May 5, 2017

Zacks Small-Cap Research

Lisa R. Thompson
312-265-9154
lthompson@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Digital Power Corp. (DPW-NYSE MKT)

DPW: New Ownership Puts the Company on a Path to Rapid Revenue Growth

Based on the expected 2017 and 2018 revenue forecasts and an industry average of 1.5x EV/Sales, we believe DPW could be worth $1.20 in the next 12 months.

Current Price (05/04/17)	$0.62
Valuation	**$1.20**

INITIATION

A new manufacturing purchase order brought into the company by the new Chairman of the Board, and affiliated controlling shareholder as well as the pending acquisition of control of Microphase could easily double or triple the size of the company. Starting in Q3 2017, investors should begin to see revenues ramp as the acquisition of control closes and products from the new operation start to be manufactured and then delivered. This growth should increase the company's current valuation, and with contained share dilution, the company's share price.

SUMMARY DATA

52-Week High	**$1.20**
52-Week Low	**$0.35**
One-Year Return (%)	**57.9**
Beta	**1.7**
Average Daily Volume (sh)	**185,565**
Shares Outstanding (mil)	**9.2**
Market Capitalization ($mil)	**$5.7**
Short Interest Ratio (days)	**0.7**
Institutional Ownership (%)	**34**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-4.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2017 Estimate	**N/A**
P/E using 2018 Estimate	**N/A**

Risk Level	**High**
Type of Stock	**Small-Value**
Industry	**Elec Prods-Misc.**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	1.9 A	2.1 A	1.4 A	2.3 A	7.8 A
2016	1.7 A	2.1 A	1.8 A	2.0 A	7.6 A
2017	1.8 E	2.4 E	3.5 E	4.8 E	12.5 E
2018					22.1 E

Earnings per Share
(EPS is earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$0.03 A	-$0.04 A	-$0.06 A	-$0.03 A	-$0.16 A
2016	-$0.03 A	-$0.01 A	-$0.01 A	-$0.14 A	-$0.16 A
2017	-$0.03 E	-$0.05 E	-$0.07 E	-$0.05 E	-$0.26 E
2018					-$0.44 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

KEY POINTS

- A new investor bought the previous Chairman's 40% stake of Digital Power in September 2016, and the new investor replaced the prior Chairman.

- Digital Power has been a no-growth company for years, but recently received a $50 million (over three years) purchase order from MITX to assemble its proprietary equipment for the textile industry. This purchase order was received from a MTIX Ltd., which is under contract by the company's controlling shareholder and was introduced to the Company by its new Chairman. This purchase order could double sales for the company in 2018 and revitalize growth.

- In addition to the MITX order, the new board of directors, elected in December, is reviving the company by allowing management to invest in future growth both by internal investment in staff and plant, as well as acquisition.

- Management is actively seeking acquisitions, particularly for companies that sell or service the defense and aerospace sectors. It recently announced its plan to acquire control of Microphase, a small provider of electronic components, devices, and subsystems for the defense, aerospace, and telecommunication sectors.

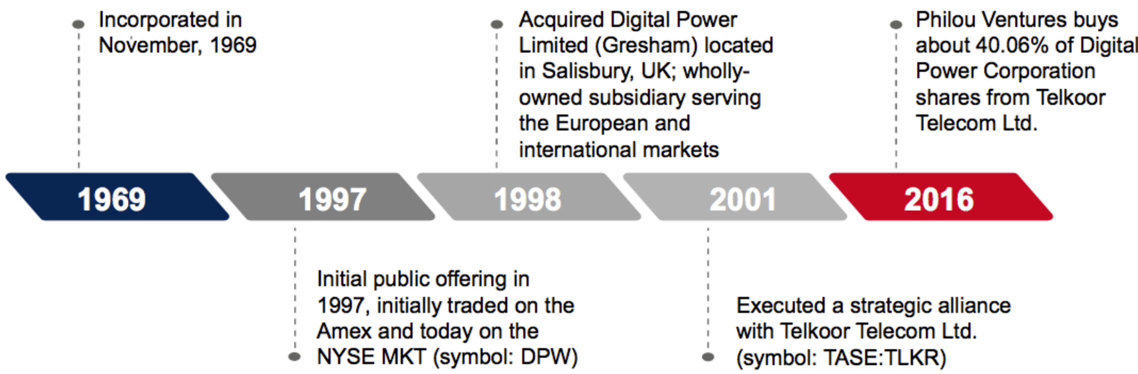
- Sales to the military (primarily the US and Israel) are approximately 30% of total sales. The new Trump administration plans to hike military spending significantly and DPW could benefit.

- The company plans to sell equity to support its growth and also expects to use combinations of common and preferred stock and cash for future acquisitions.

- At its current fully diluted market value (post acquisition) of $11.5 million or 1.0. times estimated 2017 sales (taking out the half of sales from Microphase,) we believe that there is considerable upside versus its peers who trade at 1.5 times sales should the company begin to show sustainable growth and reach profitability. Spending on new business and acquisitions is expected to produce losses for at least the next two year.

OVERVIEW

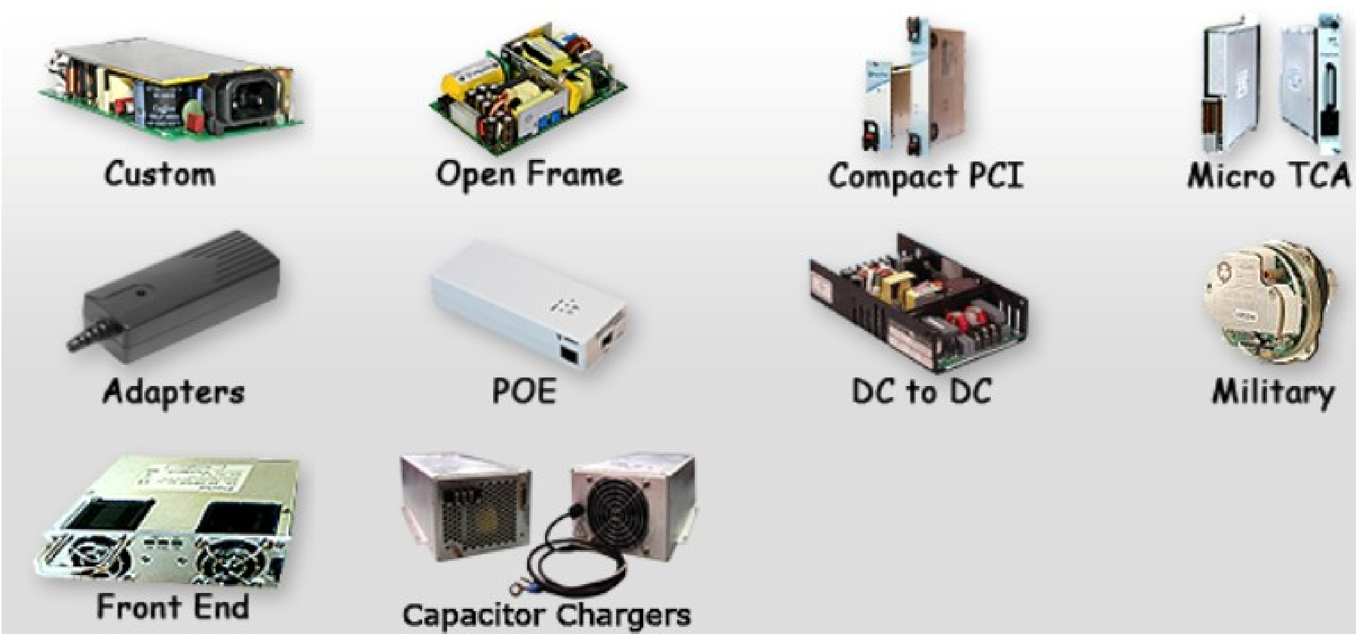
Digital Power is a 48-year-old California corporation that was founded in 1969 and went public in 1996. It is headquartered in Fremont, CA with a manufacturing division in Salisbury, England where the new MITX order is expected to be assembled. Its revenues peaked in 1997 and it has been in a downward trend since then as Digital Power minimally invested in new products and in its base product line, and its older products are often not competitive in newer products. It currently serves a worldwide base of 220 customers with 60% of sales to entities in North America. For 2016, $2.3 million (30%) of the $7.6 million in sales was to defense.



Products manufactured and sold or distributed by Digital Power include the following:

- AC-DC power supplies
- Desktop adaptors
- Compact PCI
- LED drivers
- Distributed power front-end power supplies
- Capacitor chargers
- Solar systems
- Isolated power bricks

These products go into a variety of end markets primarily healthcare, industrial and telecommunications, and defense, automotive and utilities.



Competitors

- **Bel Fuse** (BELFD) is a $360 million public company with 8,000 employees based in Jersey City, New Jersey. It designs, manufactures, and sells products used in networking, telecommunications, high-speed data transmission, commercial aerospace, military, transportation, and consumer electronics. These include magnetics (discrete components, power transformers and MagJack® connectors with integrated magnetics), modules (DC-DC converters and AC-DC power supplies, integrated analog front‐end modules and custom designs), circuit protection (miniature, micro and surface mount fuses), and interconnect devices (micro, circular and filtered D‐Sub connectors, fiber optic connectors, passive jacks, plugs and high‐speed cable assemblies). It operates facilities around the world.

- **Artesyn Embedded Technologies** is a 40-year-old company based in Tempe, AZ with over 20,000 employees worldwide. The company was formerly the Embedded Computing & Power business of Emerson Network Power. It is one of the world's largest power supply companies, and includes Astec brand. The company's extensive standard AC-DC product portfolio covers a power range of 3 watts to 5 kilowatts and a wide range of form factors

- **TDK-Lambda** was created in 2008 when Densai-Lamba combined with the power systems group of TDK. It is a wholly owned subsidiary of TDK based in Tokyo. It designs, manufactures, sells, and maintains switching power supplies and peripherals. As of 2015 it had 622 employees in 16 countries.

- **Delta Electronics** (DELTA.BK) is a public company in Thailand that was founded in 1990. It is one of the world's leading producers of power supplies and electronic components comprising cooling fans, EMI filters, and solenoids. Delta's key power management products consist of switching power supply, DC-DC converters, and solar inverters used in applications such as automotive, medical, telecommunications, IT, and automation.

- **MuRata** (6981) is a global leader in the design, manufacture and supply of advanced electronic materials, leading edge electronic components, and multi-functional, and high-density modules used in products such as mobile phones, home appliances, automotive applications, energy management systems and healthcare devices. It is headquartered in Kyoto, Japan and was established in 1944. It has 55,000 employees.

- **Mean-Well Power Supplies** is also based in Japan. It was founded in 1982 and most of its sales come from standard power supply products sold under its own brand name. It has changed its emphasis from power supplies for personal computer to those for industrial purposes. It has production facilities in China, Taiwan, and The Netherlands.

Digital Power Enters Into an Agreement to Buy 50.5% of Microphase

On May 3rd, Digital Power announced its agreement to purchase 50.5% of Microphase, a small electronics manufacturer based in Shelton, CT. The deal is expected to close May 25, 2017 and pro-forma financials have not yet been released. Microphase did announce that it expects to report revenues of $1.6 million and a loss of $820,000 in the quarter ending March 31, 2017, which puts it at an annual run rate of $6.5 million. In calendar 2016 Microphase generated $6.6 million in sales and lost $3.1 million. The deal cost is approximately $2 million in stock and debt.

To acquire this majority interest Digital Power will buy 1,603,434 shares of Microphase common stock (or 50.2% on a fully diluted basis) in exchange for:

1. An equivalent of 2,600,000 shares consisting of Digital Power common stock and Series D Convertible Preferred Stock, assuming full conversion thereof, plus
2. 1 million warrants exercisable at $1.10.

.

In connection with the transaction, the Digital Power also agreed to issue 10,000 shares of its Series E Convertible Preferred Stock to guarantee the payment of an 8% promissory note in the amount of $450,000 issued by Microphase to certain of its creditors.

Since Digital Power will be majority holder, it will consolidate 100% of Microphase's revenues and expenses and deduct the 49.8% losses or profits as minority income.

New Business Opportunity Could More than Double the Company Size

On March 15, 2017, Digital Power announced it had received a purchase order for $50 million over three years that should more than double the company's revenues. This purchase order from MTIX Ltd., a startup in the textile machinery business, is for equipment that delivers its proprietary MSLE™ processes which harnesses an innovative laser based technology to treat fabric and other materials. The purchase order requires Digital Power to build, install, and service a number of fabric treating and finishing machines worldwide. We believe that this is a conservative order number and actual orders could be significantly higher over time. The purchase order specifies that two machines to be delivered to customers by December 31, 2017 with Digital Power being paid on a cost-plus basis as well as recurring revenues for ongoing equipment maintenance. After the next two machines are manufactured, Digital Power is expected to negotiate a fixed fee price for the units. While pricing for these units has not been revealed, we believe they could be priced as high as seven digits for just one.

On March 3, 2017, Avalanche International Corp, a Nevada corporation (OTC: AVLP) entered an agreement with MTIX and the three current shareholders of MTIX. Avalanche plans to acquire MTIX for: (a) $9.5 million of 7% secured convertible promissory notes, (b) (i) $500,000 in cash, $50,000 of which has already been paid, and (ii) 100,000 shares of the AVLP's newly designated shares of Class B Convertible Preferred Stock to Pravin Mistry. Avalanche then plans to change the name of the company to MTIX.

On March 31, 2017, Digital Power made an investment in Avalanche International Corp, which acquired MTIX's proprietary rights. MTIX owns a cost effective and environmentally friendly material synthesis technology for textile applications and has developed equipment that uses the technology for the treatment of textiles and materials. Digital Power's investment consists of a series of convertible loans totaling approximately $1,530,000. Avalanche is a development stage holding company whose primary business up until now was the manufacturing and distribution of premium vape liquid and the distributing of vape accessories as well as the development and operation of boutique niche restaurants.

Philou Ventures, LLC (which owns 33% of Digital Power) owns 214,000 shares of Avalanche common stock and 50,000 shares of Avalanche Class A preferred stock. Consequently, Philou is the owner of approximately 31.22% of the issued and outstanding Avalanche common stock and considered the controlling shareholder of Avalanche. Milton "Todd" Ault is the Chairman of the board of both Avalanche and Digital Power; William Horne is also on the board of both companies. Kristine Ault, the manager of Philou Ventures, LLC, is also on the Board of Directors of Digital Power and the wife of Mr. Ault.

Rather than have MTIX invest in manufacturing capabilities, it decided to outsource the manufacturing and servicing of these new machines to Digital Power. MTIX's uses a proprietary, patented, Multiplexed Laser Surface Enhancement (MLSE™) system to treat fabrics and other materials.

To fulfill this recent purchase order, Digital Power is expanding operations in UK. It is setting up a facility near its current UK facility and has hired four employees dedicated to the MTIX order. The company plans to invest $400,000 into this operation.

About MTIX Ltd.

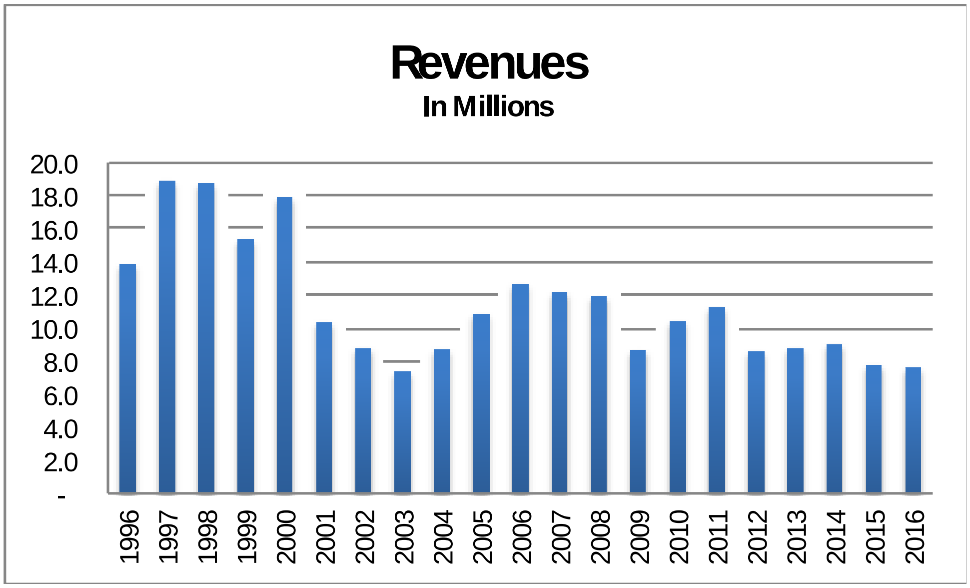
MTIX was founded in 2011 and headquartered in Huddersfield, England, a hub of textile manufacturing and finishing. It is primarily a research and development company with limited production capability. It has already sold three units, which are in operation in the UK, and it needed a manufacturer able to scale volume production due to a large backlog. These three units are being used by W. T. Johnson (previous 33% owner of MITX), Camira, and H. C. Whitehead.

The MTIX machinery finishes fabrics using patented laser based technology (MLSE™) that is less costly, more environmentally friendly, and easier to operate that the methodology currently in use. Up until MTIX's innovation customers used chemicals to treat fabric to be waterproof or water absorbent, fire retardant, anti-microbial as well as improving dyeability and printing.

Advantages of the MTIX system are:

- Hazardous resource (irritant/corrosive and bio-accumulative) usage is eliminated.
- Energy consumption is reduced by 99.6%
- Greenhouse gas reduction over baseline of 90.9%
- Resource (chemical) use reduced by 94.8%
- Water consumption reduced by more than 75.5%

FINANCIALS



2016 Year

Revenues for 2016 were down 2% over 2015 at $7.6 million. Gross margins however improved by one percentage point leaving gross margins dollars flat with the prior year. Operating income was down 22% as G&A expenses increased in Q4 as the new strategy to invest in growth commenced. Reported EPS was flat year over year at a loss of $0.16 even with fully diluted shares increasing 46%. On a non-GAAP basis, the 2016 EPS was a loss of $0.08 versus a loss of $0.11 in 2015.

Since the December Quarter Ended

On January 13, 2017, the company changed auditors to US based Marcum from Israeli-based Kost Forer a division of Ernst and Young. Marcum will be responsible for 2017 onward. We believe this is a positive development as it separates Digital Power from its previous auditor (who also audited the previous majority owner) and engaged auditors that have more experience with US GAAP accounting.

On February 16, 2017, Digital Power entered a subscription agreement with an investor for the sale of 166,667 shares of common stock at $0.60 per share for the cancellation of debt in the amount of $100,000.

On February 23, 2017, Digital Power entered subscription agreements with seven investors for the sale of 500,000 shares of Common Stock at $0.60 per share for the cancellation of debt in the aggregate amount of $300,000.

On March 9, 2017, Digital Power entered a preferred stock purchase agreement with Philou Ventures. Philou is the company's largest stockholder and is managed by Kristine Ault, a director of Digital Power. Philou agreed to invest up to $5 million in the company through the purchase of Series B preferred stock. Each share shall be purchased at $10.00 up to a maximum issuance of 500,000 shares. Philou guarantees to purchase by May 31, 2017, the greater of: (i) 100,000 shares of preferred stock or (ii) a sufficient number of shares of preferred stock to ensure that the Company has sufficient stockholders' equity to meet the minimum continued listing standards of the NYSE MKT. In addition, for each share of preferred stock purchased, Philou will receive warrants to purchase shares of common stock in a number equal to the stated value of each share of Preferred Stock of $10.00 purchased divided by $0.70 at an exercise price equal to $0.70 per share of common stock.

On March 15, 2017, Digital Power Corporation entered a subscription agreement with an investor for the sale of 500,000 shares of common stock at $0.60 per share for the aggregate purchase price of $300,000.

Cumulatively through April 5, 2017, the company sold 1,526,667 shares of common stock at $0.60 to $0.75 per share raising, in the aggregate, $970,000 before expenses. In addition, it sold 25,000 shares of Series B Preferred Stock at $10.00 per share in exchange for the cancellation of debt of $250,000. As of April 5, 2017 there were 9,216,853 common shares outstanding.

On May 3rd the Digital Power announced its agreement to purchase 50.5% of Microphase. The deal is expected to close May 25, 2017.

FORECASTS

For 2017 we are conservatively estimating revenues of $12.5 million in revenues assuming the base Digital Power business holds steady and revenues from MTIX begin to ramp in Q3 and Q4 and the Microphase deal is completed as planned. Microphase should add at least $2.5 million in revenues (the same as last year.) MTIX revenues could also have significant upside as product revenues may ramp much faster. At this point, before the deal closes and we see better financials and future plans consider all estimates to very preliminary and having a great degree of error. At this point we are giving investors our best guess albeit conservative. As for expenses they could be much higher than forecast depending on the costs of acquisition and the need to raise capital. While were are somewhat confident the company can grow revenues meaningfully, we are less certain on how much capital may need to be raised to achieve these goals. For now we are expecting the company to lose money for at least the next two years and for the share count to increase. Given Microphase also loses money losses are expected to increase near term. For now our first pass puts losses for 2017 at $2.8 million and a loss of $0.26 per share. Average share count for the year is now estimated at 10.8 primary shares and 16 million fully diluted shares post-Microphase payment.

Investors should be more focused on 2018 revenues where more dramatic growth should appear. The biggest determinant on whether the stock price rises is whether the company can add revenues and eventually profits without diluting current shareholders as much. Given that management is a major shareholder, we are more confident that it will try to keep dilution to a minimum. In order to fund the losses at both Digital Power and Microphase, we expect significant share dilution as the year progresses and the company sells stock. The company also needs to meet the exchange requirements to remain listed and that could also require selling stock.

For 2018 were are estimating revenues of $22.1 million with the assumption that Digital Power's base business stays flat, $8 million is generated by MTIX, and $6.5 million is contributed by Microphase. Keep in mind that when valuing DPW, half of the revenues from Microphase are still owned by Microphase. We are expecting losses of $8.2 million or $0.44 per share.

VALUATION

As Digital Power is spending money to grow we are valuing it on a basis of sales to enterprise value versus other companies in the electronics and manufacturing business. The companies shown below trade at an average of 1.5 times EV to forecasted 2017 sales. Based on these comparables DPW would be worth $1.01 per share if it were profitable which is 44% higher than its current price. By next year, if the revenue and share count stands, the price is $1.20, a gain of 71%. Once DPW reports Q1 and/or finalizes Microphase, and a regaining listing requirements we will adjust forecasts accordingly.

Company	Ticker	Revenue 2017E	Revenue LTM	TTM EBITDA	Enterprise Value / Sales 2017E	Enterprise Value / Sales LTM	EV/ EBITDA	Included Average?	Enterprise Value
Boeing	BA	$91,950	$92,915	$13,958	1.1x	1.1x	7.2x	y	100,130
Emerson	EMR	$15,500	$17,983	$7,342	2.7x	2.3x	5.6x	y	41,250
Bel Fuse	BELFB	$489	$500	$51	0.7x	0.7x	6.9x	y	348
Delta Electronics	DELTA.BK	NA	$47,750	$6,250	NA	2.0x	15.2x	n	95,210
Average					**1.5x**	**1.4x**	**6.5x**		**$47,243**

	Revenue 2017E	Revenue LTM	TTM EBITDA	Enterprise Value / Sales 2017E	Enterprise Value / Sales LTM	Valuation Range Low	Valuation Range High
Digital Power	**$11**	**$8**	**-0.5**	**1.5x**	**1.4x**	**$10**	**$16**

Conclusion of Enterprise Value	**$13,258,612**
Market Value	**$13,970,612**
All In Shares Outstanding	13,868,153
Price per Share	**$1.01**

	Revenue 2018E	Revenue 2017E	2017E EBITDA	Enterprise Value / Sales 2018E	Enterprise Value / Sales 2017E	Valuation Range Low	Valuation Range High
Digital Power	**$19**	**$11**	**-2484.8**	**1.5x**	**1.4x**	**$15**	**$28**

Conclusion of Enterprise Value	**$21,405,613**
Market Value	**$22,117,613**
Shares Outstanding	18,483,538
Price per Share	**$1.20**

RISKS

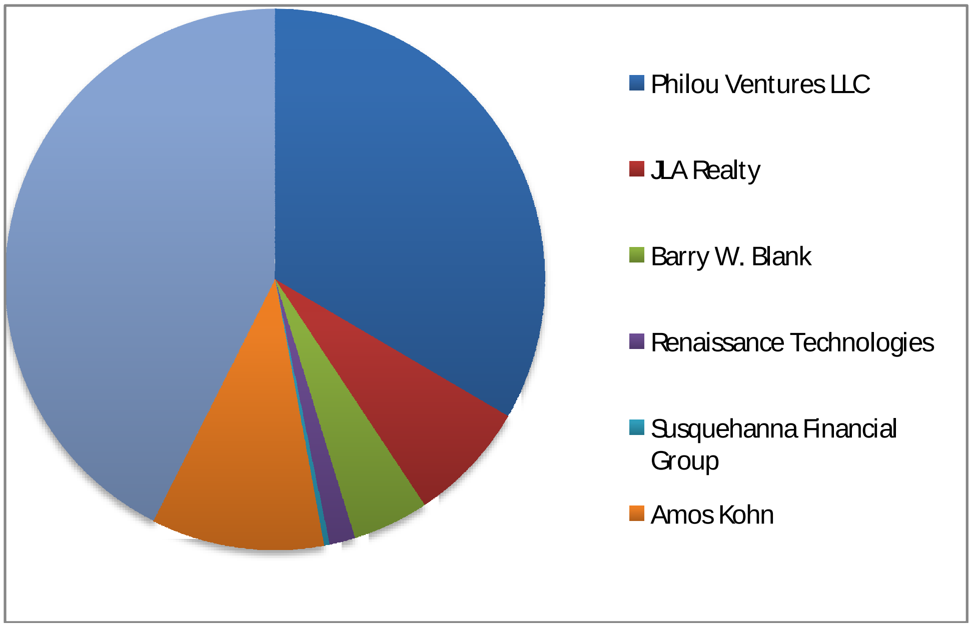
- Building machinery is a new venture for the company and it may not be able to garner the expertise to fulfill orders in a timely manor.
- The company may have trouble raising cash to support its new businesses.
- By raising cash through stock sales, the company may dilute current shareholders.
- Many of the company's legacy products are not competitive with newer technologies and business from these products is expected to fall off.
- The company's new strategies to grow the company are untested and may not work.
- If the company pursues acquisitions, the company may overpay, or business will not proceed as expected and the acquisitions may be dilutive.
- Military spending is subject to risk as programs could be cut or restrictions put on foreign sales by a new administration.
- Most of Digital Power's competitors are much larger and have greater resources with which to compete. In the past the company has been passed by due to its small size and weak financials.
- The company was notified on March 9, 2016 that the NYSE MKT granted it a listing extension until June 19, 2017 to increase its shareholders' equity. On April 27, 2017, the NYSE MKT indicated that Digital Power is required to attain stockholders' equity of $6.0 million or more by June 19, 2017. Failure to make progress consistent with the company's re-compliance plan or to regain compliance with the continued listing standards by the end of the extension period could result in the common stock being delisted from the NYSE MKT.
- MTIX, the company that placed the order for textile machines to be manufactured by Digital Power, is subject to acquisition by Avalanche, which is 31% owned by Philou Ventures. Philou also owns 33% of Digital Power. The two companies also have Milton C. Ault, III as their

Executive Chairman of the Board and William Horne as a Board member. This could lead to a conflict of interest between the two companies.

- The purchase of control of Microphase may not occur or the deal terms could change.

OWNERSHIP

On September 22, 2016, Telkoor Telecom (a company controlled by the ex-Chairman of the Board) sold 2.7 million shares of Digital Power to Philou Ventures LLC. Kristine Ault manages Phillou; it now owns 33% of the 9.2 million primary shares outstanding. The officers and directors of the Digital Power own 40% of the stock.



MANAGEMENT AND BOARD OF DIRECTORS

Management

Amos Kohn
CEO and President

Amos Kohn has served as a member of the board since 2003, and as President and CEO of Digital Power since 2008. From March 2011 until August 2013 he also served as interim CFO. Amos has more than 20 years of successful global executive management experience, including multiple C-level roles across private and established, publicly traded companies. Amos was VP of Business Development at Scopus Video Networks, that develops and markets digital video networking products from 2006 to 2007; VP of Solutions Engineering at ICTV Inc. from 2003 to 2006; Chief Architect at Liberate Technologies, from 2000 to 2003; and EVP of Engineering and Technology at Golden Channel & Co., the largest cable television multiple-systems operator (MSO) in Israel from1989 to 2000. Amos has a degree in electrical and electronics engineering from the ORT Hermelin College of Engineering in Israel and a number of patents.

Uri Friedlander

Uri has served as Vice President, Chief Accounting officer of Digital Power since October 2015. Since 1997, Mr. Friedlander was the CFO of Telkoor. From 1991 to 1997, Mr. Friedlander was the controller of I.T.L Ltd., a developer of electro optic military systems, and Q.P.S Ltd., a developer of power supplies, units of the Clal Electronics Ltd. Group. From 1986 until 1991 he served as an auditor for Lyboshitz & Kasirer (Arthur Andersen) public accountants. Mr. Friedlander earned a B.A. in accounting and economics from Tel-Aviv University.

Jake Moir
Managing Director – Digital Power Limited (Gresham Power Electronics**)**

Jake has been serving as Managing Director of Gresham Power since 2001. Before that, he was responsible for the Gresham defense business. From 1974 through 1976, he was deputy general manager at Tai Cheung Properties, where he oversaw the company's investment activities and was involved in various property developments in Hong Kong and Southeast Asia. From 1971 to 1974 served as Investment Manager of Hutchison GT. Before that he worked in both the foreign exchange and investment departments of NM Rothchild. Jake has a MA degree in history from St. John's College, Cambridge.

Board of Directors

Amos Kohn

Milton (Todd) Ault III

On March 16, 2017, Mr. Milton "Todd" Ault, III, became Chairman of the Board. Mr. Ault is a seasoned investor with more than 27 years identifying value in various financial markets including equities, fixed income, commodities, and real estate. In February 2016 Todd founded Alzamend Neuro, Inc., a biotechnology firm dedicated to finding the treatment, prevention and cure for Alzheimer's disease and has served as its Chairman since. He has been Chairman of Ault & Company, a holding company since December 2015, and Executive Chairman of Avalanche International Corp (AVLP) since 2014. Since 2011, Todd has also been the VP of Business Development for MCKEA Holdings, LLC, a family office where he has consulted for publicly traded and privately held companies. He was the President, CEO, Director, and Chairman of Zealous, Inc. from 2007 until 2010 and again in 2011. Todd was a registered representative at Strome Securities, LP, from 1998 until 2005, and was involved in portfolio management and worked on several activism campaigns. While at Strome, Todd became majority shareholder of Franklin Capital Corp and was elected to its board of directors in July 2004. He became its Chairman and CEO in October 2004 serving until January 2006, and again from July 2006 to January 2007. In April 2005, the company changed its name to Patient Safety Technologies, Inc. (PSTX). Stryker Corporation (SYK) acquired PST in 2014 for approximately $120 million.

Moti Rosenberg

Moti has served on the board of directors since June 2015. He has been an independent consultant to various companies in the design and implementation of homeland security systems in Europe and Africa since 2010. From 2004 to 2009, he served as a special consultant to Bullet Plate Ltd., a manufacturer of armor protection systems, and NovIdea Ltd., a manufacturer of perimeter and border security systems. From 2000 to 2003, Mr. Rosenberg was a general manager at ZIV U.P.V.C Products Ltd. Moti is an active reserve officer and a retired colonel from the Israeli Defense Force (IDF), where he served for 26 years and was involved in the development of weapon systems. In the IDF, Mr. Rosenberg served in various capacities, including head of the training center for all IDF infantry, and head of the Air Force's Special Forces. Moti received a B.A. in history from the University of Tel Aviv and a MA in Political Science from the University of Haifa in Israel.

Robert Smith

Robert recently rejoined the board of directors bringing a wealth of institutional knowledge back to the firm. He was a founder of the company and previously on the board of directors from November 2010 until May 2015, and served as a member of the advisory board from 2002 until 2015. He is currently a consultant working with California high-tech firms on strategic initiatives. From 2004 to 2007, he served on the board of directors of Castelle Corporation. From 1990 to 2002, he was the President, CEO, and Chairman of the Board of Digital Power. He held management positions with Computer Products from 1980 to 1990. From 1970 to 1980, he held managerial accounting positions with Ametek/Lamb Electric and with JM Smucker. Robert earned a BBA in Accounting from Ohio University in 1970.

Kristine Ault

Kristine is a new member of the board as of December 2016, and represents the interests of the majority shareholder, Philou Ventures. She has served as the managing member of a private holding company that makes equity investments in other operating businesses since 2011. Prior to that, she worked in the finance department of Strome Securities in Santa Monica, California. Kristine was appointed as Trustee for a private trust in 1997 and currently administers four private trusts. Her work experience ranges from ABC Cable Networks to the vineyards of Sonoma and Napa Valley. Ms. Ault holds a B.A degree in Radio-Television-Film and minor in business administration from California State University Northridge as well as an A.A in Natural Sciences and Mathematics from Napa Valley College.

William Horne

Bill joined as a director in October 2016. He has been the CFO of Targeted Medical Pharma, Inc. (OTCBB: TRGM) since August 2013, and is director of and chief financial officer for Avalanche International, Corp. He has been CFO at various companies in the healthcare and high-tech field, including OptimisCorp, from January 2008 to May 2013, Patient Safety Technologies, Inc. (OTCBB: PSTX), a medical device company located in Irvine, California, from June 2005 to October 2008, and as the interim CEO from January 2007 to April 2008. Bill was the Managing Member & CFO of Alaska Wireless Communications, LLC, an advanced cellular communications company, from its inception in May 2002 until November 2007, where he was responsible for negotiating the sale of Alaska Wireless to General Communication Inc. (NASDAQ: GNCMA). From November 1996 to December 2001, he was CFO of The Phoenix Partners, a venture capital limited partnership located in Seattle. Mr. Horne has also held supervisory positions at Price Waterhouse, LLP and earned a BA Magna Cum Laude in Accounting from Seattle University.

INCOME STATEMENT

Digital Power	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17E	Q2 17E	Q3 17E	Q4 17E				
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	2015	2016	2017E	2018E
North America	924	1,063	808	1,038	948	1,212	1,248	1,134	1,000	1,000	1,000	1,000	3,833	4,542	4,000	10,500
Europe	972	1,088	607	1,266	765	852	578	859	800	1,433	2,500	3,800	3,933	3,054	8,533	11,596
Total revenue	**1,896**	**2,151**	**1,415**	**2,304**	**1,713**	**2,064**	**1,826**	**1,993**	**1,800**	**2,433**	**3,500**	**4,800**	**7,766**	**7,596**	**12,533**	**22,096**
Yr-to-yr Growth	-7%	-17%	-37%	7%	-10%	-4%	29%	-13%	5%	18%	92%	141%	-14%	-2%	65%	76%
Total Cost of services	1,183	1,350	935	1,585	1093	1310	1,123	1,364	1,123	1,625	2,375	3175.0	5,053	4,890	8,298	19,308
Gross profit	713	801	480	719	620	754	703	629	677	808	1,125	1625.0	2,713	2,706	4,235	2,788
Gross Margin %	38%	37%	34%	31%	36%	37%	38%	32%	38%	33%	32%	34%	35%	36%	34%	13%
Operating expenses:																
Engineering and development	234	226	203	231	194	170	147	198	200	200	200	200	894	709	800	1,100
Selling and marketing	260	259	316	360	255	233	235	193	200	300	400	500	1,195	916	1,400	1,600
General and administrative	438	463	378	348	371	340	404	1,185	600	1,000	1,800	2,200	1,627	2,300	5,600	8,850
Total operating expenses	932	948	897	939	820	743	786	1,576	1,000	1,500	2,400	2,900	3,716	3,925	7,800	11,550
Operating income:	(219)	(147)	(417)	(220)	(200)	11	(83)	(947)	(323)	(692)	(1,275)	(1,275)	(1,003)	(1,219)	(3,565)	(8,762)
Operating margin	-11.6%	-6.8%	-29.5%	3.5%	-11.7%	0.5%	-4.5%	-47.5%	-17.9%	-28.4%	-36.4%	-26.6%	-12.9%	-16.0%	-28.4%	-39.7%
Other income:																
Interest expense, net	65	(68)	21	(2)	7	55	23	(8)	(8)	(8)	(20)	(20)	16	77	(56)	(100)
Impairment of investment	(50)	(56)	-	(4)	-	-	-	-	-	-	-	-	(110)	0	-	-
Total other income	15	(124)	21	(6)	7	55	23	(8)	(8)	(8)	(20)	(20)	(94)	77	(56)	(100)
Income before income taxes	(204)	(271)	(396)	(226)	(193)	66	(60)	(955)	(331)	(700)	(1,295)	(1,295)	(1,097)	(1,142)	(3,509)	(8,662)
Pretax Margin	-10.8%	-12.6%	-28.0%	-9.8%	-11.3%	3.2%	-3.3%	-47.9%	-18.4%	-28.8%	-37.0%	-27.0%	-14.1%	-15.0%	-28.0%	-39.2%
Income tax benefit	-	-	-	1	-	-	-	20	-	-	-	-	1	20	-	-
Tax rate	0%	0%	0%	0%	0%	0%	0%	-2%	0%	0%	0%	0%	-0.1%	-1.8%	12.0%	0.0%
Minority interest	-	-	-	-	-	-	-	-	-	(59)	(338)	(338)	-	-	(734)	(500)
Net income	(204)	(271)	(396)	(225)	(193)	66	(60)	(935)	(331)	(641)	(1,295)	(1,295)	(1,096)	(1,122)	(2,775)	(8,162)
Stk based compensation	47	90	44	45	44	43	42	414	100	100	100	500	226	543	800	1,000
One-time expenses	50	56	-	4	-	-	-	-		-	-	-	110	-	-	-
Non-GAAP Income	(107)	(125)	(352)	(176)	(149)	109	(18)	(521)	(231)	(541)	(1,195)	(795)	(760)	(579)	(1,975)	(7,162)
Yr-to-yr Growth	-105%	-105%	-116%	-108%	39%	-187%	-95%	196%	55%	-596%	6539%	53%	-108%	-24%	241%	263%
Net income per share:																
EPS	**-$0.03**	**-$0.04**	**-$0.06**	**-$0.03**	**-$0.03**	**$0.01**	**-$0.01**	**-$0.14**	**-$0.03**	**-$0.05**	**-$0.07**	**-$0.05**	**-$0.16**	**-$0.16**	**-$0.26**	**-$0.44**
Non-GAAP Diluted	-$0.02	-$0.02	-$0.05	-$0.03	-$0.02	$0.02	$0.00	-$0.08	-$0.03	-$0.05	-$0.10	0.15	-$0.11	-$0.08	$0.01	-$0.39
					39.3%	NM	-94.9%	196.0%	26.3%	26.3%	26.3%	26.3%	-16%	-91%	-91%	1971%
Shares																
Basic	6,776	6,776	6,776	6,776	6,776	6,776	6,776	6,776	9,217	10,166	11,817	11,817	6,776	6,917	10,754	18,500
Diluted	6,776	6,776	6,776	6,776	6,776	6,776	7,922	11,427	13,868	15,150	17,468	17,468	7,922	11,568	15,988	23,151
Yr-to-yr Growth	233%	161%	204%	215%	0%	0%	17%	69%	105%	124%	120%	30%	-12%	46%	38%	45%
Dep & Amor	$0	$0	$0	$0	$40	44	39	70	70	70	70	70	214	193	280	280
Adjusted EBITDA	-172.00	-57.00	-373.00	-175.00	(116)	98	(2)	(463)	(153)	(522)	(1,105)	(705)	(546)	(483)	(2,485)	(8,602)
Margin	-9%	-3%	-26%	-8%	-7%	5%	0%	-23%	0%	0%	0%	0%	-7%	-6%	-20%	-39%

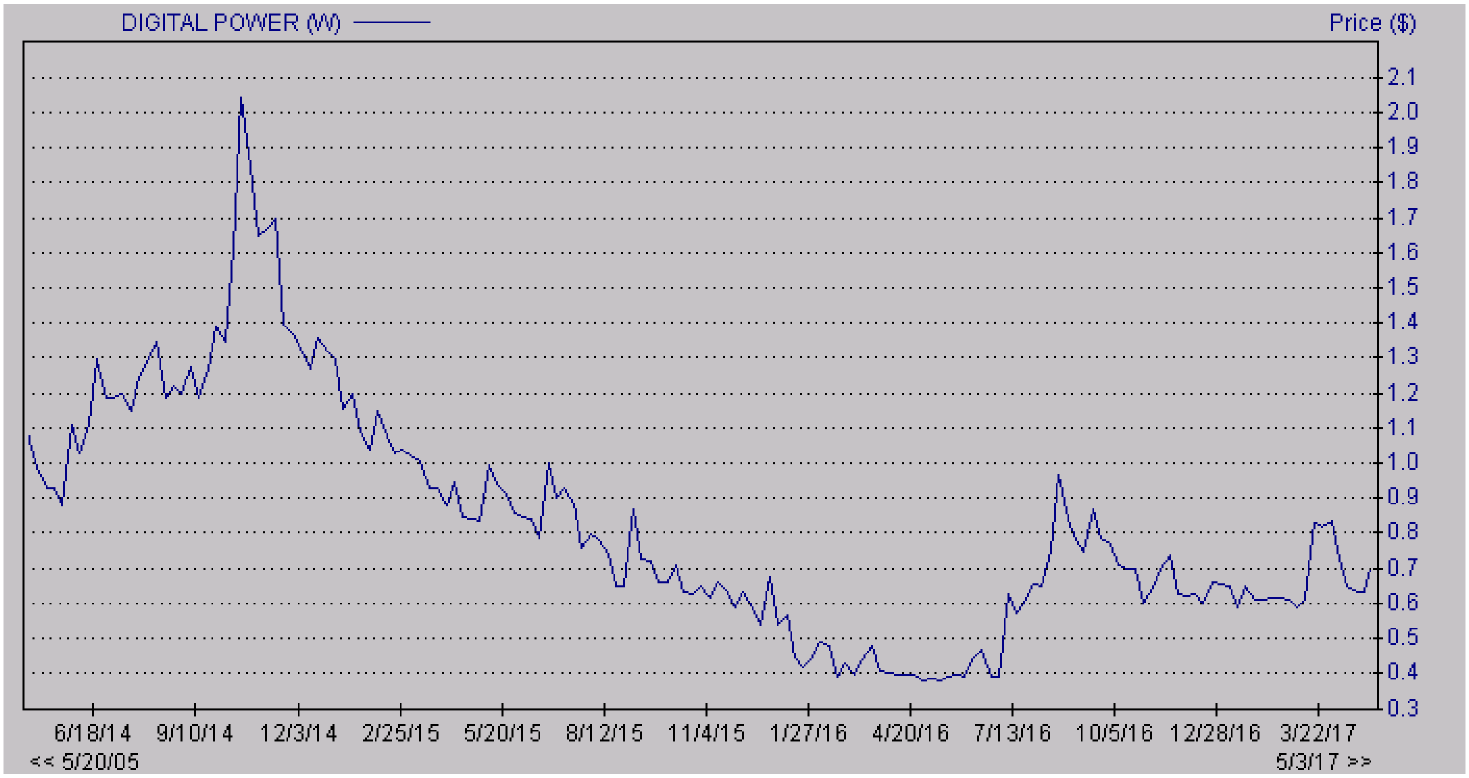
BALANCE SHEET

	Dec. 30, 2016	Sep. 30, 2016	Qtr-Qtr % Growth	Dec. 31, 2015	Yr-Yr % Growth
CURRENT ASSETS:					
Cash and cash equivalents	$ 996,000	$ 1,292,000	-22.9%	$ 1,241,000	-19.7%
Accounts receivable, net	1,439,000	1,110,000	29.6%	1,240,000	16.0%
Accounts receivable - related parties	0	0		77,000	-100.0%
Prepaid expenses and other current assets	285,000	239,000	19.2%	187,000	52.4%
Inventories, net	1,122,000	1,186,000	-5.4%	1,542,000	-27.2%
Total current assets	3,842,000	3,827,000	0.4%	4,287,000	-10.4%
PROPERTY AND EQUIPMENT, NET	570,000	615,000	-7.3%	709,000	-19.6%
INVESTMENTS - related party, net	1,036,000	0	NM	90,000	1051.1%
LONG-TERM DEPOSITS	24,000	13,000	84.6%	13,000	84.6%
Total Non- current assets	1,630,000	628,000	159.6%	812,000	100.7%
Total assets	5,472,000	4,455,000	22.8%	5,099,000	7.3%
CURRENT LIABILITIES:					
Accounts payable	1,231,000	757,000	62.6%	937,000	31.4%
Note payable - related party	**250,000**	0		0	
Advances from customers and deferr rev	0	94,000	-100.0%	211,000	-100.0%
Other current liabilities	398,000	434,000	-8.3%	480,000	-17.1%
Total current liabilities	1,879,000	1,285,000	46.2%	1,628,000	15.4%
Convertible notes - related party, net	**34,000**	0	NM	0	NM
Total Liabilities	1,913,000	1,285,000	48.9%	1,628,000	17.5%
SHAREHOLDERS' EQUITY:					
Common shares	0	0	0.0%	0	0.0%
Additional paid-in capital	16,537,000	15,094,000	9.6%	14,965,000	10.5%
Accumulated deficit	(12,158,000)	(11,201,000)	8.5%	(11,036,000)	10.2%
Accumulated other comprehensive loss	(820,000)	(723,000)	13.4%	(458,000)	79.0%
Total shareholders' equity	3,559,000	3,170,000	12.3%	3,471,000	2.5%
Total liabilities and shareholders' equity	$ 5,472,000	$ 4,455,000	22.8%	$ 5,099,000	7.3%
Current Ratio	2.0	3.0	-31.3%	2.6	-22.4%
Quick Ratio	1.4	2.1	-29.6%	1.7	-14.1%
Working Capital	$1,963,000	$2,542,000	-22.8%	$2,659,000	-26.2%

CASH FLOWS

	Mar. 31, 2016	Jun. 30, 2016	Sep. 30, 2016	Dec. 31, 2016	Year 2016
Cash flows from operating activities:					
Net loss	$ (193)	$ 66	$ (38)	$ (957)	$ (1,122)
Adjustments required to reconcile net income to net cash provided by operating activities:					
Depreciation	40	44	39	38	161
Amortization of intangible asset	0	0	0	34	34
Accretion of discount on note receivable		0	0	(2)	(2)
Stock compensation related to options granted to employees	44	43	42	414	543
Provision for bad debt		0	0	32	32
Impairment of investment in Telkoor	0	0	0	0	0
Write down of inventory	0	0	0	68	68
Decrease (Increase) in trade receivables, net	(32)	36	78	(393)	(311)
Accounts receivable - related party	0	0	0	77	77
Decrease (Increase) in prepaid expenses & other accts payable	13	40	(113)	(59)	(119)
Other assets	0	0	0	(11)	(11)
Decrease (increase) in inventories	87	169	(13)	(34)	209
Decrease in accts payable and related parties- trade payables	76	(101)	(76)	423	322
Increase (decrease) in deferred revs and other current liabilities	(27)	(171)	85	(68)	(181)
Other current liabilities	0	0	0	(58)	(58)
Net cash provided by operating activities	8	126	4	(496)	(358)
Cash flows from investing activities:					
Purchase of property and equipment	(72)	(2)	(4)	(7)	(85)
Sale of investment	0	0	90	0	90
Investments - related party	0	0	0	(1,034)	(1,034)
Net cash from(used) n investing activities	(72)	(2)	86	(1,041)	(1,029)
Cash flows from financing activities:					
Proceeds from sales of common stock and warrants	0	0	0	541	541
Net proceeds from issuance of convert - related parties	0	0	0	488	488
Proceeds frm short term loan - related party	0	0	0	250	250
Net cash provided by financing actvities	0	0	0	1,279	1,279
Effect of exchange rate changes on cash and cash equivalents	(19)	(70)	(10)	79	(137)
Increase (Decrease) in cash and cash equivalents	(83)	54	80	(1,458)	(245)
Cash and cash equivalents at the beginning of the period	1,241	1,158	1,212	1,292	1,241
Cash and cash equivalents at the end of the period	$ 1,158	$ 1,212	$ 1,292	$ (166)	$ 996
Cash flow	(109)	153	43	(505)	(286)
Free cash flow	(181)	151	39	(512)	(371)

HISTORICAL STOCK PRICE



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Lisa Thompson, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.