of share certificates representing all Warrant Stock.

Section 3. Certain Covenants.

(a) The Company shall at all times reserve for issuance and keep available out of its authorized and unissued Common Stock, solely for the purpose of providing for the exchange of this Warrant, such number of shares of Common Stock as shall from time to time be sufficient therefor.

(b) The Company will not, by amendment or restatement of its Certificate of Incorporation or Bylaws or through reorganization, consolidation, merger, amalgamation, sale of assets or otherwise, avoid or seek to avoid the observance or performance of any of the terms of this Warrant. Without limiting the foregoing, the Company will not increase the par value of any Warrant Stock receivable upon the exchange of this Warrant above the amount payable therefor upon such exchange.

(c) So long as Holder holds this Warrant, the Company shall deliver to Holder such reports as it provides to its common stockholders generally, as and when delivered to such stockholders. Notwithstanding the foregoing, the Company shall provide Holder quarterly and annual financial statements upon request, if such statements are not publicly available. The parties shall not treat the Warrant or the Warrant Stock as being granted or issued as property transferred in connection with the performance of services or otherwise as compensation for services rendered.

Section 4. Adjustments to Exchange Price and Number of Shares of Warrant Stock.

4.1 Adjustments. The Exchange Price shall be subject to adjustment from time to time in accordance with this Section 4. Upon each adjustment of the Exchange Price pursuant to this Section 4, the Holder shall thereafter be entitled to acquire upon conversion, at the Exchange Price resulting from such adjustment, the number of shares of Warrant Stock obtainable by multiplying the Exchange Price in effect immediately prior to such adjustment by the number of shares of Warrant Stock acquirable immediately prior to such adjustment and dividing the product thereof by the new Exchange Price resulting from such adjustment.

4.2 Subdivisions, Combinations and Stock Dividends. If the Company shall at any time subdivide by split-up or otherwise, its outstanding Common Stock into a greater number of shares, or issue additional Common Stock as a dividend or otherwise with respect to any Common Stock, the Exchange Price in effect immediately prior to such subdivision or share dividend shall be proportionately reduced and the number of shares acquirable upon Exercise or Exchange hereunder shall be proportionately increased. Conversely, in case the outstanding Common Stock of the Company shall be combined into a smaller number of shares, the Exchange Price in effect immediately prior to such combination shall be proportionately increased and the number of shares acquirable upon Exercise or Exchange hereunder shall be proportionately reduced.

4.3 Reclassification, Exchange, Substitutions, Etc. Upon any reclassification, exchange, substitution, or other event that results in a change of the number and/or class of the securities issuable upon conversion of this Warrant, Holder shall be entitled to receive and the Company shall promptly issue an amended warrant for the number and kind of securities and property that Holder would have received for the Warrant Stock if this Warrant had been converted immediately before such reclassification, exchange, substitution, or other event. The amendment to this Warrant shall provide for adjustments (as determined in good faith by the Board) which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 4.3, without limitation, adjustments to the Warrant Price and to the number of securities or property issuable upon conversion of the new Warrant. The provisions of this Section 4.3 shall similarly apply to successive reclassifications, exchanges, substitutions, or other similar events.

4.4. Notices of Record Date, Etc. In the event that the Company shall:

(1) declare any dividend upon its Common Stock, whether payable in cash, property, stock or other securities and whether or not a regular cash dividend, or

(2) offer for sale to (but not necessarily exclusively to) its existing securityholders any additional shares of any class or series of the Company's stock or securities exchangeable for or convertible into such stock in any transaction that would give rise (regardless of waivers thereof) to pre-emptive rights of any class or series of stockholders, or

(3) effect or approve (by stockholder vote or otherwise) any reclassification, exchange, substitution or recapitalization of the capital stock of the Company, including any subdivision or combination of its outstanding capital stock, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation, or to liquidate, dissolve or wind up (including an assignment for the benefit of creditors), or

(4) offer holders of registration rights the opportunity to participate in any public offering of the Company's securities,

then, in connection with such event, the Company shall give to Holder:

(i) at least ten (10) days prior written notice of the date on which the books of the Company shall close or a record shall be taken for such a dividend or offer in respect of the matters referred to in (1) or (2) above;

(ii) in the case of the matters referred to in (3) above, at least ten (10) days prior written notice of the date when the same shall take place; and

(iii) in the case of the matter referred to in (4) above, the same notice as is given or required to be given to the holders of such registration rights.

Such notice in accordance with the foregoing clause (1) shall also specify, in the case of any such dividend, the date on which the holders of capital stock shall be entitled thereto and the terms of such dividend, and such notice in accordance with clause (2) shall also specify the date on which the holders of capital stock shall be entitled to exchange their capital stock for securities or other property deliverable upon such reorganization, reclassification, exchange, substitution, consolidation, merger or sale, as the case may be, and the terms of such exchange. Each such written notice shall be given by first class mail, postage prepaid, addressed to the holder of this Warrant at the address of Holder.

4.5 Adjustment by Board. If any event occurs as to which, in the opinion of the Board, the provisions of this Section 4 are not strictly applicable or if strictly applicable would not fairly protect the rights of the Holder in accordance with the essential intent and principles of such provisions, then the Board shall make an adjustment in the application of such provisions, in accordance with such essential intent and principles, so as to protect such rights, but in no event shall any adjustment have the effect of increasing the Exchange Price as otherwise determined pursuant to any of the provisions of this Section 4, except in the case of a combination of shares of a type contemplated in Section 4.2 and then in no event to an amount larger than the Exchange Price as adjusted pursuant to Section 4.2.

4.6 Officers' Statement as to Adjustments. Whenever the Exchange Price and/or number of shares of Warrant Stock subject to the Warrant is required to be adjusted as provided in this Section 4, the Company shall forthwith file at its principal office with a copy to the Holder notice parties set forth in Section 9 hereof a statement, signed by the Chief Executive Officer or Chief Financial Officer of the Company, showing in reasonable detail the facts requiring such adjustment, the Exchange Price and number of issuable shares that will be effective after such adjustment; provided, however, such statement shall not be required to the extent the information otherwise required by this Section 4.7 is available through the Company's current reports filed with the Securities and Exchange Commission.

4.7 Issue of Securities other than Common Stock. In the event that at any time, as a result of any adjustment made pursuant to this Section 4, Holder thereafter shall become entitled to receive any securities of the Company, other than Common Stock, the number of such other shares so receivable upon Exercise or Exchange of this Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in this Section 4.

Section 5. Rights and Obligations of the Warrant Holder.

Except as otherwise specified in this Warrant, this Warrant shall not entitle the Holder to any rights of a holder of Common Stock in the Company until such time as this Warrant is exchanged or exercised.

Section 6. Representations, Warranties and Covenants of the Company. The Company represents and warrants to, and covenants with, Holder that:

6.1 Corporate Power; Authorization. The Company has all requisite corporate power and has taken all requisite corporate action to execute and deliver this Warrant, to sell and issue the Warrant and Warrant Stock and to carry out and perform all of its obligations hereunder. This Warrant has been duly authorized, executed and delivered on behalf of the Company by the person executing this Warrant and constitutes the valid and binding agreement of the Company, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization or similar laws relating to or affecting the enforcement of creditors' rights generally and (ii) as limited by equitable principles generally.

6.2 Validity of Securities. The issuance and delivery of the Warrant is not subject to preemptive or any similar rights of the stockholders of the Company (which have not been duly waived) or any liens or encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws; and when the Warrant Stock is issued upon conversion by Exercise or Exchange in accordance with the terms hereof, and this Warrant is converted into Warrant Stock, such securities will be, at each such issuance, validly issued, fully paid and nonassessable, in compliance with all applicable securities laws and free of any liens or encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

6.3 Capitalization. The authorized capital of the Company consists of 40,000,000 common shares, of which 5,181,247 are issued and outstanding, 1,000,000 Preferred Shares, no par value per share, of which 18,533.51 are issued and outstanding, of which (i) 250,000 are designated as Series A Preferred Shares and none are issued and outstanding, (ii) 10,000 are designated as Series B Preferred Shares and 9,997 are issued and outstanding, (iii) 3,500 are designated as Series C Preferred Shares and 3,424.65 are issued and outstanding (iv) 6,000 are designated as Series D Preferred Shares and 5,111.86 are issued and outstanding. Each share of preferred stock can convert into 100 shares of common. Common stock warrants totaling 1,017,405 have been granted in association with the Preferred Share purchases. As of the date hereof, the Company has reserved a total of 2,250,000 shares of its Common Stock for issuance under its 2005 Plan, of which 1,397,250 shares (including 121,500 shares of restricted stock) are reserved for issuance upon exercise of outstanding options. Under the old 2000 Plan 190,000 options are still outstanding, but no additional shares can be granted under the 2000 Plan. The Company has also issued 285,000 common stock options outside of the 2005 and 2000 Plans that are outstanding. A true, correct and current copy of the Company's current Restated Articles of Incorporation is appended as Exhibit C hereto. Except as specified in this Agreement, there are no other options, warrants, conversion privileges or other contractual rights presently outstanding to purchase or otherwise acquire any authorized but unissued shares of the Company's capital stock or other securities. Exhibit D hereto sets forth a capitalization table of the Company which is true, correct accurate and complete as of the date hereof.

6.4 No Conflict. The execution and delivery of this Warrant do not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or to a loss of a material benefit, under, any provision of the Certificate of Incorporation or Bylaws of the Company or any mortgage, indenture, lease or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company, its properties or assets, in each case, the effect of which would have a material adverse effect on the Company or materially impair or restrict its power to perform its obligations as contemplated hereby.

6.5 Governmental and other Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any governmental authority or other person or entity is required on the part of the Company in connection with the issuance, sale and delivery of the Warrant and the Warrant Stock, except such filings pursuant to the United States Securities Act of 1933, as amended (the “Securities Act”) and applicable state securities laws, which have been made or will be made in a timely manner. All stockholder consents required in connection with issuance of the Warrant and Warrant Stock have either been obtained by Company or no such consents are required.

6.6 Exempt from Registration. Assuming the accuracy of the representations and warranties of Holder in Section 7 hereof, the offer, sale and issuance of the Warrant and the Warrant Stock will be exempt from the registration requirements of the Securities Act pursuant to 506 of Regulation D under the Securities Act and from the registration and qualification requirements of applicable state securities laws. Neither the Company nor any agent on its behalf has solicited or will solicit any offers to sell or has offered to sell or will offer to sell all or any part of such securities to any person or persons so as to bring the offer, sale and issuance of the Warrant or the Warrant Stock by the Company within the registration provisions of the Securities Act.

6.7 Delivery of Information: Accuracy. The Company acknowledges its delivery of certain Representations and Warranties dated as of the date hereof (the “Representations Letter”) to Holder, which Representations and Warranties form the basis for Holder purchasing the Warrant. The information contained therein and in all documents, instruments and other information delivered to Holder in connection therewith are true, correct, accurate and complete in all material respects as of the Issue Date.

6.11 Legends. The Company shall remove any restrictive securities legends on Warrant Stock resulting from conversion of this Warrant as soon as permitted by applicable law.

Section 7. Representations and Warranties of Holder. Holder hereby represents and warrants to the Company as of the Closing Date as follows:

7.1 Investment Experience. Holder is an “accredited investor” within the meaning of Rule 501 under the Securities Act, and was not organized for the specific purpose of acquiring the Securities. Holder is aware of the Company’s business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access. Holder has such business and financial experience as is required to give it the capacity to protect its own interests in connection with the purchase of the Securities.

7.2 Investment Intent. Holder is purchasing the Warrant for investment for its own account only and not with a view to, or for resale in connection with, any “distribution” thereof within the meaning of the Securities Act. Holder understands that the Warrant has not been registered under the Securities Act or registered or qualified under any state securities law in reliance on specific exemptions therefrom, which exemptions may depend upon, among other things, the bona fide nature of Holder's investment intent as expressed herein.

7.3 Authorization. Holder has all requisite power and has taken all requisite action required of it to carry out and perform all of its obligations hereunder. The execution and delivery of this Warrant has been duly authorized, executed and delivered on behalf of Holder and constitutes the valid and binding agreement of Holder, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization or similar laws relating to or affecting the enforcement of creditors' rights generally and (ii) as limited by equitable principles generally. The consummation of the transactions contemplated herein and the fulfillment of the terms herein will not result in a breach of any of the terms or provisions of Holder's constitutional documents or instruments.

7.4 The Act. Holder understands that this Warrant and the Warrant Stock issuable upon exercise hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. Holder understands that this Warrant and the Warrant Stock issued upon any exercise hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available. Holder is aware of the provisions of Rule 144 promulgated under the Act.

7.5 No Voting Rights. Holder, as a Holder of this Warrant, will not have any voting rights until the conversion in whole or in part of this Warrant.

Section 8. Restricted Stock Legend.

This Warrant and the Warrant Stock have not been registered under any securities laws. Accordingly, any share certificates issued pursuant to the conversion of this Warrant shall (until receipt of an opinion of counsel in customary form that such legend is no longer necessary) bear the following legend:

THIS WARRANT AND THE WARRANT STOCK ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE “ACT”), AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE OFFER, SALE, PLEDGE, TRANSFER OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN CUSTOMARY FORM THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE ACT.

Section 9. Notices.

Any notice or other communication required or permitted to be given here shall be in writing and shall be effective (a) upon hand delivery or delivery by e-mail or facsimile at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received) or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received), or (b) on the third business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communication shall be:

if to Holder, at

Partners for Growth IV, L.P.
150 Pacific Avenue
San Francisco, California 94111
Attention: Chief Financial Officer
Fax: (415) 781-0510
Email: notices@pfgrowth.com

with a copy (not constituting notice) to

Greenspan Law Office
Attn: Benjamin Greenspan, Esq.
620 Laguna Road
Mill Valley, CA 94941
Fax: (415) 738-5371
Email: ben@greenspan-law.com

with the original of this Warrant and any replacement, restatement or reissue of this Warrant to be delivered to:

Robert W. Baird & Co., Inc.
555 California Street, Suite 4900
San Francisco, CA 94104
ATTN: John Fitzgibbons
Phone # 415-627-3225
Email: JFitzgibbons@rwbaird.com

or

if to the Company, at

Giga-tronics Incorporated
4650 Norris Canyon Road
San Ramon CA, 94583
Title: CFO
Name: Steve Lance
Email: slance@gigatronics.com
Fax: 925-328-4789

with a copy (not constituting notice) to:

Bingham McCutchen LLP
Three Embarcadero Center
San Francisco, CA 94111-4067
Fax: **415-262-9227**
Attn: Thomas Reddy
Email: Thomas.reddy@bingham.com

Each party hereto may from time to time change its address for notices under this Section 9 by giving at least 10 calendar days' notice of such changes address to the other party hereto.

Section 10. Amendments and Waivers.

This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant may only be amended by an instrument in writing signed by both parties.

Section 11. Applicable Law; Severability.

This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of Delaware. If any one or more of the provisions contained in this Warrant, or any application of any provision thereof, shall be invalid, illegal, or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and all other applications of any provision thereof shall not in any way be affected or impaired thereby.

Section 12. Construction; Headings.

The terms “Exercise” and “Exchange” may be used interchangeably from time to time in this Warrant, the only substantive difference being that the exercise of rights under this Warrant by Exercise will require payment of cash consideration per share equal to the Exchange Price. The headings used in this Warrant are for the convenience of the parties only and shall not be used in construing the provisions hereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Company has caused this Amended and Restated Warrant to be duly executed on the day and year first above written.

COMPANY:

Giga-tronics Incorporated

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

ACKNOWLEDGED AND AGREED:

HOLDER:

Partners for Growth IV, L.P.

By: _____
_____, Manager of
Partners for Growth IV, LLC,
Its General Partner

Exhibit A

To:

ELECTION TO EXCHANGE OR EXERCISE

1. The undersigned hereby exercises its right to **Exchange** its Warrant for _____ fully paid, validly issued and nonassessable shares of Warrant Stock in accordance with the terms thereof.

1. The undersigned hereby elects to **Exercise** the attached Warrant for fully paid, validly issued and nonassessable shares of Warrant Stock by payment of \$ _____ as specified in the attached Warrant. This right is exercised with respect to _____ of shares.

[Strike the paragraph above that does not apply.]

The undersigned requests that certificates for such shares be issued in the name of, and delivered to:

2. By its execution below and for the benefit of the Company, the undersigned hereby restates each of the representations and warranties in Section 7 of the Warrant as of the date hereof.

Date: _____

[Holder]

By _____
Name:
Title:

Exhibit B

ASSIGNMENT FORM

To:

The undersigned hereby assigns and transfers this Warrant to

(Insert assignee's social security or tax identification number)

(Print or type assignee's name, address and postal code)

and irrevocably appoints _____ to transfer this Warrant on the books of the Company.

Date: _____

Partners for Growth IV, L.P.

By _____
Name: _____, Manager of
Partners for Growth IV, LLC, Its General Partner



Exhibit C

Articles of Incorporation

Exhibit D

Capitalization Table

Giga-Tronics		
Fully Diluted Shares		
Common - Issued and Outstanding	5,059,747	51%
Common - Restricted Shares	121,500	1%
Common Stock Options Outstanding - Average price \$1.53	1,738,750	17%
Common Warrants - PFG at \$1.42	180,000	2%
Common Warrants - Alara at \$1.43	1,017,405	10%
Alara Series B Preferred - As converted, liquidation preference of \$2.30	999,700	10%
Alara Series C Preferred - As converted, liquidation preference of \$1.46	342,465	3%
Alara Series D Preferred - As converted, liquidation preference of \$1.43	511,186	5%
Fully Diluted	<u>9,970,753</u>	<u>100%</u>

EXHIBIT 10.7

AMENDED AND RESTATED WARRANT

THIS AMENDED AND RESTATED WARRANT ("WARRANT") WAS ORIGINALLY SOLD ON THE ISSUE DATE IN A PRIVATE TRANSACTION AND IS AMENDED AND RESTATED AS OF THE RESTATEMENT DATE, WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE, AND MAY BE OFFERED OR SOLD ONLY IF REGISTERED UNDER THE SECURITIES ACT AND SUCH LAWS OR IF AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND SUCH LAWS IS AVAILABLE.

Company / Issuer:	Giga-tronics Incorporated, a California corporation
Number of Shares:	105,600 shares, subject to adjustment
Class of Shares:	Common Stock, no par value / share
Exchange Price:	\$1.42 per share
Issue Date:	March 13, 2014
Restatement Date:	June 16, 2014
Expiration Date:	March 13, 2019

The term "Holder" shall initially refer to SVB Financial Group (by assignment on the Issue Date from its Affiliate, Silicon Valley Bank, a California corporation), which is the initial holder of this Warrant and shall further refer to any subsequent permitted holder of this Warrant from time to time.

Giga-tronics Incorporated, a California corporation (the "Company") does hereby certify and agree that for good and valuable consideration, Holder, or its permitted successors and assigns, hereby is entitled to Exercise or Exchange this Warrant (each as defined below) in the Company for up to One Hundred Five Thousand Six Hundred (105,600) duly authorized, validly issued, fully paid and non-assessable shares of its Common Stock, no par value per share (the "Common Stock") upon the terms and subject to the provisions of this Warrant. The Common Stock issuable upon Exercise or Exchange of this Warrant is referred to herein as the "Warrant Stock". Capitalized terms used but not defined in this Warrant have their meanings as set forth in that certain Loan and Security Agreement of even date herewith between the Company and Partners for Growth IV, L.P. (the "Loan Agreement"), regardless of whether the Loan Agreement is then in effect. When the term "convert" or "conversion" in relation to the Warrant is used herein, it includes an Exchange and an Exercise, each as defined below, as applicable.

Section 1 Term, Price, Exercise and Exchange of Warrant.

1.1 Term of Warrant. This Warrant shall be convertible from the Issue Date until the Expiration Date.

1 . 2 Exchange Price. The price per share at which the Warrant Stock is issuable upon conversion of this Warrant shall be \$1.42 per share (the "Exchange Price").

1.3 Exercise of Warrant; Exchange of Warrant.

(a) This Warrant may be Exercised (as defined below) in whole or in part, upon surrender of this Warrant to the Company at its then principal offices in the United States, together with the form of election to Exchange or Exercise attached hereto as Exhibit A (the "Election") duly completed and executed with "Exercise" selected as the mode of conversion, and upon payment to the Company of the Exchange Price for the number of shares of Warrant Stock in respect of which this Warrant is then being converted (an "Exercise"). In lieu of an Exercise, Holder may exchange this Warrant in whole or in part on a cashless basis by indicating so in the Election and proceeding in accordance with the remainder of this Section 1.3 (an "Exchange").

(b) Upon an Exchange, the Holder shall receive Warrant Stock such that, without the payment of any funds, the Holder shall surrender this Warrant in exchange for the number of shares of Warrant Stock equal to "X" (as defined below), computed using the following formula:

$$X = \frac{Y * (A-B)}{A}$$

Where

- X = the number of shares of Warrant Stock to be issued to Holder
- Y = the number of shares of Warrant Stock to be converted under this Warrant
- A = the Fair Market Value of one share of Warrant Stock
- B = the Exchange Price (as adjusted to the date of such calculations)
- * = multiplied by

(c) For purposes of this Warrant, the "Fair Market Value" of one share of Warrant Stock shall be (i) if the Company's Common Stock is becomes listed on a national stock exchange, the highest sale price reported on such exchange over the 90-day period prior to the date Holder delivers its Election to the Company, or (ii) if the Common Stock is traded over-the-counter, the highest average of the bid and ask price for Common Stock over the 90-day period prior to the date Holder delivers its Election to the Company. If another class or series of Company securities is listed or traded as aforesaid, the Fair Market Value shall be adjusted based on the ratio that the Warrant Stock converts into such other class or series or such other class or series converts into Warrant Stock, as appropriate. If the Common Stock is not traded as contemplated in clauses (i) or (ii), above, the Fair Market Value of the Company's Warrant Stock shall be the price per share of Warrant Stock which the Company could obtain from a willing buyer of Warrant Stock sold by the Company from its authorized but unissued shares, initially as the Board of Directors of the Company ("Board") shall determine in its reasonable good faith judgment, but in no event less than the price per share at which Common Stock (or options for Common Stock) are then issuable to Company employees based on a valuation compliant with Section 409A of the United States Internal Revenue Code; provided, however, if Holder disagrees the Fair Market Value of Warrant Stock as determined by the Board, the parties shall jointly engage a valuation expert to value the Warrant Stock based on a valuation of the Company as a going concern using standard valuation methodologies for the Warrant Stock. If the Warrant is to be converted in connection with an Acquisition, the Fair Market Value of a share of Warrant Stock shall be based on the enterprise value specified or implied in such Acquisition and shall be the greater of (A) the value attributable to the Warrant Stock and (B) the value attributable to the Company securities into which the Warrant Stock is (or may be) convertible (but subject to Holder's conversion directly into such other Company securities).

(d) Upon surrender of this Warrant, and the duly completed and executed Election, and payment of the Exchange Price (if an Exercise) or conversion of this Warrant through Exchange, the Company shall promptly issue and deliver to the Holder or such other person as the Holder may designate in writing a certificate or certificates for the number of shares of Warrant Stock issuable pursuant to the terms of this Warrant upon conversion. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Warrant Stock as of the date of the surrender of this Warrant, and the duly completed and executed Election, and payment of the Exchange Price in the case of an Exercise or conversion of this Warrant through Exchange; provided, that if the date of surrender of this Warrant and payment of the Exchange Price is not a business day, the certificates for the Warrant Stock shall be deemed to have been issued as of the next business day (whether before or after the Expiration Date). If this Warrant is converted in part, a new warrant of the same tenor and for the number of shares of Warrant Stock not converted shall be executed by the Company and delivered to Holder.

1 . 4 Fractional Interests. The Company shall not be required to issue fractions of shares of Warrant Stock upon the conversion of this Warrant. If any fraction of a share of Warrant Stock would be issuable upon the exchange of this Warrant (or any portion thereof), the Company shall purchase such fraction for an amount in cash equal to the Fair Market Value of the Warrant Stock.

1 . 5 Automatic Put or Exchange on Expiration Date. In the event that, by the Expiration Date, this Warrant has not been fully converted or put to the Company under Section 1.7, then this Warrant shall be deemed put to the Company under Section 1.7 and the Company shall promptly pay the Exchange Put Price; provided, however, if an Exchange at such time under Section 1.3 would yield a greater value to Holder than exercise of its rights under Section 1.7, then this Warrant shall automatically be deemed on and as of such date to be Exchanged pursuant to Section 1.3 as to all Warrant Stock (or such other securities) for which it shall not previously have been converted, and the Company shall promptly deliver a certificate representing the Warrant Stock (or such other securities) issued upon such conversion to the Holder.

1.6 Treatment of Warrant Upon Acquisition of Company.

(a) “Acquisition”. For the purpose of this Warrant, “Acquisition” means any sale or other disposition of all or substantially all of the assets of the Company in whatever form, or any reorganization, consolidation, or merger of the Company (whether in a single transaction or multiple related transactions) where the holders of the Company’s securities before the transaction beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction(s).

(b) Treatment of Warrant at Acquisition. Upon the closing of any Acquisition, at Holder’s option: (i) if the surviving entity (if applicable in such Acquisition) is willing assume the obligations of the Company under this Warrant, then if Holder so elects this Warrant shall be convertible into the same securities as would be payable for the Warrant Stock issuable upon conversion of the unconverted portion of this Warrant as if such Warrant Stock were outstanding on the record date for the Acquisition (and the Warrant Price and/or number of shares of Warrant Stock shall be adjusted accordingly); or (ii) Holder may exercise its rights under Section 1.7 and put the Warrant to the Company (or the surviving entity as a condition to the Acquisition) for cash; or (iii) the Company or other surviving entity in such Acquisition shall, upon initial closing of such Acquisition purchase this Warrant at its “Fair Value” (the “Purchase Price”). For purposes hereof, “Fair Value” means that value determined by the parties using a Black-Scholes Option-Pricing Model (the “Black-Scholes Calculation”) with the following assumptions: (A) a risk-free interest rate equal to the risk-free interest rate at the time of the closing of the Acquisition (or as close thereto as practicable), (B) a contractual life of the Warrant equal to the remaining term of this Warrant as of the date of the announcement of the Acquisition, (C) an annual dividend yield equal to dividends declared on the underlying Warrant Stock (including securities into which the Warrant Stock may be convertible) during the term of this Warrant (calculated on an annual basis), and (D) a volatility factor of the expected market price of the Company’s Common Stock comprised of: (1) if the Company is publicly traded on a national securities exchange, its volatility over the one year period ending on the day prior to the announcement of the Acquisition, (2) if the Common Stock is traded over-the-counter, its volatility over the one year period ending on the day prior to the announcement of the Acquisition, or (3) if the Company is a non-public company, the volatility, over the one year period prior to the Acquisition, of an average of publicly-traded companies in the same or similar industry to the Company with such companies having similar revenues. The Purchase Price determined in accordance with the above shall be paid upon the initial closing of the Acquisition and shall not be subject to any post-Acquisition closing contingencies or adjustments; provided, however, the parties may take such post-Acquisition closing contingencies or adjustments into account in determining the Purchase Price, and if the parties take any post-Acquisition closing contingencies or adjustments into account, then upon the partial or complete removal of those post-Acquisition closing contingencies or adjustments, a new Black-Scholes Calculation would be made using all of the same inputs except for the value of the Company’s Common Stock (as determined under subclause (D)), and any increase in Fair Value (and, correspondingly, Purchase Price), including, without limitation, as a result of any earn-out or escrowed consideration, would be paid in full to Holder immediately after those post-Acquisition closing contingencies or adjustments can be determined or achieved.

1 . 7 Immediately Exchangeable and Conditionally Exchangeable Warrant Stock. Notwithstanding the Issue Date of this Warrant or any provision in this Warrant to the contrary, this Warrant is immediately convertible into up to 91,520 shares of Warrant Stock and, in the event the Company borrows under Tranche 3 of the Loan Agreement, shall (as from the date of such borrowing) be convertible into up to an additional 14,080 shares of Warrant Stock (the “Tranche 3 Warrant Stock”).

1 . 8 Warrant Put. Notwithstanding anything to the contrary set forth in this Warrant, in the event of (i) any Acquisition or other change in control of the Company, (ii) any initial public offering or other listing of Company securities, (iii) any liquidation or the Company or event treated as a liquidation under the Articles of Incorporation of the Company, and (iv) upon expiry of this Warrant, Holder shall have the right (but not the obligation) to exchange this Warrant for the cash sum of \$88,000 (the “Exchange Put Price”); provided, however, if Tranche 3 of the Loan Agreement is not drawn by the Company in whole or in part, the Exchange Put Price shall be reduced by \$11,616 to \$76,384. Holder shall exercise such right by written notice as provided in this Warrant and, upon receipt by the Company of such notice, the Expiration Date of this Warrant shall be deemed extended until such time as the Company has paid the Exchange Put Price to Holder. The Company shall promptly (and in no event later than (five) 5 business days of Holder’s notice to the Company) pay the Exchange Put Price to Holder.

1.9 Adjustment in Number of Shares. Holder’s right to convert this Warrant with respect to 17,600 Shares of Warrant Stock may be terminated if the Company earns at least (i) \$18,000,000 in Revenues and (ii) \$1,000,000 in Net Income, in each case for its fiscal year ending March 31, 2015. Without duplication for the foregoing reduction (i.e., the maximum reduction in Number of Shares under this Section 1.9 is 17,600 shares), if the Tranche 3 Warrant Stock does not become convertible under Section 1.7 (i.e., the Company does not borrow Tranche 3), Holder’s right to convert this Warrant for 13,200 Shares of Warrant Stock may be terminated if the Company achieves the same foregoing performance thresholds. For purposes of this Section, “Revenues” means revenues required to be recognized as such under GAAP, and “Net Income” means, as calculated on a consolidated basis for the Company and its Subsidiaries for any period as at any date of determination, the net profit (or loss), after provision for taxes, of Borrower and its Subsidiaries for such period taken as a single accounting period. If the Company should consummate an acquisition of the assets or stock of another Person after the Issue Date, the parties shall equitably adjust the foregoing Revenues and Net Income thresholds to preserve the intention of the parties in challenging the Company to achieve its projections for Revenues and Net Income.

Section 2. Exchange and Transfer of Warrant.

(a) This Warrant may be transferred, in whole or in part, without restriction, subject to (i) Holder's compliance with applicable securities laws (including, without limitation, the delivery of investment representation letters and legal opinions in legally sufficient and customary form), and (ii) the transferee holder of the new Warrant assuming in writing the obligations of the Holder and making the representations and warranties set forth in this Warrant. Notwithstanding and without the necessity of delivering an opinion of counsel, Holder may at any time transfer this Warrant in whole or in part to any affiliate. By its acceptance of this Warrant, each such affiliate transferee will be deemed to have made to the Company each of the representations and warranties set forth in Section 7 hereof and agrees to be bound by all of the terms and conditions of this Warrant as if the original Holder hereof. A transfer may be registered with the Company by submission to it of this Warrant, together with the Assignment Form attached hereto as Exhibit B duly completed and executed. After the Company's receipt of this Warrant and the Assignment Form so completed and executed, the Company will issue and deliver to the transferee a new warrant (representing the portion of this Warrant so transferred) at the same Exchange Price per share and otherwise having the same terms and provisions as this Warrant, which the Company will register in the new holder's name. In the event of a partial transfer of this Warrant, the Company shall concurrently issue and deliver to the transferring holder a new warrant that entitles the transferring holder to purchase the balance of this Warrant not so transferred and that otherwise is upon the same terms and conditions as this Warrant. Upon the due delivery of this Warrant for transfer, the transferee holder shall be deemed for all purposes to have become the holder of the new warrant issued for the portion of this Warrant so transferred, effective immediately prior to the close of business on the date of such delivery, irrespective of the date of actual delivery of the new warrant representing the portion of this Warrant so transferred. Notwithstanding any contrary provision herein, at all times prior to the IPO, Holder may not, without the Company's prior written consent, transfer this Warrant or any portion hereof, or any shares issued upon any exercise hereof to any person or entity who directly competes with the Company, except in connection with an Acquisition of the Company by such a direct competitor.

(b) In the event of the loss, theft or destruction of this Warrant, the Company shall execute and deliver an identical new warrant to the Holder in substitution therefor upon the Company's receipt of (i) evidence reasonably satisfactory to the Company of such event and (ii) if requested by the Company, an indemnity agreement reasonably satisfactory in form and substance to the Company. In the event of the mutilation of or other damage to the Warrant, the Company shall execute and deliver an identical new warrant to the Holder in substitution therefor upon the Company's receipt of the mutilated or damaged warrant.

(c) The Company shall pay all reasonable costs and expenses incurred in connection with any conversion (by Exercise or Exchange), transfer or replacement of this Warrant, including, without limitation, the costs of preparation, execution and delivery of a new warrant and of share certificates representing all Warrant Stock.

Section 3. Certain Covenants.

(a) The Company shall at all times reserve for issuance and keep available out of its authorized and unissued Common Stock, solely for the purpose of providing for the exchange of this Warrant, such number of shares of Common Stock as shall from time to time be sufficient therefor.

(b) The Company will not, by amendment or restatement of its Certificate of Incorporation or Bylaws or through reorganization, consolidation, merger, amalgamation, sale of assets or otherwise, avoid or seek to avoid the observance or performance of any of the terms of this Warrant. Without limiting the foregoing, the Company will not increase the par value of any Warrant Stock receivable upon the exchange of this Warrant above the amount payable therefor upon such exchange.

(c) So long as Holder holds this Warrant, the Company shall deliver to Holder such reports as it provides to its common stockholders generally, as and when delivered to such stockholders. Notwithstanding the foregoing, the Company shall provide Holder quarterly and annual financial statements upon request, if such statements are not publicly available. The parties shall not treat the Warrant or the Warrant Stock as being granted or issued as property transferred in connection with the performance of services or otherwise as compensation for services rendered.

Section 4. Adjustments to Exchange Price and Number of Shares of Warrant Stock.

4.1 Adjustments. The Exchange Price shall be subject to adjustment from time to time in accordance with this Section 4. Upon each adjustment of the Exchange Price pursuant to this Section 4, the Holder shall thereafter be entitled to acquire upon conversion, at the Exchange Price resulting from such adjustment, the number of shares of Warrant Stock obtainable by multiplying the Exchange Price in effect immediately prior to such adjustment by the number of shares of Warrant Stock acquirable immediately prior to such adjustment and dividing the product thereof by the new Exchange Price resulting from such adjustment.

4.2 Subdivisions, Combinations and Stock Dividends. If the Company shall at any time subdivide by split-up or otherwise, its outstanding Common Stock into a greater number of shares, or issue additional Common Stock as a dividend or otherwise with respect to any Common Stock, the Exchange Price in effect immediately prior to such subdivision or share dividend shall be proportionately reduced and the number of shares acquirable upon Exercise or Exchange hereunder shall be proportionately increased. Conversely, in case the outstanding Common Stock of the Company shall be combined into a smaller number of shares, the Exchange Price in effect immediately prior to such combination shall be proportionately increased and the number of shares acquirable upon Exercise or Exchange hereunder shall be proportionately reduced.

4.3 Reclassification, Exchange, Substitutions, Etc. Upon any reclassification, exchange, substitution, or other event that results in a change of the number and/or class of the securities issuable upon conversion of this Warrant, Holder shall be entitled to receive and the Company shall promptly issue an amended warrant for the number and kind of securities and property that Holder would have received for the Warrant Stock if this Warrant had been converted immediately before such reclassification, exchange, substitution, or other event. The amendment to this Warrant shall provide for adjustments (as determined in good faith by the Board) which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 4.3, without limitation, adjustments to the Warrant Price and to the number of securities or property issuable upon conversion of the new Warrant. The provisions of this Section 4.3 shall similarly apply to successive reclassifications, exchanges, substitutions, or other similar events.

4.4. Notices of Record Date, Etc. In the event that the Company shall:

(1) declare any dividend upon its Common Stock, whether payable in cash, property, stock or other securities and whether or not a regular cash dividend, or

(2) offer for sale to (but not necessarily exclusively to) its existing securityholders any additional shares of any class or series of the Company's stock or securities exchangeable for or convertible into such stock in any transaction that would give rise (regardless of waivers thereof) to pre-emptive rights of any class or series of stockholders, or

(3) effect or approve (by stockholder vote or otherwise) any reclassification, exchange, substitution or recapitalization of the capital stock of the Company, including any subdivision or combination of its outstanding capital stock, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation, or to liquidate, dissolve or wind up (including an assignment for the benefit of creditors), or

(4) offer holders of registration rights the opportunity to participate in any public offering of the Company's securities,

then, in connection with such event, the Company shall give to Holder:

(i) at least ten (10) days prior written notice of the date on which the books of the Company shall close or a record shall be taken for such a dividend or offer in respect of the matters referred to in (1) or (2) above;

(ii) in the case of the matters referred to in (3) above, at least ten (10) days prior written notice of the date when the same shall take place; and

(iii) in the case of the matter referred to in (4) above, the same notice as is given or required to be given to the holders of such registration rights.

Such notice in accordance with the foregoing clause (1) shall also specify, in the case of any such dividend, the date on which the holders of capital stock shall be entitled thereto and the terms of such dividend, and such notice in accordance with clause (2) shall also specify the date on which the holders of capital stock shall be entitled to exchange their capital stock for securities or other property deliverable upon such reorganization, reclassification, exchange, substitution, consolidation, merger or sale, as the case may be, and the terms of such exchange. Each such written notice shall be given by first class mail, postage prepaid, addressed to the holder of this Warrant at the address of Holder.

4.5 Adjustment by Board. If any event occurs as to which, in the opinion of the Board, the provisions of this Section 4 are not strictly applicable or if strictly applicable would not fairly protect the rights of the Holder in accordance with the essential intent and principles of such provisions, then the Board shall make an adjustment in the application of such provisions, in accordance with such essential intent and principles, so as to protect such rights, but in no event shall any adjustment have the effect of increasing the Exchange Price as otherwise determined pursuant to any of the provisions of this Section 4, except in the case of a combination of shares of a type contemplated in Section 4.2 and then in no event to an amount larger than the Exchange Price as adjusted pursuant to Section 4.2.

4.6 Officers' Statement as to Adjustments. Whenever the Exchange Price and/or number of shares of Warrant Stock subject to the Warrant is required to be adjusted as provided in this Section 4, the Company shall forthwith file at its principal office with a copy to the Holder notice parties set forth in Section 9 hereof a statement, signed by the Chief Executive Officer or Chief Financial Officer of the Company, showing in reasonable detail the facts requiring such adjustment, the Exchange Price and number of issuable shares that will be effective after such adjustment; provided, however, such statement shall not be required to the extent the information otherwise required by this Section 4.7 is available through the Company's current reports filed with the Securities and Exchange Commission.

4.7 Issue of Securities other than Common Stock. In the event that at any time, as a result of any adjustment made pursuant to this Section 4, Holder thereafter shall become entitled to receive any securities of the Company, other than Common Stock, the number of such other shares so receivable upon Exercise or Exchange of this Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in this Section 4.

Section 5. Rights and Obligations of the Warrant Holder.

Except as otherwise specified in this Warrant, this Warrant shall not entitle the Holder to any rights of a holder of Common Stock in the Company until such time as this Warrant is exchanged or exercised.

Section 6. Representations, Warranties and Covenants of the Company. The Company represents and warrants to, and covenants with, Holder that:

6.1 Corporate Power; Authorization. The Company has all requisite corporate power and has taken all requisite corporate action to execute and deliver this Warrant, to sell and issue the Warrant and Warrant Stock and to carry out and perform all of its obligations hereunder. This Warrant has been duly authorized, executed and delivered on behalf of the Company by the person executing this Warrant and constitutes the valid and binding agreement of the Company, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization or similar laws relating to or affecting the enforcement of creditors' rights generally and (ii) as limited by equitable principles generally.

6.2 Validity of Securities. The issuance and delivery of the Warrant is not subject to preemptive or any similar rights of the stockholders of the Company (which have not been duly waived) or any liens or encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws; and when the Warrant Stock is issued upon conversion by Exercise or Exchange in accordance with the terms hereof, and this Warrant is converted into Warrant Stock, such securities will be, at each such issuance, validly issued, fully paid and nonassessable, in compliance with all applicable securities laws and free of any liens or encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

6.3 Capitalization. The authorized capital of the Company consists of 40,000,000 common shares, of which 5,181,247 are issued and outstanding, 1,000,000 Preferred Shares, no par value per share, of which 18,533.51 are issued and outstanding, of which (i) 250,000 are designated as Series A Preferred Shares and none are issued and outstanding, (ii) 10,000 are designated as Series B Preferred Shares and 9,997 are issued and outstanding, (iii) 3,500 are designated as Series C Preferred Shares and 3,424.65 are issued and outstanding (iv) 6,000 are designated as Series D Preferred Shares and 5,111.86 are issued and outstanding. Each share of preferred stock can convert into 100 shares of common. Common stock warrants totaling 1,017,405 have been granted in association with the Preferred Share purchases. As of the date hereof, the Company has reserved a total of 2,250,000 shares of its Common Stock for issuance under its 2005 Plan, of which 1,397,250 shares (including 121,500 shares of restricted stock) are reserved for issuance upon exercise of outstanding options. Under the old 2000 Plan 190,000 options are still outstanding, but no additional shares can be granted under the 2000 Plan. The Company has also issued 285,000 common stock options outside of the 2005 and 2000 Plans that are outstanding. A true, correct and current copy of the Company's current Restated Articles of Incorporation is appended as Exhibit C hereto. Except as specified in this Agreement, there are no other options, warrants, conversion privileges or other contractual rights presently outstanding to purchase or otherwise acquire any authorized but unissued shares of the Company's capital stock or other securities. Exhibit D hereto sets forth a capitalization table of the Company which is true, correct accurate and complete as of the date hereof.

6.4 No Conflict. The execution and delivery of this Warrant do not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or to a loss of a material benefit, under, any provision of the Certificate of Incorporation or Bylaws of the Company or any mortgage, indenture, lease or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company, its properties or assets, in each case, the effect of which would have a material adverse effect on the Company or materially impair or restrict its power to perform its obligations as contemplated hereby.

6 . 5 Governmental and other Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any governmental authority or other person or entity is required on the part of the Company in connection with the issuance, sale and delivery of the Warrant and the Warrant Stock, except such filings pursuant to the United States Securities Act of 1933, as amended (the “Securities Act”) and applicable state securities laws, which have been made or will be made in a timely manner. All stockholder consents required in connection with issuance of the Warrant and Warrant Stock have either been obtained by Company or no such consents are required.

6.6 Exempt from Registration. Assuming the accuracy of the representations and warranties of Holder in Section 7 hereof, the offer, sale and issuance of the Warrant and the Warrant Stock will be exempt from the registration requirements of the Securities Act pursuant to 506 of Regulation D under the Securities Act and from the registration and qualification requirements of applicable state securities laws. Neither the Company nor any agent on its behalf has solicited or will solicit any offers to sell or has offered to sell or will offer to sell all or any part of such securities to any person or persons so as to bring the offer, sale and issuance of the Warrant or the Warrant Stock by the Company within the registration provisions of the Securities Act.

6.7 Delivery of Information; Accuracy. The Company acknowledges its delivery of certain Representations and Warranties dated as of the date hereof (the “Representations Letter”) to Holder, which Representations and Warranties form the basis for Holder purchasing the Warrant. The information contained therein and in all documents, instruments and other information delivered to Holder in connection therewith are true, correct, accurate and complete in all material respects as of the Issue Date.

6.11 Legends. The Company shall remove any restrictive securities legends on Warrant Stock resulting from conversion of this Warrant as soon as permitted by applicable law.

Section 7. Representations and Warranties of Holder. Holder hereby represents and warrants to the Company as of the Closing Date as follows:

7.1 Investment Experience. Holder is an “accredited investor” within the meaning of Rule 501 under the Securities Act, and was not organized for the specific purpose of acquiring the Securities. Holder is aware of the Company’s business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access. Holder has such business and financial experience as is required to give it the capacity to protect its own interests in connection with the purchase of the Securities.

7.2 Investment Intent. Holder is purchasing the Warrant for investment for its own account only and not with a view to, or for resale in connection with, any “distribution” thereof within the meaning of the Securities Act. Holder understands that the Warrant has not been registered under the Securities Act or registered or qualified under any state securities law in reliance on specific exemptions therefrom, which exemptions may depend upon, among other things, the bona fide nature of Holder's investment intent as expressed herein.

7.3 Authorization. Holder has all requisite power and has taken all requisite action required of it to carry out and perform all of its obligations hereunder. The execution and delivery of this Warrant has been duly authorized, executed and delivered on behalf of Holder and constitutes the valid and binding agreement of Holder, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization or similar laws relating to or affecting the enforcement of creditors' rights generally and (ii) as limited by equitable principles generally. The consummation of the transactions contemplated herein and the fulfillment of the terms herein will not result in a breach of any of the terms or provisions of Holder's constitutional documents or instruments.

7.4 The Act. Holder understands that this Warrant and the Warrant Stock issuable upon exercise hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. Holder understands that this Warrant and the Warrant Stock issued upon any exercise hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available. Holder is aware of the provisions of Rule 144 promulgated under the Act.

7.5 No Voting Rights. Holder, as a Holder of this Warrant, will not have any voting rights until the conversion in whole or in part of this Warrant.

Section 8. Restricted Stock Legend.

This Warrant and the Warrant Stock have not been registered under any securities laws. Accordingly, any share certificates issued pursuant to the conversion of this Warrant shall (until receipt of an opinion of counsel in customary form that such legend is no longer necessary) bear the following legend:

THIS WARRANT AND THE WARRANT STOCK ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE “ACT”), AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE OFFER, SALE, PLEDGE, TRANSFER OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN CUSTOMARY FORM THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE ACT.

Section 9. Notices.

Any notice or other communication required or permitted to be given here shall be in writing and shall be effective (a) upon hand delivery or delivery by e-mail or facsimile at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received) or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received), or (b) on the third business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communication shall be:

if to Holder, at

SVB Financial Group
Attn: Treasury - Derivatives Group
3003 Tasman Drive, HC215
Santa Clara, CA 95054
Telephone: 408-654-7400
Facsimile: 408-354-3085
warradmi@svb.com

with a copy (not constituting notice) to

Greenspan Law Office
Attn: Benjamin Greenspan, Esq.
620 Laguna Road
Mill Valley, CA 94941
Fax: (415) 738-5371
Email: ben@greenspan-law.com

or

if to the Company, at

Giga-tronics Incorporated
4650 Norris Canyon Road
San Ramon CA, 94583
Title: CFO
Name: Steve Lance
Email: slance@gigatronics.com
Fax: 925-328-4789

with a copy (not constituting notice) to:

Bingham McCutchen LLP
Three Embarcadero Center
San Francisco, CA 94111-4067
Fax: 415-262-9227
Attn: Thomas Reddy
Email: Thomas.reddy@bingham.com

Each party hereto may from time to time change its address for notices under this Section 9 by giving at least 10 calendar days' notice of such changes address to the other party hereto.

Section 10. Amendments and Waivers.

This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant may only be amended by an instrument in writing signed by both parties.

Section 11. Applicable Law; Severability.

This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of Delaware. If any one or more of the provisions contained in this Warrant, or any application of any provision thereof, shall be invalid, illegal, or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and all other applications of any provision thereof shall not in any way be affected or impaired thereby.

Section 12. Construction; Headings.

The terms "Exercise" and "Exchange" may be used interchangeably from time to time in this Warrant, the only substantive difference being that the exercise of rights under this Warrant by Exercise will require payment of cash consideration per share equal to the Exchange Price. The headings used in this Warrant are for the convenience of the parties only and shall not be used in construing the provisions hereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Company has caused this Amended and Restated Warrant to be duly executed on the day and year first above written.

COMPANY:

Giga-tronics Incorporated

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

ACKNOWLEDGED AND AGREED:

HOLDER:

SVB Financial Group

By: _____

Name: _____

Title: _____

Warrant (A&R) Signature Page

Exhibit A

To:

ELECTION TO EXCHANGE OR EXERCISE

1. The undersigned hereby exercises its right to **Exchange** its Warrant for _____ fully paid, validly issued and nonassessable shares of Warrant Stock in accordance with the terms thereof.

1. The undersigned hereby elects to **Exercise** the attached Warrant for fully paid, validly issued and nonassessable shares of Warrant Stock by payment of \$ _____ as specified in the attached Warrant. This right is exercised with respect to _____ of shares.

[Strike the paragraph above that does not apply.]

The undersigned requests that certificates for such shares be issued in the name of, and delivered to:

2. By its execution below and for the benefit of the Company, the undersigned hereby restates each of the representations and warranties in Section 7 of the Warrant as of the date hereof.

Date: _____

[Holder]

By _____
Name:
Title:



Exhibit B

ASSIGNMENT FORM

To:

The undersigned hereby assigns and transfers this Warrant to

(Insert assignee's social security or tax identification number)

(Print or type assignee's name, address and postal code)

and irrevocably appoints _____ to transfer this Warrant on the books of the Company.

Date: _____

SVB Financial Group

By: _____

Name: _____

Title: _____

Exhibit C

Articles of Incorporation

Exhibit D

Capitalization Table

Giga-Tronics
Fully Diluted Shares

Common - Issued and Outstanding	5,059,747	51%
Common - Restricted Shares	121,500	1%
Common Stock Options Outstanding - Average price \$1.53	1,738,750	17%
Common Warrants - PFG at \$1.42	180,000	2%
Common Warrants - Alara at \$1.43	1,017,405	10%
Alara Series B Preferred - As converted, liquidation preference of \$2.30	999,700	10%
Alara Series C Preferred - As converted, liquidation preference of \$1.46	342,465	3%
Alara Series D Preferred - As converted, liquidation preference of \$1.43	511,186	5%
Fully Diluted	<u>9,970,753</u>	<u>100%</u>

EXHIBIT 10.8

AMENDED AND RESTATED WARRANT

THIS AMENDED AND RESTATED WARRANT ("WARRANT") WAS ORIGINALLY SOLD ON THE ISSUE DATE IN A PRIVATE TRANSACTION AND IS AMENDED AND RESTATED AS OF THE RESTATEMENT DATE, WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE, AND MAY BE OFFERED OR SOLD ONLY IF REGISTERED UNDER THE SECURITIES ACT AND SUCH LAWS OR IF AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND SUCH LAWS IS AVAILABLE.

Company / Issuer:	Giga-tronics Incorporated, a California corporation
Number of Shares:	14,400 shares, subject to adjustment
Class of Shares:	Common Stock, no par value / share
Exchange Price:	\$1.42 per share
Issue Date:	March 13, 2014
Restatement Date:	June 16, 2014
Expiration Date:	March 13, 2019

The term "Holder" shall initially refer to PFG Equity Investors, LLC, a Delaware limited liability company, which is the initial holder of this Warrant and shall further refer to any subsequent permitted holder of this Warrant from time to time.

Giga-tronics Incorporated, a California corporation (the "Company") does hereby certify and agree that, for the sum of \$232 paid by Holder on the Issue Date, which the parties agree is fair consideration for this Warrant, Holder, or its permitted successors and assigns, hereby is entitled to Exercise or Exchange this Warrant (each as defined below) in the Company for up to Fourteen Thousand Four Hundred (14,400) duly authorized, validly issued, fully paid and non-assessable shares of its Common Stock, no par value per share (the "Common Stock") upon the terms and subject to the provisions of this Warrant. The Common Stock issuable upon Exercise or Exchange of this Warrant is referred to herein as the "Warrant Stock". Capitalized terms used but not defined in this Warrant have their meanings as set forth in that certain Loan and Security Agreement of even date herewith between the Company and Partners for Growth IV, L.P., an affiliate of Holder (as amended, the "Loan Agreement"), regardless of whether the Loan Agreement is then in effect. When the term "convert" or "conversion" in relation to the Warrant is used herein, it includes an Exchange and an Exercise, each as defined below, as applicable.

Section 1 Term, Price, Exercise and Exchange of Warrant.

1.1 Term of Warrant. This Warrant shall be convertible from the Issue Date until the Expiration Date.

1.2 Exchange Price. The price per share at which the Warrant Stock is issuable upon conversion of this Warrant shall be \$1.42 per share (the "Exchange Price").

1.3 Exercise of Warrant; Exchange of Warrant.

(a) This Warrant may be Exercised (as defined below) in whole or in part, upon surrender of this Warrant to the Company at its then principal offices in the United States, together with the form of election to Exchange or Exercise attached hereto as Exhibit A (the "Election") duly completed and executed with "Exercise" selected as the mode of conversion, and upon payment to the Company of the Exchange Price for the number of shares of Warrant Stock in respect of which this Warrant is then being converted (an "Exercise"). In lieu of an Exercise, Holder may exchange this Warrant in whole or in part on a cashless basis by indicating so in the Election and proceeding in accordance with the remainder of this Section 1.3 (an "Exchange").

(b) Upon an Exchange, the Holder shall receive Warrant Stock such that, without the payment of any funds, the Holder shall surrender this Warrant in exchange for the number of shares of Warrant Stock equal to "X" (as defined below), computed using the following formula:

$$X = \frac{Y * (A-B)}{A}$$

Where

- X = the number of shares of Warrant Stock to be issued to Holder
- Y = the number of shares of Warrant Stock to be converted under this Warrant
- A = the Fair Market Value of one share of Warrant Stock
- B = the Exchange Price (as adjusted to the date of such calculations)
- * = multiplied by

(c) For purposes of this Warrant, the "Fair Market Value" of one share of Warrant Stock shall be (i) if the Company's Common Stock is becomes listed on a national stock exchange, the highest sale price reported on such exchange over the 90-day period prior to the date Holder delivers its Election to the Company, or (ii) if the Common Stock is traded over-the-counter, the highest average of the bid and ask price for Common Stock over the 90-day period prior to the date Holder delivers its Election to the Company. If another class or series of Company securities is listed or traded as aforesaid, the Fair Market Value shall be adjusted based on the ratio that the Warrant Stock converts into such other class or series or such other class or series converts into Warrant Stock, as appropriate. If the Common Stock is not traded as contemplated in clauses (i) or (ii), above, the Fair Market Value of the Company's Warrant Stock shall be the price per share of Warrant Stock which the Company could obtain from a willing buyer of Warrant Stock sold by the Company from its authorized but unissued shares, initially as the Board of Directors of the Company ("Board") shall determine in its reasonable good faith judgment, but in no event less than the price per share at which Common Stock (or options for Common Stock) are then issuable to Company employees based on a valuation compliant with Section 409A of the United States Internal Revenue Code; provided, however, if Holder disagrees the Fair Market Value of Warrant Stock as determined by the Board, the parties shall jointly engage a valuation expert to value the Warrant Stock based on a valuation of the Company as a going concern using standard valuation methodologies for the Warrant Stock. If the Warrant is to be converted in connection with an Acquisition, the Fair Market Value of a share of Warrant Stock shall be based on the enterprise value specified or implied in such Acquisition and shall be the greater of (A) the value attributable to the Warrant Stock and (B) the value attributable to the Company securities into which the Warrant Stock is (or may be) convertible (but subject to Holder's conversion directly into such other Company securities).

(d) Upon surrender of this Warrant, and the duly completed and executed Election, and payment of the Exchange Price (if an Exercise) or conversion of this Warrant through Exchange, the Company shall promptly issue and deliver to the Holder or such other person as the Holder may designate in writing a certificate or certificates for the number of shares of Warrant Stock issuable pursuant to the terms of this Warrant upon conversion. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Warrant Stock as of the date of the surrender of this Warrant, and the duly completed and executed Election, and payment of the Exchange Price in the case of an Exercise or conversion of this Warrant through Exchange; provided, that if the date of surrender of this Warrant and payment of the Exchange Price is not a business day, the certificates for the Warrant Stock shall be deemed to have been issued as of the next business day (whether before or after the Expiration Date). If this Warrant is converted in part, a new warrant of the same tenor and for the number of shares of Warrant Stock not converted shall be executed by the Company and delivered to Holder.

1 . 4 Fractional Interests. The Company shall not be required to issue fractions of shares of Warrant Stock upon the conversion of this Warrant. If any fraction of a share of Warrant Stock would be issuable upon the exchange of this Warrant (or any portion thereof), the Company shall purchase such fraction for an amount in cash equal to the Fair Market Value of the Warrant Stock.

1 . 5 Automatic Put or Exchange on Expiration Date. In the event that, by the Expiration Date, this Warrant has not been fully converted or put to the Company under Section 1.7, then this Warrant shall be deemed put to the Company under Section 1.7 and the Company shall promptly pay the Exchange Put Price; provided, however, if an Exchange at such time under Section 1.3 would yield a greater value to Holder than exercise of its rights under Section 1.7, then this Warrant shall automatically be deemed on and as of such date to be Exchanged pursuant to Section 1.3 as to all Warrant Stock (or such other securities) for which it shall not previously have been converted, and the Company shall promptly deliver a certificate representing the Warrant Stock (or such other securities) issued upon such conversion to the Holder.

1.6 Treatment of Warrant Upon Acquisition of Company.

(a) “Acquisition”. For the purpose of this Warrant, “Acquisition” means any sale or other disposition of all or substantially all of the assets of the Company in whatever form, or any reorganization, consolidation, or merger of the Company (whether in a single transaction or multiple related transactions) where the holders of the Company’s securities before the transaction beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction(s).

(b) Treatment of Warrant at Acquisition. Upon the closing of any Acquisition, at Holder’s option: (i) if the surviving entity (if applicable in such Acquisition) is willing assume the obligations of the Company under this Warrant, then if Holder so elects this Warrant shall be convertible into the same securities as would be payable for the Warrant Stock issuable upon conversion of the unconverted portion of this Warrant as if such Warrant Stock were outstanding on the record date for the Acquisition (and the Warrant Price and/or number of shares of Warrant Stock shall be adjusted accordingly); or (ii) Holder may exercise its rights under Section 1.7 and put the Warrant to the Company (or the surviving entity as a condition to the Acquisition) for cash; or (iii) the Company or other surviving entity in such Acquisition shall, upon initial closing of such Acquisition purchase this Warrant at its “Fair Value” (the “Purchase Price”). For purposes hereof, “Fair Value” means that value determined by the parties using a Black-Scholes Option-Pricing Model (the “Black-Scholes Calculation”) with the following assumptions: (A) a risk-free interest rate equal to the risk-free interest rate at the time of the closing of the Acquisition (or as close thereto as practicable), (B) a contractual life of the Warrant equal to the remaining term of this Warrant as of the date of the announcement of the Acquisition, (C) an annual dividend yield equal to dividends declared on the underlying Warrant Stock (including securities into which the Warrant Stock may be convertible) during the term of this Warrant (calculated on an annual basis), and (D) a volatility factor of the expected market price of the Company’s Common Stock comprised of: (1) if the Company is publicly traded on a national securities exchange, its volatility over the one year period ending on the day prior to the announcement of the Acquisition, (2) if the Common Stock is traded over-the-counter, its volatility over the one year period ending on the day prior to the announcement of the Acquisition, or (3) if the Company is a non-public company, the volatility, over the one year period prior to the Acquisition, of an average of publicly-traded companies in the same or similar industry to the Company with such companies having similar revenues. The Purchase Price determined in accordance with the above shall be paid upon the initial closing of the Acquisition and shall not be subject to any post-Acquisition closing contingencies or adjustments; provided, however, the parties may take such post-Acquisition closing contingencies or adjustments into account in determining the Purchase Price, and if the parties take any post-Acquisition closing contingencies or adjustments into account, then upon the partial or complete removal of those post-Acquisition closing contingencies or adjustments, a new Black-Scholes Calculation would be made using all of the same inputs except for the value of the Company’s Common Stock (as determined under subclause (D)), and any increase in Fair Value (and, correspondingly, Purchase Price), including, without limitation, as a result of any earn-out or escrowed consideration, would be paid in full to Holder immediately after those post-Acquisition closing contingencies or adjustments can be determined or achieved.

1 . 7 Immediately Exchangeable and Conditionally Exchangeable Warrant Stock. Notwithstanding the Issue Date of this Warrant or any provision in this Warrant to the contrary, this Warrant is immediately convertible into up to 12,480 shares of Warrant Stock and, in the event the Company borrows under Tranche 3 of the Loan Agreement, shall (as from the date of such borrowing) be convertible into up to an additional 1,920 shares of Warrant Stock (the “Tranche 3 Warrant Stock”).

1 . 8 Warrant Put. Notwithstanding anything to the contrary set forth in this Warrant, in the event of (i) any Acquisition or other change in control of the Company, (ii) any initial public offering or other listing of Company securities, (iii) any liquidation or the Company or event treated as a liquidation under the Articles of Incorporation of the Company, and (iv) upon expiry of this Warrant, Holder shall have the right (but not the obligation) to exchange this Warrant for the cash sum of \$12,000 (the “Exchange Put Price”); provided, however, if Tranche 3 of the Loan Agreement is not drawn by the Company in whole or in part, the Exchange Put Price shall be reduced by \$1,584 to \$10,416. Holder shall exercise such right by written notice as provided in this Warrant and, upon receipt by the Company of such notice, the Expiration Date of this Warrant shall be deemed extended until such time as the Company has paid the Exchange Put Price to Holder. The Company shall promptly (and in no event later than (five) 5 business days of Holder’s notice to the Company) pay the Exchange Put Price to Holder.

1 . 9 Adjustment in Number of Shares. Holder’s right to convert this Warrant with respect to 2,400 Shares of Warrant Stock may be terminated if the Company earns at least (i) \$18,000,000 in Revenues and (ii) \$1,000,000 in Net Income, in each case for its fiscal year ending March 31, 2015. Without duplication for the foregoing reduction (i.e., the maximum reduction in Number of Shares under this Section 1.9 is 2,400 shares), if the Tranche 3 Warrant Stock does not become convertible under Section 1.7 (i.e., the Company does not borrow Tranche 3), Holder’s right to convert this Warrant for 1,800 Shares of Warrant Stock may be terminated if the Company achieves the same foregoing performance thresholds. For purposes of this Section, “Revenues” means revenues required to be recognized as such under GAAP, and “Net Income” means, as calculated on a consolidated basis for the Company and its Subsidiaries for any period as at any date of determination, the net profit (or loss), after provision for taxes, of Borrower and its Subsidiaries for such period taken as a single accounting period. If the Company should consummate an acquisition of the assets or stock of another Person after the Issue Date, the parties shall equitably adjust the foregoing Revenues and Net Income thresholds to preserve the intention of the parties in challenging the Company to achieve its projections for Revenues and Net Income.

Section 2. Exchange and Transfer of Warrant.

(a) This Warrant may be transferred, in whole or in part, without restriction, subject to (i) Holder's compliance with applicable securities laws (including, without limitation, the delivery of investment representation letters and legal opinions in legally sufficient and customary form), and (ii) the transferee holder of the new Warrant assuming in writing the obligations of the Holder and making the representations and warranties set forth in this Warrant. Notwithstanding and without the necessity of delivering an opinion of counsel, Holder may at any time transfer this Warrant in whole or in part to any affiliate. By its acceptance of this Warrant, each such affiliate transferee will be deemed to have made to the Company each of the representations and warranties set forth in Section 7 hereof and agrees to be bound by all of the terms and conditions of this Warrant as if the original Holder hereof. A transfer may be registered with the Company by submission to it of this Warrant, together with the Assignment Form attached hereto as Exhibit B duly completed and executed. After the Company's receipt of this Warrant and the Assignment Form so completed and executed, the Company will issue and deliver to the transferee a new warrant (representing the portion of this Warrant so transferred) at the same Exchange Price per share and otherwise having the same terms and provisions as this Warrant, which the Company will register in the new holder's name. In the event of a partial transfer of this Warrant, the Company shall concurrently issue and deliver to the transferring holder a new warrant that entitles the transferring holder to purchase the balance of this Warrant not so transferred and that otherwise is upon the same terms and conditions as this Warrant. Upon the due delivery of this Warrant for transfer, the transferee holder shall be deemed for all purposes to have become the holder of the new warrant issued for the portion of this Warrant so transferred, effective immediately prior to the close of business on the date of such delivery, irrespective of the date of actual delivery of the new warrant representing the portion of this Warrant so transferred. Notwithstanding any contrary provision herein, at all times prior to the IPO, Holder may not, without the Company's prior written consent, transfer this Warrant or any portion hereof, or any shares issued upon any exercise hereof to any person or entity who directly competes with the Company, except in connection with an Acquisition of the Company by such a direct competitor.

(b) In the event of the loss, theft or destruction of this Warrant, the Company shall execute and deliver an identical new warrant to the Holder in substitution therefor upon the Company's receipt of (i) evidence reasonably satisfactory to the Company of such event and (ii) if requested by the Company, an indemnity agreement reasonably satisfactory in form and substance to the Company. In the event of the mutilation of or other damage to the Warrant, the Company shall execute and deliver an identical new warrant to the Holder in substitution therefor upon the Company's receipt of the mutilated or damaged warrant.

(c) The Company shall pay all reasonable costs and expenses incurred in connection with any conversion (by Exercise or Exchange), transfer or replacement of this Warrant, including, without limitation, the costs of preparation, execution and delivery of a new warrant and of share certificates representing all Warrant Stock.

Section 3. Certain Covenants.

(a) The Company shall at all times reserve for issuance and keep available out of its authorized and unissued Common Stock, solely for the purpose of providing for the exchange of this Warrant, such number of shares of Common Stock as shall from time to time be sufficient therefor.

(b) The Company will not, by amendment or restatement of its Certificate of Incorporation or Bylaws or through reorganization, consolidation, merger, amalgamation, sale of assets or otherwise, avoid or seek to avoid the observance or performance of any of the terms of this Warrant. Without limiting the foregoing, the Company will not increase the par value of any Warrant Stock receivable upon the exchange of this Warrant above the amount payable therefor upon such exchange.

(c) So long as Holder holds this Warrant, the Company shall deliver to Holder such reports as it provides to its common stockholders generally, as and when delivered to such stockholders. Notwithstanding the foregoing, the Company shall provide Holder quarterly and annual financial statements upon request, if such statements are not publicly available. The parties shall not treat the Warrant or the Warrant Stock as being granted or issued as property transferred in connection with the performance of services or otherwise as compensation for services rendered.

Section 4. Adjustments to Exchange Price and Number of Shares of Warrant Stock.

4.1 Adjustments. The Exchange Price shall be subject to adjustment from time to time in accordance with this Section 4. Upon each adjustment of the Exchange Price pursuant to this Section 4, the Holder shall thereafter be entitled to acquire upon conversion, at the Exchange Price resulting from such adjustment, the number of shares of Warrant Stock obtainable by multiplying the Exchange Price in effect immediately prior to such adjustment by the number of shares of Warrant Stock acquirable immediately prior to such adjustment and dividing the product thereof by the new Exchange Price resulting from such adjustment.

4.2 Subdivisions, Combinations and Stock Dividends. If the Company shall at any time subdivide by split-up or otherwise, its outstanding Common Stock into a greater number of shares, or issue additional Common Stock as a dividend or otherwise with respect to any Common Stock, the Exchange Price in effect immediately prior to such subdivision or share dividend shall be proportionately reduced and the number of shares acquirable upon Exercise or Exchange hereunder shall be proportionately increased. Conversely, in case the outstanding Common Stock of the Company shall be combined into a smaller number of shares, the Exchange Price in effect immediately prior to such combination shall be proportionately increased and the number of shares acquirable upon Exercise or Exchange hereunder shall be proportionately reduced.

4.3 Reclassification, Exchange, Substitutions, Etc. Upon any reclassification, exchange, substitution, or other event that results in a change of the number and/or class of the securities issuable upon conversion of this Warrant, Holder shall be entitled to receive and the Company shall promptly issue an amended warrant for the number and kind of securities and property that Holder would have received for the Warrant Stock if this Warrant had been converted immediately before such reclassification, exchange, substitution, or other event. The amendment to this Warrant shall provide for adjustments (as determined in good faith by the Board) which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 4.3, without limitation, adjustments to the Warrant Price and to the number of securities or property issuable upon conversion of the new Warrant. The provisions of this Section 4.3 shall similarly apply to successive reclassifications, exchanges, substitutions, or other similar events.

4.4. Notices of Record Date, Etc. In the event that the Company shall:

(1) declare any dividend upon its Common Stock, whether payable in cash, property, stock or other securities and whether or not a regular cash dividend, or

(2) offer for sale to (but not necessarily exclusively to) its existing securityholders any additional shares of any class or series of the Company's stock or securities exchangeable for or convertible into such stock in any transaction that would give rise (regardless of waivers thereof) to pre-emptive rights of any class or series of stockholders, or

(3) effect or approve (by stockholder vote or otherwise) any reclassification, exchange, substitution or recapitalization of the capital stock of the Company, including any subdivision or combination of its outstanding capital stock, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation, or to liquidate, dissolve or wind up (including an assignment for the benefit of creditors), or

(4) offer holders of registration rights the opportunity to participate in any public offering of the Company's securities,

then, in connection with such event, the Company shall give to Holder:

(i) at least ten (10) days prior written notice of the date on which the books of the Company shall close or a record shall be taken for such a dividend or offer in respect of the matters referred to in (1) or (2) above;

(ii) in the case of the matters referred to in (3) above, at least ten (10) days prior written notice of the date when the same shall take place; and

(iii) in the case of the matter referred to in (4) above, the same notice as is given or required to be given to the holders of such registration rights.

Such notice in accordance with the foregoing clause (1) shall also specify, in the case of any such dividend, the date on which the holders of capital stock shall be entitled thereto and the terms of such dividend, and such notice in accordance with clause (2) shall also specify the date on which the holders of capital stock shall be entitled to exchange their capital stock for securities or other property deliverable upon such reorganization, reclassification, exchange, substitution, consolidation, merger or sale, as the case may be, and the terms of such exchange. Each such written notice shall be given by first class mail, postage prepaid, addressed to the holder of this Warrant at the address of Holder.

4.5 Adjustment by Board. If any event occurs as to which, in the opinion of the Board, the provisions of this Section 4 are not strictly applicable or if strictly applicable would not fairly protect the rights of the Holder in accordance with the essential intent and principles of such provisions, then the Board shall make an adjustment in the application of such provisions, in accordance with such essential intent and principles, so as to protect such rights, but in no event shall any adjustment have the effect of increasing the Exchange Price as otherwise determined pursuant to any of the provisions of this Section 4, except in the case of a combination of shares of a type contemplated in Section 4.2 and then in no event to an amount larger than the Exchange Price as adjusted pursuant to Section 4.2.

4.6 Officers' Statement as to Adjustments. Whenever the Exchange Price and/or number of shares of Warrant Stock subject to the Warrant is required to be adjusted as provided in this Section 4, the Company shall forthwith file at its principal office with a copy to the Holder notice parties set forth in Section 9 hereof a statement, signed by the Chief Executive Officer or Chief Financial Officer of the Company, showing in reasonable detail the facts requiring such adjustment, the Exchange Price and number of issuable shares that will be effective after such adjustment; provided, however, such statement shall not be required to the extent the information otherwise required by this Section 4.7 is available through the Company's current reports filed with the Securities and Exchange Commission.

4.7 Issue of Securities other than Common Stock. In the event that at any time, as a result of any adjustment made pursuant to this Section 4, Holder thereafter shall become entitled to receive any securities of the Company, other than Common Stock, the number of such other shares so receivable upon Exercise or Exchange of this Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in this Section 4.

Section 5. Rights and Obligations of the Warrant Holder.

Except as otherwise specified in this Warrant, this Warrant shall not entitle the Holder to any rights of a holder of Common Stock in the Company until such time as this Warrant is exchanged or exercised.

Section 6. Representations, Warranties and Covenants of the Company. The Company represents and warrants to, and covenants with, Holder that:

6.1 Corporate Power; Authorization. The Company has all requisite corporate power and has taken all requisite corporate action to execute and deliver this Warrant, to sell and issue the Warrant and Warrant Stock and to carry out and perform all of its obligations hereunder. This Warrant has been duly authorized, executed and delivered on behalf of the Company by the person executing this Warrant and constitutes the valid and binding agreement of the Company, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization or similar laws relating to or affecting the enforcement of creditors' rights generally and (ii) as limited by equitable principles generally.

6.2 Validity of Securities. The issuance and delivery of the Warrant is not subject to preemptive or any similar rights of the stockholders of the Company (which have not been duly waived) or any liens or encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws; and when the Warrant Stock is issued upon conversion by Exercise or Exchange in accordance with the terms hereof, and this Warrant is converted into Warrant Stock, such securities will be, at each such issuance, validly issued, fully paid and nonassessable, in compliance with all applicable securities laws and free of any liens or encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

6.3 Capitalization. The authorized capital of the Company consists of 40,000,000 common shares, of which 5,181,247 are issued and outstanding, 1,000,000 Preferred Shares, no par value per share, of which 18,533.51 are issued and outstanding, of which (i) 250,000 are designated as Series A Preferred Shares and none are issued and outstanding, (ii) 10,000 are designated as Series B Preferred Shares and 9,997 are issued and outstanding, (iii) 3,500 are designated as Series C Preferred Shares and 3,424.65 are issued and outstanding (iv) 6,000 are designated as Series D Preferred Shares and 5,111.86 are issued and outstanding. Each share of preferred stock can convert into 100 shares of common. Common stock warrants totaling 1,017,405 have been granted in association with the Preferred Share purchases. As of the date hereof, the Company has reserved a total of 2,250,000 shares of its Common Stock for issuance under its 2005 Plan, of which 1,397,250 shares (including 121,500 shares of restricted stock) are reserved for issuance upon exercise of outstanding options. Under the old 2000 Plan 190,000 options are still outstanding, but no additional shares can be granted under the 2000 Plan. The Company has also issued 285,000 common stock options outside of the 2005 and 2000 Plans that are outstanding. A true, correct and current copy of the Company's current Restated Articles of Incorporation is appended as Exhibit C hereto. Except as specified in this Agreement, there are no other options, warrants, conversion privileges or other contractual rights presently outstanding to purchase or otherwise acquire any authorized but unissued shares of the Company's capital stock or other securities. Exhibit D hereto sets forth a capitalization table of the Company which is true, correct accurate and complete as of the date hereof.

6.4 No Conflict. The execution and delivery of this Warrant do not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or to a loss of a material benefit, under, any provision of the Certificate of Incorporation or Bylaws of the Company or any mortgage, indenture, lease or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company, its properties or assets, in each case, the effect of which would have a material adverse effect on the Company or materially impair or restrict its power to perform its obligations as contemplated hereby.

6 . 5 Governmental and other Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any governmental authority or other person or entity is required on the part of the Company in connection with the issuance, sale and delivery of the Warrant and the Warrant Stock, except such filings pursuant to the United States Securities Act of 1933, as amended (the “Securities Act”) and applicable state securities laws, which have been made or will be made in a timely manner. All stockholder consents required in connection with issuance of the Warrant and Warrant Stock have either been obtained by Company or no such consents are required.

6.6 Exempt from Registration. Assuming the accuracy of the representations and warranties of Holder in Section 7 hereof, the offer, sale and issuance of the Warrant and the Warrant Stock will be exempt from the registration requirements of the Securities Act pursuant to 506 of Regulation D under the Securities Act and from the registration and qualification requirements of applicable state securities laws. Neither the Company nor any agent on its behalf has solicited or will solicit any offers to sell or has offered to sell or will offer to sell all or any part of such securities to any person or persons so as to bring the offer, sale and issuance of the Warrant or the Warrant Stock by the Company within the registration provisions of the Securities Act.

6.7 Delivery of Information; Accuracy. The Company acknowledges its delivery of certain Representations and Warranties dated as of the date hereof (the “Representations Letter”) to Holder, which Representations and Warranties form the basis for Holder purchasing the Warrant. The information contained therein and in all documents, instruments and other information delivered to Holder in connection therewith are true, correct, accurate and complete in all material respects as of the Issue Date.

6.11 Legends. The Company shall remove any restrictive securities legends on Warrant Stock resulting from conversion of this Warrant as soon as permitted by applicable law.

Section 7. Representations and Warranties of Holder. Holder hereby represents and warrants to the Company as of the Closing Date as follows:

7.1 Investment Experience. Holder is an “accredited investor” within the meaning of Rule 501 under the Securities Act, and was not organized for the specific purpose of acquiring the Securities. Holder is aware of the Company’s business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access. Holder has such business and financial experience as is required to give it the capacity to protect its own interests in connection with the purchase of the Securities.

7.2 Investment Intent. Holder is purchasing the Warrant for investment for its own account only and not with a view to, or for resale in connection with, any “distribution” thereof within the meaning of the Securities Act. Holder understands that the Warrant has not been registered under the Securities Act or registered or qualified under any state securities law in reliance on specific exemptions therefrom, which exemptions may depend upon, among other things, the bona fide nature of Holder's investment intent as expressed herein.

7.3 Authorization. Holder has all requisite power and has taken all requisite action required of it to carry out and perform all of its obligations hereunder. The execution and delivery of this Warrant has been duly authorized, executed and delivered on behalf of Holder and constitutes the valid and binding agreement of Holder, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization or similar laws relating to or affecting the enforcement of creditors' rights generally and (ii) as limited by equitable principles generally. The consummation of the transactions contemplated herein and the fulfillment of the terms herein will not result in a breach of any of the terms or provisions of Holder's constitutional documents or instruments.

7.4 The Act. Holder understands that this Warrant and the Warrant Stock issuable upon exercise hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. Holder understands that this Warrant and the Warrant Stock issued upon any exercise hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available. Holder is aware of the provisions of Rule 144 promulgated under the Act.

7.5 No Voting Rights. Holder, as a Holder of this Warrant, will not have any voting rights until the conversion in whole or in part of this Warrant.

Section 8. Restricted Stock Legend.

This Warrant and the Warrant Stock have not been registered under any securities laws. Accordingly, any share certificates issued pursuant to the conversion of this Warrant shall (until receipt of an opinion of counsel in customary form that such legend is no longer necessary) bear the following legend:

THIS WARRANT AND THE WARRANT STOCK ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE “ACT”), AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE OFFER, SALE, PLEDGE, TRANSFER OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN CUSTOMARY FORM THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE ACT.

Section 9. Notices.

Any notice or other communication required or permitted to be given here shall be in writing and shall be effective (a) upon hand delivery or delivery by e-mail or facsimile at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received) or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received), or (b) on the third business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communication shall be:

if to Holder, at

Partners for Growth IV, L.P.
150 Pacific Avenue
San Francisco, California 94111
Attention: Chief Financial Officer
Fax: (415) 781-0510
Email: notices@pfgrowth.com

with a copy (not constituting notice) to

Greenspan Law Office
Attn: Benjamin Greenspan, Esq.
620 Laguna Road
Mill Valley, CA 94941
Fax: (415) 738-5371
Email: ben@greenspan-law.com

with the original of this Warrant and any replacement, restatement or reissue of this Warrant to be delivered to:

Robert W. Baird & Co., Inc.
555 California Street, Suite 4900
San Francisco, CA 94104
ATTN: John Fitzgibbons
Phone # 415-627-3225
Email: JFitzgibbons@rwbaird.com

or

if to the Company, at

Giga-tronics Incorporated
4650 Norris Canyon Road
San Ramon CA, 94583
Title: CFO
Name: Steve Lance
Email: slance@gigatronics.com
Fax: 925-328-4789

with a copy (not constituting notice) to:

Bingham McCutchen LLP
Three Embarcadero Center
San Francisco, CA 94111-4067
Fax: 415-262-9227
Attn: Thomas Reddy
Email: Thomas.reddy@bingham.com

Each party hereto may from time to time change its address for notices under this Section 9 by giving at least 10 calendar days' notice of such changes address to the other party hereto.

Section 10. Amendments and Waivers.

This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant may only be amended by an instrument in writing signed by both parties.

Section 11. Applicable Law; Severability.

This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of Delaware. If any one or more of the provisions contained in this Warrant, or any application of any provision thereof, shall be invalid, illegal, or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and all other applications of any provision thereof shall not in any way be affected or impaired thereby.

Section 12. Construction; Headings.

The terms “Exercise” and “Exchange” may be used interchangeably from time to time in this Warrant, the only substantive difference being that the exercise of rights under this Warrant by Exercise will require payment of cash consideration per share equal to the Exchange Price. The headings used in this Warrant are for the convenience of the parties only and shall not be used in construing the provisions hereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Company has caused this Amended and Restated Warrant to be duly executed on the day and year first above written.

COMPANY:

Giga-tronics Incorporated

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

ACKNOWLEDGED AND AGREED:

HOLDER:

Partners for Growth IV, L.P.

By: _____

_____, Manager of
Partners for Growth IV, LLC,
Its General Partner

Warrant (A&R) Signature Page

Exhibit A

To:

ELECTION TO EXCHANGE OR EXERCISE

1. The undersigned hereby exercises its right to **Exchange** its Warrant for _____ fully paid, validly issued and nonassessable shares of Warrant Stock in accordance with the terms thereof.

1. The undersigned hereby elects to **Exercise** the attached Warrant for fully paid, validly issued and nonassessable shares of Warrant Stock by payment of \$ _____ as specified in the attached Warrant. This right is exercised with respect to _____ of shares.

[Strike the paragraph above that does not apply.]

The undersigned requests that certificates for such shares be issued in the name of, and delivered to:

2. By its execution below and for the benefit of the Company, the undersigned hereby restates each of the representations and warranties in Section 7 of the Warrant as of the date hereof.

Date: _____

[Holder]

By _____
Name:
Title:



Exhibit B

ASSIGNMENT FORM

To:

The undersigned hereby assigns and transfers this Warrant to

(Insert assignee's social security or tax identification number)

(Print or type assignee's name, address and postal code)

and irrevocably appoints _____ to transfer this Warrant on the books of the Company.

Date: _____

Partners for Growth IV, L.P.

By _____
Name: _____, Manager of
Partners for Growth IV, LLC, Its General Partner

Exhibit C

Articles of Incorporation

Exhibit D

Capitalization Table

Giga-Tronics
Fully Diluted Shares

Common - Issued and Outstanding	5,059,747	51%
Common - Restricted Shares	121,500	1%
Common Stock Options Outstanding - Average price \$1.53	1,738,750	17%
Common Warrants - PFG at \$1.42	180,000	2%
Common Warrants - Alara at \$1.43	1,017,405	10%
Alara Series B Preferred - As converted, liquidation preference of \$2.30	999,700	10%
Alara Series C Preferred - As converted, liquidation preference of \$1.46	342,465	3%
Alara Series D Preferred - As converted, liquidation preference of \$1.43	511,186	5%
Fully Diluted	<u>9,970,753</u>	<u>100%</u>

EXHIBIT 21

SIGNIFICANT SUBSIDIARIES

<u>Name</u>	<u>Jurisdiction of incorporation</u>
Microsource, Inc.	California

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements (Nos. 333-45476, 333-34719, 333-48889, 333-39403, 333-69688 and 333-135578) on Form S-8 of Giga-tronics Incorporated of our report dated June 24, 2014 relating to the consolidated financial statements, appearing in this Annual Report on Form 10-K.

/s/ Crowe Horwath LLP

San Francisco, California
June 24, 2014

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

I, John R. Regazzi, certify that:

1. I have reviewed this Annual Report on Form 10-K of Giga-tronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 06/24/2014

/s/ JOHN R. REGAZZI

John R. Regazzi
Chief Executive Officer

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

I, Steven D. Lance, certify that:

1. I have reviewed this Annual Report on Form 10-K of Giga-tronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 06/24/2014

/s/ STEVEN D. LANCE

Steven D. Lance

Vice President of Finance/

Chief Financial Officer & Secretary

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

In connection with the Annual Report of Giga-tronics Incorporated (the "Company") on Form 10-K for the period ending March 29, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Regazzi, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: 06/24/2014

/s/ JOHN R. REGAZZI

John R. Regazzi
Chief Executive Officer

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

In connection with the Annual Report of Giga-tronics Incorporated (the "Company") on Form 10-K for the period ending March 29, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven D. Lance, Vice President of Finance, Chief Financial Officer and Secretary, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: 06/24/2014

/s/ STEVEN D. LANCE

Steven D. Lance
Vice President of Finance,
Chief Financial Officer & Secretary