

DIGITAL POWER CORP  
Form PRE 14A  
September 28, 2017  
**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934**

Filed by  
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**DIGITAL POWER CORPORATION**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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No fee required

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- (1) Title of each class of securities to which transaction applies:
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Schedule or  
Registration  
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No.:

(3) Filing  
Party:

(4) Date  
Filed:

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**DIGITAL POWER CORPORATION**

**48430 Lakeview Blvd.**

**Fremont, California 94538-3158**

**Telephone: (510) 657-2635**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

We cordially invite you to attend the 2017 Annual Meeting of Shareholders of Digital Power Corporation (“**DPW**” or the “**Company**”). Our 2017 Annual Meeting will be held on \_\_\_\_\_ day, \_\_\_\_\_, 2017 at 10:00 a.m. PT and will be our first completely virtual meeting of shareholders. You will be able to attend the 2017 Annual Meeting, vote, and submit your questions during the meeting via live webcast by visiting [www.virtualshareholdermeeting.com/DPW2017](http://www.virtualshareholdermeeting.com/DPW2017). To enter the meeting, you must have your twelve-digit control number that is shown on the proxy card accompanying this Proxy Statement. You will not be able to attend the Annual Meeting in person.

Details regarding logging onto and attending the meeting over the website and the business to be conducted are described in the Proxy Card included with this Proxy Statement. We have also made available a copy of our 2016 Annual Report with this Proxy Statement. We encourage you to read our Annual Report. It includes our audited financial statements and provides information about our business and products.

The purpose of the meeting is:

1. To elect the six (6) director nominees named in the Proxy Statement to hold office until the next annual meeting of shareholders;
2. To ratify the appointment of Marcum, LLP, as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2017;
3. To approve the reincorporation of the Company from California to Delaware;
4. To approve the conversion and exercise rights of up to 500,000 shares of the Company’s Series B Preferred Stock convertible into shares of Common Stock and the exercisability of Warrants to purchase shares of Common Stock

in accordance with the Preferred Stock Purchase Agreement dated March 9, 2017, in order to comply with the listing rules of the NYSE American;

5. To approve the conversion of into shares of Common Stock of 378,776 shares of the Company's Series D Preferred Stock and exercisability of Warrants to purchase up to 1,000,000 shares of Common Stock issued in accordance with the Share Exchange Agreement dated April 28, 2017, in order to comply with the listing rules of the NYSE American;

6. To approve the conversion of 10,000 shares of the Company's Series E Preferred Stock into shares of Common Stock in accordance with the Share Exchange Agreement, dated April 28, 2017, in order to comply with the listing rules of the NYSE American;

7. To approve the conversion of a \$400,000 Convertible Note convertible into 727,273 shares of Common Stock at \$0.55 per share and related Warrants to purchase 666,667 shares of Common Stock at \$1.10 per share in accordance with the Convertible Note Purchase Agreement dated August 3, 2017, in order to comply with the listing rules the NYSE American;

8. To approve the conversion of \$880,000 of Convertible Notes into the aggregate of 1,466,667 shares of Common Stock At \$0.60 per share and related exercise of Warrants to purchase 1,466,667 shares of Common Stock at \$0.66 per share in accordance with the Convertible Note Purchase Agreement dated August 10, 2017 in order to comply with the listing rules the NYSE American;

9. To approve the exercisability of (i) warrants to purchase 317,460 shares of Common Stock at an exercise price of \$0.01 per share and (ii) options to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.65 per share, and the issuance of the shares of Common Stock issuable upon exercise of such options and warrants, in accordance with the Executive Employment Agreement (defined herein) dated November 30, 2016 as subsequently amended on February 22, 2017, in order to comply with the listing rules the NYSE American;

10. To adopt the Company's 2017 Stock Incentive Plan; and

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11. To act on such other matters as may properly come before the meeting or any adjournment there.

Only shareholders of record at the close of business on \_\_\_\_\_, 2017, will be entitled to attend and vote at the meeting. The proxy materials will be mailed to shareholders on or about \_\_\_\_\_, 2017.

**Important Notice Regarding the Availability of Proxy Materials for the 2017 Annual Meeting of Shareholders to be held on \_\_\_\_\_, 2017:**

**This Proxy Statement, our 2016 Annual Report on Form 10-K and the Form 10-Q for the fiscal quarter ended June 30, 2017 are available at [www.\\_\\_\\_\\_\\_.com](http://www._____.com).**

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Amos Kohn

Amos Kohn

President and Chief Executive Officer

\_\_\_\_\_, 2017

**HOW TO VOTE: Your vote is important. Whether or not you plan to attend the meeting, we hope you will vote as soon as possible. You may vote over the Internet, as well as by telephone or, if you requested to receive printed proxy materials, by mailing a proxy or voting instruction card. Please review the instructions on each of your voting options described in this Proxy Statement as well as in the proxy card. Your vote is important, no matter how many shares you owned on the Record Date. A return envelope is enclosed for your convenience and needs no postage if mailed in the United States.**

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**DIGITAL POWER CORPORATION**

**48430 Lakeview Blvd.**

**Fremont, California 94538-3158**

**Telephone: (510) 657-2635**

**PRELIMINARY PROXY STATEMENT**

**FOR THE 2017 ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON \_\_\_\_\_, 2017**

**INFORMATION CONCERNING THE ANNUAL MEETING**

**General**

The enclosed proxy is solicited by the Board of Directors (the “**Board**”) of Digital Power Corporation (the “**Company**” or “**DPW**”), for use at the Annual Meeting of the Company’s shareholders (the “**Meeting**”) to be held via live webcast on the Internet at \_\_\_\_\_ on \_\_\_\_\_, 2017, at 10:00 a.m. PT and at any adjournments thereof. Whether or not you expect to attend the meeting in person, please vote your shares as promptly as possible to ensure that your vote is counted. The proxy materials will be furnished to shareholders on or about \_\_\_\_\_, 2017.

**Action to be taken under Proxy**

Unless otherwise directed by the giver of the proxy, the persons named in the form of proxy, namely, Amos Kohn, our Chief Executive Officer, and Milton C. “Todd” Ault, III, our Executive Chairman of the Board, or either one of them who acts, will vote:

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FOR the election of the six (6) director nominees named in the Proxy Statement to hold office until the next annual meeting of shareholders;

FOR ratification of the appointment of Marcum, LLP, as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017;

FOR approval of the reincorporation of the Company from California to Delaware (the "**Reincorporation**") and the related name change to DPW Holdings, Inc.;

FOR approval of conversion of up to 500,000 shares of the Company's Series B Preferred Stock into and the exercisability of Warrants to purchase shares of Common Stock in accordance with the Preferred Stock Purchase Agreement dated March 9, 2017, in order to comply with listing Rule 713 of the NYSE American, LLC;

FOR approval of the conversion of 378,776 shares of the Company's Series D Preferred Stock into and exercisability of Warrants to purchase up to 1,000,000 shares of Common Stock, each as issued in accordance with the Share Exchange Agreement dated April 28, 2017, in order to comply with listing Rule 712 of the NYSE American, LLC and California law;

FOR approval of the conversion of 10,000 shares of the Company's Series E Preferred Stock into shares of Common Stock in accordance with the Share Exchange Agreement dated April 28, 2017 in order to comply with listing Rule 712 of the NYSE American, LLC;

FOR approval of the conversion of a \$400,000 Convertible Note convertible into 727,273 shares of Common Stock at \$0.55 per share and related Warrants to purchase 666,667 shares of Common Stock at \$1.10 per share in accordance with the Convertible Note Purchase Agreement dated August 3, 2017 in order to comply with the listing Rule 713 of the NYSE American;

FOR approval of the conversion of \$880,000 of Convertible Notes convertible into the aggregate of 1,466,667 shares of Common Stock at \$0.60 per share and related Warrants to purchase 1,466,667 shares of Common Stock at \$0.66 per share in accordance with the Convertible Note Purchase Agreement dated August 10, 2017, in order to comply with listing Rule 713 of the NYSE American;

FOR approval of the exercisability of (i) warrants to purchase 317,460 shares of Common Stock at an exercise price of \$0.01 per share and (ii) options to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.65 per share, and the issuance of the shares of Common Stock issuable upon exercise of such warrants and options, in accordance with the Chief Executive Officer's Employment Agreement dated November 30, 2016, as subsequently amended on February 22, 2017, in order meet listing Rule 711 of the NYSE American;

To approve the 2017 Stock Incentive Plan; and

According to their discretion, on the transaction of such other matters as may properly come before the meeting or any adjournment there.

Should any nominee named herein for election as a director become unavailable for any reason, it is intended that the persons named in the proxy will vote for the election of such other person in his stead as may be designated by the Board. The Board is not aware of any reason that might cause any nominee to be unavailable.

By submitting your proxy (via the Internet, telephone or mail), you authorize Mr. Amos Kohn, the Company's Chief Executive Officer, and Mr. Milton C. "Todd" Ault, III, the Company's Executive Chairman of the Board of Directors, to represent you and vote your shares at the meeting in accordance with your instructions. They also may vote your shares to adjourn the meeting and will be authorized to vote your shares at any postponements or adjournments of the meeting.

We will be hosting the 2017 Annual Meeting live via the Internet. A summary of the information you need to attend the meeting online is provided below:

Any shareholder can attend the 2017 Annual Meeting live via the Internet at \_\_\_\_\_;

Webcast starts at 10:00 a.m. PT;

Shareholders may vote and submit questions while attending the 2017 Annual Meeting on the Internet; and

Shareholders need a twelve-digit control number to join the 2017 Annual Meeting.

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY VOTE YOUR SHARES OVER THE INTERNET, BY TELEPHONE OR BY MAIL.**

**Who is Entitled to Vote; Vote Required; Quorum**

As of the Record Date of \_\_\_\_\_, 2017, there were \_\_\_\_\_ shares of Common Stock issued and outstanding; 100,000 shares of Series B Convertible Preferred Stock issued and outstanding; 454,986 shares of Series C Convertible Preferred Stock issued and outstanding; 378,776 shares of Series D Convertible Preferred Stock issued and outstanding; and 10,000 shares of Series E Convertible Preferred Stock issued and outstanding; which constitutes all of the outstanding capital stock of the Company. Shareholders are entitled to one vote for each share of Common Stock held by them. The 100,000 shares of Series B Convertible Preferred Stock will, assuming approval of Proposal 4, carry the voting power of \_\_\_\_\_ percent (\_\_\_%) of all votes entitled to be voted at any annual or special meeting of shareholders of our company or action by written consent of our shareholders but will not carry any voting rights at the Meeting. The 454,986 shares of Series C Convertible Preferred Stock carry the voting power of \_\_\_ percent (\_\_\_%) of all votes entitled to be voted at any annual or special meeting of shareholders of our Company or action by written consent of our shareholders and will be voted on an as converted basis into shares of Common Stock along with the other shareholders of Common Stock. Neither the 378,776 shares of Series D Convertible Preferred Stock nor the 10,000 shares of Series E Convertible Preferred Stock have any voting rights.

A majority of the \_\_\_\_\_ outstanding shares of Common Stock will constitute a quorum at the Meeting.

Brokers holding shares of record for customers generally are not entitled to vote on “non-routine” matters, unless they receive voting instructions from their customers. As used herein, “uninstructed shares” means shares held by a broker who has not received such instructions from its customers on a proposal. A “broker non-vote” occurs when a nominee holding uninstructed shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that non-routine matter. In connection with the treatment of abstentions and broker non-votes, all but one of the proposals at this are considered “non-routine” matters, and brokers are not entitled to vote uninstructed shares with respect to these proposals. Only the proposal to ratify the appointment of Marcum, LLP, as the Company’s independent registered public accounting firm, is a routine matter that brokers are entitled to vote upon without receiving instructions.

Determination of whether a matter specified in the Notice of Annual Meeting of Shareholders has been approved will be determined as follows:

Those persons will be elected directors who receive a plurality of the votes cast at the Meeting in person or by proxy and entitled to vote on the election. Accordingly, abstentions or directions to withhold authority will have no effect on the outcome of the vote;

The Reincorporation will require the affirmative vote of the holders of a majority of the total outstanding shares as of the record date. Consequently, abstentions will have the effect of a vote against the reincorporation;

Approval of the conversion of 378,776 shares of the Company's Series D Preferred Stock into and exercisability of Warrants to purchase up to 1,000,000 shares of Common Stock, each as issued in accordance with the Share Exchange Agreement dated April 28, 2017, in order to comply with listing Rule 712 of the NYSE American, LLC and California law will require the affirmative vote of the holders of a majority of the total outstanding shares as of the record date. Consequently, abstentions will have the effect of a vote against the reincorporation; and

For each other matter specified in the Notice of Annual Meeting of Shareholders, the affirmative vote of a majority of the shares of Common Stock present at the meeting in person or by proxy and entitled to vote on such matter is required for approval. Abstentions will be considered shares present by proxy and entitled to vote and, therefore, will have the effect of a vote against the matter. Broker non-votes will be considered shares not present for this purpose and will have no effect on the outcome of the vote.

Directions to withhold authority to vote for directors, abstentions and broker non-votes will be counted for purposes of determining whether a quorum is present for the Meeting.

## QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

### What is the purpose of the 2017 Annual Meeting and why is it being held over the Internet?

At the 2017 Annual Meeting, the shareholders will be asked:

1. To elect the six (6) director nominees named in the Proxy Statement to hold office until the next annual meeting of shareholders;
2. To ratify the appointment of Marcum, LLP, as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017;
3. To approve the Reincorporation of the Company from California to Delaware and the related name change to DPW Holdings, Inc.;

4. To approve the conversion of up to 500,000 shares of the Company's Series B Preferred Stock into shares of Common Stock and the exercisability of warrants to purchase shares of Common Stock, in accordance with the Preferred Stock Purchase Agreement dated March 9, 2017, in order to comply with listing Rule 713 of the NYSE American, LLC;

5. To approve the conversion of 378,776 shares of the Company's Series D Preferred Stock and exercisability of warrants to purchase up to 1,000,000 shares of Common Stock, each as issued in accordance with the Share Exchange Agreement dated April 28, 2017, in order to comply with listing Rule 712 of the NYSE American, LLC and California law;

6. To approve the conversion of 10,000 shares of the Company's Series E Preferred Stock into shares of Common Stock in accordance with the Share Exchange Agreement, dated April 28, 2017, in order to comply with listing Rule 713 of the NYSE American, LLC;;

7. To approve the conversion of a \$400,000 Convertible Note convertible into 727,273 shares of Common Stock at \$0.55 per share and related Warrants to purchase 666,667 shares of Common Stock at \$1.10 per share in accordance with the Convertible Note Purchase Agreement dated August 3, 2017, in order to comply with listing Rule 713 of the NYSE American, LLC;

8.



To approve the conversion of \$880,000 of Convertible Notes convertible into the aggregate of 1,466,667 shares of Common Stock at \$0.60 per share and related warrants to purchase 1,466,667 shares of Common Stock at \$0.66 per share in accordance with the Convertible Note Purchase Agreement dated August 10, 2017, in order to comply with listing Rule 713 of the NYSE American, LLC;

To approve the exercisability of (i) warrants to purchase 317,460 shares of Common Stock at an exercise price of \$0.01 per share and (ii) options to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.65 per share, and the issuance of the shares of Common Stock issuable upon exercise of such options and warrants, in accordance with the Executive Employment Agreement dated November 30, 2016, as subsequently amended on February 22, 2017, in order to comply with listing Rule 711 of the NYSE American, LLC;

10. To approve 2017 Stock Incentive Plan; and

11. To act on such other matters as may properly come before the meeting or any adjournment thereof.

The 2017 Annual Meeting is being held on a virtual-only basis in order to reach the broadest number of shareholders possible and to save costs relative to holding a physical meeting.

**Who is entitled to vote?**

The Record Date for the meeting is \_\_\_\_\_, 2017. Only shareholders of record at the close of business on that date are entitled to vote at the meeting. The only class of stock entitled to be voted at the meeting is our Common stock and Series C Preferred Stock. On the Record Date, there were \_\_\_\_\_ shares of Common Stock outstanding; and 454,986 shares of Series C Convertible Preferred Stock issued and outstanding and entitled to vote. Each share of Series C Convertible Preferred is convertible into four shares of Common Stock and will vote on an as converted basis.

**Why am I receiving these materials?**

We have sent you these proxy materials because the Board of Digital Power Corporation (sometimes referred to as the “Company,” “DPW,” “we” or “us”) is soliciting your proxy to vote at the 2017 Annual Meeting of Shareholders. According to our records, you were a shareholder of the Company as of the end of business on \_\_\_\_\_, 2017, the Record Date for the Annual Meeting.

You are invited to vote on the proposals described in this proxy statement.

The Company intends to mail these proxy materials on or about \_\_\_\_\_, 2017 to all shareholders of record on the Record Date.

**What is included in these materials?**

These materials include:

this Proxy Statement for the Annual Meeting;

our Annual Report on Form 10-K for the year ended December 31, 2016 and the Form 10-Q for the fiscal quarter ended June 30, 2017;

The Agreement and Plan of Merger between DPW and DPW Holdings, Inc.;

The Certificate of Incorporation and Bylaws of DPW Holdings, Inc.; and

The 2017 Stock Incentive Plan.

**What is the proxy card?**

The proxy card enables you to appoint Amos Kohn, our Chief Executive Officer, and Milton C. “Todd” Ault, III, our Executive Chairman of the Board of Directors, as your representative at the Annual Meeting. By completing and returning a proxy card, you are authorizing these individuals to vote your shares at the Annual Meeting in accordance with your instructions on the proxy card. This way, your shares will be voted whether or not you attend the Annual Meeting.

**Can I view these proxy materials over the Internet?**

Yes. The Notice of Meeting, this Proxy Statement and accompanying proxy card, our Annual Report on Form 10-K for the year ended December 31, 2016, the Form 10-Q for the fiscal quarter ended June 30, 2017 and the other documents appended hereto are available at: \_\_\_\_\_.

**How do I vote by proxy?**

If you properly complete, sign and date the accompanying proxy card or voting instruction card and return it in the enclosed envelope, it will be available for examination on the Internet through the virtual web conference during the annual meeting.

Please note that there are separate telephone and Internet arrangements depending on whether you are a registered shareholder (that is, if you hold your stock in your own name) or you hold your shares in “street name” (that is, in the name of a brokerage firm or bank that holds your securities account). In either case, you must follow the procedures described in the proxy card.

**Am I entitled to vote if my shares are held in “street name”?**

If your shares are held by a bank, brokerage firm or other nominee, you are considered the “beneficial owner” of shares held in “street name.” If your shares are held in street name, the proxy materials are being made available to you by your bank, brokerage firm or other nominee (the “record holder”), along with voting instructions. As the beneficial owner, you have the right to direct your record holder how to vote your shares, and the record holder is required to vote your shares in accordance with your instructions. If you do not give instructions to your record holder, it will nevertheless be entitled to vote your shares in its discretion on the ratification of the appointment of the independent registered public accounting firm (Proposal 2), but not on any other proposal.

As the beneficial owner of shares, you are invited to attend the annual meeting. If you are a beneficial owner, however, you may not vote your shares at the meeting unless you obtain a legal proxy, executed in your favor, from the record holder of your shares.

**How many shares must be present to hold the online meeting?**

A quorum must be present at the meeting for any business to be conducted. The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of Common Stock outstanding on the Record Date will constitute a quorum. Proxies received but marked as abstentions or treated as broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

**What if a quorum is not present at the online meeting?**

If a quorum is not present or represented at the meeting, the holders of a majority of the shares entitled to vote at the meeting who are present in person or represented by proxy, or the chairman of the meeting, may adjourn the meeting until a quorum is present or represented. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given.

**What do I need in order to be able to attend the online meeting?**

The Company will be hosting the 2017 annual meeting live online. You can attend the 2017 annual meeting live online at [www.\\_\\_\\_\\_\\_](http://www._____). The webcast will start at 10:00 a.m. PT. You may vote and submit

questions while attending the meeting online. You will need the twelve-digit control number included on your proxy card in order to be able to enter the meeting.

### **How can I vote my shares during the online meeting?**

Shares held in your name as the shareholder of record may be voted by you, while the polls remain open, at [www.\\_\\_\\_\\_\\_](http://www._____) during the meeting. You will need your twelve-digit control number found in the proxy card. Shares held beneficially in street name may be voted by you at the meeting only if you obtain a legal proxy from the broker, bank, trustee or nominee that holds your shares giving you the right to vote the shares. Even if you plan to attend the online meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the online meeting.

### **How can I vote my shares without attending the online meeting?**

Whether you hold shares directly as the shareholder of record or beneficially in street name, you may direct how your shares are voted without attending the online meeting. If you are a shareholder of record, you may vote by proxy. You can vote by proxy over the Internet or telephone by following the instructions provided on the proxy card. If you hold shares beneficially in street name, you may also vote by proxy over the Internet, telephone or by mail by following the voting instruction card provided to you by your broker, bank, trustee or nominee.

### **Is there a deadline for submitting proxies electronically or by telephone or mail?**

Proxies submitted electronically or by telephone as described above must be received by 11:59 pm ET on \_\_\_\_\_, 2017. Proxies submitted by mail should be received before 10:00 am PT on \_\_\_\_\_, 2017.

### **Can I revoke my proxy and change my vote?**

You may change your vote at any time prior to the taking of the vote at the online meeting. If you are the shareholder of record, you may change your vote by (1) granting a new proxy bearing a later date (which automatically revokes the earlier proxy) using any of the methods described above (and until the applicable deadline for each method), (2) providing a written notice of revocation to the Company's CEO at Digital Power Corporation, 48430 Lakeview Blvd., Fremont, California 94538-3158, prior to your shares being voted, or (3) attending the online meeting and voting. Attendance at the online meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, bank, trustee or nominee following the instructions they provided, or, if you have obtained

a legal proxy from your broker, bank, trustee or nominee giving you the right to vote your shares, by attending the online meeting and voting.

**Who can participate in the online meeting?**

Only shareholders eligible to vote or their authorized representatives in possession of a valid twelve-digit control number will be admitted as participants to the online meeting.

**Will my vote be kept confidential?**

Yes, your vote will be kept confidential and not disclosed to the Company unless:

• required by law;

• you expressly request disclosure on your proxy; or

• there is a proxy contest.

**How does the Board of Directors recommend I vote on the proposals?**

Our Board recommends that you vote your shares as follows:

• **“FOR”** the election of each of the six (6) nominees for director;

• **“FOR”** the ratification of Marcum, LLP, as independent registered public accountants of the Company for its fiscal year ending December 31, 2017;

• **“FOR”** approval of the Reincorporation of the Company from California to Delaware;

• **“FOR”** approval of the conversion of up to 500,000 shares of the Company’s Series B Preferred Stock into shares of Common Stock and warrants to purchase shares of Common Stock, in accordance with the Preferred Stock Purchase Agreement dated March 9, 2017;

“**FOR**” approval of the conversion of 378,776 shares of the Company’s Series D Preferred Stock into shares of Common Stock and warrants to purchase up to 1,000,000 shares of Common Stock, in accordance with the Share Exchange Agreement dated April 28, 2017;

“**FOR**” approval of the conversion of 10,000 shares of the Company’s Series E Preferred Stock into shares of Common Stock, in accordance with the Share Exchange Agreement, dated April 28, 2017;

“**FOR**” approval of the conversion of a \$400,000 Convertible Note convertible into 727,273 shares of Common Stock at \$0.55 per share and related warrants to purchase 666,667 shares of Common Stock at \$1.10 per share in accordance with the Convertible Note Purchase Agreement dated August 3, 2017;

“**FOR**” approval of the conversion of \$880,000 in the aggregate of Convertible Notes convertible into 1,466,667 shares of Common Stock at \$0.60 per share and related warrants to purchase 1,466,667 shares of Common Stock at \$0.66 per share in accordance with the Convertible Note Purchase Agreement dated August 10, 2017;

“**FOR**” approval of the exercisability of (i) warrants to purchase 317,460 shares of Common Stock at an exercise price of \$0.01 per share and (ii) options to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.65 per share, and the issuance of the shares of Common Stock issuable upon exercise of such options and warrants, in accordance with the Executive Employment Agreement (defined herein) dated November 30, 2016, as subsequently amended on February 22, 2017; and



•**FOR**” approval of the adoption of the 2017 Stock Incentive Plan.

Unless you provide other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board as set forth in this Proxy Statement.

**What if I do not specify how my shares are to be voted?**

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted in accordance with the Board’s recommended votes set forth immediately above, and if any other matter is properly presented at the meeting, your proxy holder (one of the individuals named on your proxy card) will vote your shares using his best judgment.

**Will any other business be conducted at the meeting?**

The Company’s by-laws require shareholders to give advance notice of any proposal intended to be presented at the meeting. The deadline for this notice has passed and we have not received any such notices. If any other matter properly comes before the shareholders for a vote at the meeting, however, the proxy holders will vote your shares in accordance with their best judgment.

**How many votes are needed to approve each proposal?**

For the election of directors, each of the six (6) nominees receiving “**For**” votes at the meeting in person or by proxy will be elected. Approval of all other matters requires the favorable vote of a majority of the votes cast on the applicable matter at the Annual Meeting other than the Reincorporation and the conversion of the Series D Preferred Stock as well as the exercisability issued in connection therewith, which require the favorable vote of a majority of the issued and outstanding shares.

**How will abstentions be treated?**

Abstentions will be treated as shares present for quorum purposes and entitled to vote, and will have the same practical effect as votes against a proposal except in the case of the election of directors, in which case an abstention

will have no impact.

**What are “broker non-votes”?**

Broker non-votes occur when a beneficial owner of shares held in “street name” does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed “non-routine.” Generally, if shares are held in street name, the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. If the beneficial owner does not provide voting instructions, the broker or nominee can still vote the shares with respect to matters that are considered to be “routine,” but not with respect to “non-routine” matters. Under the rules and interpretations of the New York Stock Exchange, “non-routine” matters include director elections (whether contested or uncontested) and matters involving a contest or a matter that may substantially affect the rights or privileges of shareholders.

In connection with the treatment of abstentions and broker non-votes, the proposals at this meeting to (i) elect directors, (ii) approve a proposed change in corporate domicile from California to Delaware, (iii) approve the issuance of up to 500,000 shares of the Company’s Series B Preferred Stock and the issuance of warrants to purchase shares of Common Stock in accordance with the Preferred Stock Purchase Agreement, (iv) approve the issuance of 378,776 shares of the Company’s Series D Preferred Stock, (v) approve the issuance of 10,000 shares of the Company’s Series E Preferred Stock; (vi) approve the conversion of a \$400,000 Convertible Note convertible into 727,273 shares of Common Stock at \$0.55 per share and related warrants to purchase 666,667 shares of Common Stock at \$1.10 per share; (vii) approve the conversion of \$880,000 in the aggregate of Convertible Notes convertible into 1,466,667 shares of Common Stock at \$0.60 per share and related warrants to purchase 1,466,667 shares of Common Stock at \$0.66; (viii) approve the 2017 Stock Incentive Plan; and (ix) approve the issuance of warrants to purchase 317,460 shares and options to purchase 1,000,000 shares in accordance with the Executive Employment Agreement, are considered “non-routine” matters, and brokers are not entitled to vote uninstructed shares with respect to these proposals. Only the proposal to ratify the appointment of Marcum, LLP, as the Company’s independent registered public accounting firm is a routine matter that brokers are entitled to vote shares without receiving instructions.

Our election of directors (Proposal No. 1), approval of the proposed change in corporate domicile from California to Delaware (Proposal No. 3), approval of the conversion of up to 500,000 shares of the Company's Series B Preferred Stock into Common Stock and the issuance of warrants to purchase shares of Common Stock in accordance with the Preferred Stock Purchase Agreement (Proposal No. 4), approval of the conversion of 378,776 shares of the Company's Series D Preferred Stock into Common Stock in accordance with the Share Exchange Agreement (Proposal No. 5), approval of the conversion of up to 10,000 shares of the Company's Series E Preferred Stock into shares of Common Stock in accordance with the Share Exchange Agreement (Proposal No. 6), approval of the conversion of a \$400,000 Convertible Note convertible into 727,273 shares of Common Stock at \$0.55 per share and related warrants to purchase 666,667 shares of Common Stock at \$1.10 per share (Proposal No. 7); approval of the conversion of \$880,000 in the aggregate of Convertible Notes convertible into 1,466,667 shares of Common Stock at \$0.60 per share and related warrants to purchase 1,466,667 shares of Common Stock at \$0.66 (Proposal No. 8); approval of the issuance of warrants to purchase 317,460 shares and options to purchase 1,000,000 shares in accordance with the Executive Employment Agreement (Proposal 9), and approval to adopt the 2017 Stock Incentive Plan (Proposal 10), are considered to be "non-routine" matters and as a result, brokers or nominees cannot vote your shares on these proposals in the absence of your direction.

**Who is paying for this proxy solicitation?**

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies but may be reimbursed for out-of-pocket expenses incurred in connection with the solicitation. We will also reimburse brokerage firms, banks and other agents for their reasonable out-of-pocket expenses incurred in forwarding proxy materials to beneficial owners.

**What does it mean if I receive more than one set of proxy materials?**

If you receive more than one set of proxy materials, your shares may be registered in more than one name or in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

**I share the same address with another shareholder of the Company. Why has our household only received one set of proxy materials?**

The Securities and Exchange Commission's ("SEC's") rules permit us to deliver a single set of proxy materials to one address shared by two or more of our shareholders. This practice, known as "householding," is intended to reduce the Company's printing and postage costs. We have delivered only one set of proxy materials to shareholders who hold their shares through a bank, broker or other holder of record and share a single address, unless we received contrary instructions from any shareholder at that address. However, any such street name holder residing at the same address who wishes to receive a separate copy of the proxy materials may make such a request by contacting the bank, broker or other holder of record, or \_\_\_\_\_ at \_\_\_\_\_ or in writing at \_\_\_\_\_. Street name holders residing at the same address who would like to request householding of Company materials may do so by contacting the bank, broker or other holder of record or \_\_\_\_\_ at the phone number or address listed above.

**How can I find out the results of the voting at the Annual Meeting?**

Final voting results will be disclosed in a Form 8-K filed after the Annual Meeting.

**Who can help answer my questions?**

You can contact our corporate headquarters, at Digital Power Corporation, 48430 Lakeview Blvd., Fremont, California 94538-3158, or by sending a letter to Amos Kohn, our Chief Executive Officer, with any questions about the proposal described in this proxy statement or how to execute your vote.

**PROPOSAL NO. 1****ELECTION OF DIRECTORS****Information about the Nominees**

At the Annual Meeting, the shareholders will elect six (6) directors to serve until the next annual meeting of Shareholders or until their respective successors are elected and qualified. In the event any nominee is unable or unwilling to serve as a director at the time of the Annual Meeting, the proxies may be voted for the balance of those nominees named and for any substitute nominee designated by the present Board or the proxy holders to fill such vacancy, or for the balance of the nominees named without nomination of a substitute, or the size of the Board may be reduced in accordance with the Bylaws of the Company. The Board has no reason to believe that any of the persons named below will be unable or unwilling to serve as a nominee or as a director if elected.

Assuming a quorum is present, the six (6) nominees receiving the highest number of affirmative votes of shares entitled to be voted for them will be elected as directors of the Company for the ensuing year. Unless marked otherwise, proxies received will be voted "FOR" the election of each of the eight nominees named below. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them in such a manner as will ensure the election of as many of the nominees listed below as possible, and, in such event, the specific nominees to be voted for will be determined by the proxy holders. All of the director nominees currently serve as directors.

<b>NAME</b>	<b>AGE</b>	<b>CURRENT POSITION</b>
Amos Kohn	57	President, Chief Executive Officer, Chief Financial Officer and Director (Principal Executive and Financial Officers)
Milton "Todd" Ault, III*	47	Executive Chairman of the Board of Directors
Kristine Ault*	47	Director
Robert O. Smith	73	Director
William Horne*	49	Director
Moti Rosenberg	70	Director

\* Pursuant to a Securities Purchase Agreement (the "Agreement") dated September 5, 2016, by and among the Company, Philou Ventures, LLC, a Wyoming limited liability company, and Telkoor Telecom Ltd., an Israeli company, Philou Ventures has the right to designate up to four directors to the Board.

The following information with respect to the principal occupation or employment of each nominee for director, the principal business of the corporation or other organization in which such occupation or employment is carried on, and such nominee's business experience during the past five years, as well as the specific experiences, qualifications, attributes and skills that have led the Board to determine that such Board members should serve on our Board, has been furnished to the Company by the respective director nominees:

**Amos Kohn.** Mr. Kohn has served as a member of our board of directors since 2003, as our President and Chief Executive Officer since 2008. From March 2011 until August 2013 Mr. Kohn also served as interim Chief Financial Officer. Mr. Kohn has more than 20 years of successful global executive management experience, including multiple C-level roles across private and established publicly-traded companies. Mr. Kohn has successfully managed cross-functional teams, driven corporations to high profitability, built customer loyalty and led businesses through expansion and sustained growth. His areas of expertise include operations, technology innovation, manufacturing, strategic analysis and planning and M&A. Mr. Kohn was Vice President of Business Development at Scopus Video Networks, Inc., a Princeton, New Jersey company that develops and markets digital video networking products (2006-2007); Vice President of Solutions Engineering at ICTV Inc., a leading provider of network-based streaming media technology solutions for digital video and web-driven programming, located in Los Gatos, California (2003-2006); Chief Architect at Liberate Technologies, a leading company in the development of a full range of digital media processing for telecom and cable TV industries, located in San Carlos, California (2000-2003); and Executive Vice President of Engineering and Technology at Golden Channel & Co., the largest cable television multiple-systems operator (MSO) in Israel, where he had executive responsibility for developing and implementing the entire nationwide cable TV system (1989-2000). Mr. Kohn holds a degree in electrical and electronics engineering and is named as an inventor on several United States and international patents. We believe that Mr. Kohn's extensive executive-level management experience in diversified industries, including, but not limited to, power electronics, telecommunications, cable television, broadcast and wireless, as well as his service as a director on our board since 2003, give him the qualifications and skills to serve as one of our directors.

**Milton C. “Todd” Ault, III.** Mr. Ault was appointed Executive Chairman of the Board on March 16, 2017. Mr. Ault is a seasoned business professional and entrepreneur that has spent more than twenty-seven years identifying value in various financial markets including equities, fixed income, commodities, and real estate. Mr. Ault founded on February 25, 2016 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. Mr. Ault has served as Chairman of Ault & Company, a holding company since December 2015, and as Chairman of Avalanche International Corp since September 2014. Since January, 2011, Mr. Ault has been the Vice President of Business Development for MCKEA Holdings, LLC, a family office. Through this position, Mr. Ault has consulted for a few publicly traded and privately held companies, providing each of them the benefit of his diversified experience, that range from development stage to seasoned businesses. He was the President, Chief Executive Officer, Director and Chairman of the Board of Zealous, Inc. from August 2007 until June 4, 2010 and again from February 2011 through May 1, 2011. Mr. Ault was a registered representative at Strome Securities, LP, from July 1998 until December 2005, where he was involved in portfolio management and worked on several activism campaigns including Taco Cabana, Jack In The Box (formerly Foodmaker), and 21st Century Holdings Co. Mr. Ault became majority shareholder of Franklin Capital Corp and was elected to its board of directors in July 2004 and became its Chairman and Chief Executive Officer 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. (OTCQB: PSTX) (“**PST**”) and purchased SurgiCount Medical, Inc. Stryker Corporation (NYSE:SYK) acquired PST at the beginning of 2014 in a deal valued at approximately one hundred twenty million dollars (\$120,000,000). PST’s wholly owned operating subsidiary, SurgiCount Medical, Inc., is the company that developed the SafetySponge® System a bar coding technology for inventory control that aims to detect and prevent the incidence of foreign objects left in the body after surgery. We believe that Mr. Ault’s business background demonstrates he has the qualifications to serve as one of our directors and as Chairman.

**Kristine Ault.** Ms. Ault has served as a member of our board of directors since October 13, 2016. She is a seasoned business woman who has served as the managing member of a private holding company that makes equity investments in other operating businesses since 2011 and has served as a member of our board of directors since October 2016. Prior to that, she worked in the finance department of Strome Securities, L.P. in Santa Monica, California. Ms. Ault 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. She also received an A.A in Natural Sciences and Mathematics from Napa Valley College. We believe that Ms. Ault’s experiences, attributes and abilities in business administration and accounting with equity investments give her the qualifications and skill set to serve as one of our directors.

**Robert O. Smith.** Mr. Smith serves as one of our independent directors. Previously, he served as a member of our Board of Directors from November 2010 until May 2015, and served as a member of our Advisory Board from 2002 until 2015. He is currently a C-level executive consultant working with Bay Area high-tech firms on various strategic initiatives in all aspects of their business. From 2004 to 2007, he served on the Board of Directors of Castelle Corporation. From 1990 to 2002, he was our President, Chief Executive Officer and Chairman of the Board. From 1980 to 1990, he held several management positions with Computer Products, Inc., the most recent being President of their Compower/Boschert Division. From 1970 to 1980, he held managerial accounting positions with Ametek/Lamb Electric and with the JM Smucker Company. Mr. Smith received his BBA degree in Accounting from Ohio University. We believe that Mr. Smith’s executive-level experience, including his previous service as our President, Chief Executive Officer and Chairman of the Board, his extensive experience in the accounting industry, and his

service on our Board from November 2010 until May 2015, give him the qualifications and skills to serve as one of our directors.

**William Horne.** Mr. Horne has served as an independent member of our board of directors since October 13, 2016. He has served as the Chief Financial Officer of Targeted Medical Pharma, Inc. (OTCBB: TRGM) since August 2013 and has served as a member of our board of directors since October 2016. Mr. Horne is a director of and chief financial officer to Avalanche International, Co. Mr. Horne previously held the position of Chief Financial Officer in various companies in the healthcare and high-tech field, including OptimisCorp, from January 2008 to May 2013, a privately held, diversified healthcare technology company located in Los Angeles, California. Mr. Horne served as the Chief Financial Officer of Patient Safety Technologies, Inc. (OTCBB: PSTX), a medical device company located in Irvine, California, from June 2005 to October 2008 and as the interim Chief Executive Officer from January 2007 to April 2008. In his dual role at Patient Safety Technologies, Mr. Horne was directly responsible for structuring the divestiture of non-core assets, capital financings and debt restructuring. Mr. Horne held the position of Managing Member & Chief Financial Officer of Alaska Wireless Communications, LLC, a privately held, advanced cellular communications company, from its inception in May 2002 until November 2007. Mr. Horne was responsible for negotiating the sale of Alaska Wireless to General Communication Inc. (NASDAQ: GNCMA). From November 1996 to December 2001, Mr. Horne held the position of Chief Financial Officer of The Phoenix Partners, a venture capital limited partnership located in Seattle, Washington. Mr. Horne has also held supervisory positions at Price Waterhouse, LLP and has a Bachelor of Arts Magna Cum Laude in Accounting from Seattle University. We believe that Mr. Horne's extensive financial and accounting experience in diversified industries and with companies involving complex transactions give him the qualifications and skills to serve as one of our directors.



**Moti Rosenberg.** Mr. Rosenberg serves as one of our independent directors. He has served as 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 the general manager of ZIV U.P.V.C Products Ltd.'s doors and window factory. Mr. Rosenberg 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 platoon, company, battalion, and brigade commander, head of the training center for all IDF infantry, and head of the Air Force's Special Forces. Mr. Rosenberg received a B.A in History from the University of Tel Aviv and a Master of Arts in Political Science from the University of Haifa in Israel. We believe that Mr. Rosenberg's business background give him the qualifications to serve as one of our directors.

Directors serve until the next annual meeting of shareholders or until their successors are elected and qualified. Officers serve at the discretion of the Board.

### **Involvement in Certain Legal Proceedings**

Except as disclosed below, to our knowledge, none of our current directors or executive officers has, during the past ten years:

been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;

been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity;

been found by a court of competent jurisdiction in a civil action or by the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;

been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

1. Mr. Ault held series 7, 24, and 63 licenses and managed four domestic hedge funds and one bond fund from 1998 through 2008. On April 26, 2012, as a result from an investigation by FINRA involving activities during 2008, Mr. Ault agreed to a settlement with FINRA in which he did not admit to any liability or violation of any laws or regulatory rules and that included restitution and a suspension from association with a FINRA member firm for a period of two years. As part of that settlement, Mr. Ault agreed that he would make restitution to certain investors. Mr. Ault did not within the prescribed time period make a restitution payment to certain of the investors as he was unable to locate all of them, nor did he forward the undistributed restitution in the state where the investor was known to have resided, as directed by FINRA.

2. Mr. Ault was CEO, President and Chairman of Zealous Holdings, Inc. that filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") on February 20, 2009, in the U.S. Bankruptcy Court, Central District of California. This Chapter 11 filing was subsequently converted to a Chapter 7 filing by order of the Bankruptcy Court. Zealous Holdings, Inc. was not an entity that was entitled to a discharge under the bankruptcy code. As such Zealous Holdings, Inc. did not receive a discharge. Ultimately, Zealous Holdings, Inc. ceased doing business and was permanently closed.

3. Mr. Ault filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") on December 8, 2009, in the U.S. Bankruptcy Court, Central District of California. This Chapter 13 filing was subsequently converted to a Chapter 7 filing by order of the Bankruptcy Court and months later, the petition being withdrawn and dismissed without prejudice.

Except as set forth in our discussion below in “Certain Relationships and Related Transactions,” none of our directors or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

### **Family Relationships.**

Milton C. Ault, III and Kristine Ault are spouses.

### **Board Independence**

Our Board has undertaken a review of the independence of each director and director nominee and has determined that Messrs. Smith, Horne and Rosenberg are independent, and that each director who serves on or is nominated for each of its committees is independent, as such term is defined by standards of the SEC and the NYSE American. None of Messrs. Kohn and Ault nor Ms. Ault meets the independence standards.

### **Shareholder Communications with the Board**

The Company’s shareholders may communicate with the Board, including non-executive directors or officers, by sending written communications addressed to such person or persons in care of Digital Power Corporation., Attention: Secretary, 48430 Lakeview Blvd., Fremont, California 94538-3158. All communications will be compiled by the Secretary and submitted to the addressee. If the Board modifies this process, the revised process will be posted on the Company’s website.

### **Meetings and Committees of the Board**

During the fiscal year ended December 31, 2016, the Board held five meetings, the Audit Committee held three meetings, the Nominating and Governance Committee held one meeting and the Compensation Committee held one meeting. The Board and Board committees also approved certain actions by unanimous written consent. We encourage, but do not require, our Board members to attend the annual meeting of shareholders. Amos Kohn attended our 2016 Annual Meeting of Shareholders.

**Board Committees**

The Board has standing Audit and Compensation and Nominating and Governance Committees. Information concerning the membership and function of each committee is as follows:

<b>Name</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Nominating and Governance Committee</b>
Amos Kohn			
Milton “Todd” Ault, III			
Kristine Ault			
Robert O. Smith	*	**	*
William Horne	** ***	*	*
Moti Rosenberg	*	*	**

\* Member of Committee

\*\* Chairman of Committee

\*\*\* “Audit committee financial expert” as defined in SEC regulations.

***Audit Committee***

Messrs. Horne, Smith, and Rosenberg currently comprise the Audit Committee of our Board. Our Board has determined that each of the current members of the Audit Committee satisfies the requirements for independence and financial literacy under the standards of the SEC and the NYSE American. Our Board has also determined that Mr. Horne qualifies as an “audit committee financial expert” as defined in SEC regulations and satisfies the financial sophistication requirements set forth in the NYSE American Rules. Mr. Horne serves as Chairman of the Audit Committee.

The Audit Committee is responsible for, among other things, selecting and hiring our independent auditors, approving the audit and pre-approving any non-audit services to be performed by our independent auditors; reviewing the scope of the annual audit undertaken by our independent auditors and the progress and results of their work; reviewing our financial statements, internal accounting and auditing procedures, and corporate programs to ensure compliance with applicable laws; and reviewing the services performed by our independent auditors to determine if the services rendered are compatible with maintaining the independent auditors' impartial opinion. The Audit Committee reviewed and discussed with management the Company's audited financial statements for the year ended December 31, 2016.

### *Compensation Committee*

Messrs. Horne, Smith, and Rosenberg currently comprise the Compensation Committee of our Board. Our Board has determined that each of the current members of the Compensation Committee meets the requirements for independence under the standards of the NYSE American. Mr. Smith serves as Chairman of the Compensation Committee.

The Compensation Committee is responsible for, among other things, reviewing and approving executive compensation policies and practices; reviewing and approving salaries, bonuses and other benefits paid to our officers, including our Chief Executive Officer and Chief Financial Officer; and administering our stock option plans and other benefit plans.

### *Nominating and Governance Committee*

Messrs. Smith, Horne, and Rosenberg currently comprise the Nominating and Governance Committee of our Board. Our Board has determined that each of the current members of the Nominating and Governance Committee meets the requirements for independence under the standards of the NYSE American. Mr. Rosenberg serves as Chairman of the Nominating and Governance Committee.

The Nominating and Governance Committee is responsible for, among other things, assisting our Board in identifying prospective director nominees and recommending nominees for each annual meeting of shareholders to the Board; developing and recommending governance principles applicable to our Board; overseeing the evaluation of our Board and management; and recommending potential members for each Board committee to our Board.

The Nominating and Governance Committee considers diversity when identifying Board candidates. In particular, it considers such criteria as a candidate's broad-based business and professional skills, experiences and global business

and social perspective.

In addition, the Committee seeks directors who exhibit personal integrity and a concern for the long-term interests of shareholders, as well as those who have time available to devote to Board activities and to enhancing their knowledge of the power-supply industry. Accordingly, we seek to attract and retain highly qualified directors who have sufficient time to attend to their substantial duties and responsibilities.

### ***Board Leadership Structure and Role in Risk Oversight***

Our Board as a whole is responsible for our risk oversight. Our executive officers address and discuss with our Board our risks and the manner in which we manage or mitigate such risks. While our Board has the ultimate responsibility for our risk oversight, our Board works in conjunction with its committees on certain aspects of its risk oversight responsibilities. In particular, our Audit Committee focuses on financial reporting risks and related controls and procedures; our Compensation Committee evaluates the risks associated with our compensation philosophy and programs and strives to create compensation practices that do not encourage excessive levels of risk taking that would be inconsistent with our strategies and objectives; and our Nomination and Governance Committee oversees risks associated with our Code of Ethical Conduct.

We currently separate the positions of President/Chief Executive Officer and Chairman of the Board. The Board believes that such structure is in the best interest of the Company at this time, as it allows for a more effective monitoring and objective evaluation of the performance of management.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our executive officers and directors and persons who own more than ten percent of a registered class of our equity securities to file an initial report of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC. Executive officers, directors and ten percent shareholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms they file. Based solely upon our review of Forms 3, 4 and 5 received by us, or written representations from certain reporting persons, we believe that during the during current fiscal year and the year ended December 31, 2016, all such filing requirements applicable to our officers, directors and ten percent shareholders were fulfilled with the following exceptions.

During the fiscal year 2016, Messrs. Horne, Smith and Rosenberg, and Ms. Ault each inadvertently filed late one Form 4 reporting one transaction and Mr. Kohn inadvertently file three Forms 4s late reporting eight transactions.

## **Code of Ethics**

The Board has established a corporate Code of Conduct which qualifies as a “code of ethics” as defined by Item 406 of Regulation S-K of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). The Board has adopted the Code of Ethical Conduct that applies to our principal executive officer, principal financial officer, principal accounting officer, controller or person performing similar functions (collectively, the “**Financial Managers**”). The Code of Ethical Conduct is designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. The full text of our Code of Ethical Conduct is published on our website at [www.digipwr.com](http://www.digipwr.com). We will disclose any substantive amendments to the Code of Ethical Conduct or any waivers, explicit or implicit, from a provision of the Code on our website or in a current report on Form 8-K. Upon request to our President and CEO, Amos Kohn, we will provide without charge, a copy of our Code of Ethical Conduct.

Among other matters, the Code of Conduct is designed to deter wrongdoing and to promote:

honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;

compliance with applicable governmental laws, rules and regulations;

prompt internal reporting of violations of the Code of Conduct to appropriate persons identified in the code; and

accountability for adherence to the Code of Conduct.

Waivers to the Code of Conduct may be granted only by the Board upon recommendation of the Audit Committee. In the event that the Board grants any waivers of the elements listed above to any of our officers, we expect to promptly disclose the waiver as required by law or the private regulatory body.

## **Director Compensation**

For 2016, and thereafter, the Company pays each independent director \$20,000 annually, other than Mr. Smith, who will receive \$30,000 annually due to anticipated additional services to be provided by Mr. Smith as a lead independent director.

On November 22, 2016, each non-employee director received options to purchase 200,000 shares of Common Stock at an exercise price of \$0.70 per share. The options are subject to vesting of which one-third vested immediately and the remaining unvested options will vest equally on the subsequent anniversary dates.

On December 28, 2016, the shareholders approved the 2016 Stock Incentive Plan (the “**2016 Stock Incentive Plan**”), under which options to acquire up to 4,000,000 shares of Common Stock may be granted to the Company’s directors, officers, employees and consultants. The 2016 Stock Incentive Plan is in addition to the Company’s current 2012 Plan, which provides for the issuance of a maximum of 1,372,630 shares of the Company’s Common Stock to be offered to the Company’s directors, officers, employees, and consultants.

Effective November 1, 2016, Executive Chairman of the Board of Directors, Milton C. “Todd” Ault, III, began receiving a monthly fee of \$15,000 pursuant to a consulting agreement entered into with the Company.



The table below sets forth, for each non-employee director, the total amount of compensation related to his or her service during the year ended December 31, 2016:

Name	Fees		Non-Equity		Nonqualified		Total (\$)
	Earned or Paid in Cash (\$)	Warrant Awards (\$)	Option Awards (\$)	Incentive Plan Compensation (\$)	Deferred Compensation Earnings (\$)	All Other Compensation (\$)	
Amos Kohn <sup>(1)</sup>	\$	-	\$[fill in]	-	-	\$	\$
Milton C. Ault, III <sup>(2)</sup>	\$	-	\$-	-	-	-	\$
Kristine Ault <sup>(3)</sup>	\$	-	\$32,145 <sup>(4)</sup>	-	-	-	\$
Robert O. Smith	\$	-	\$32,145 <sup>(4)</sup>	-	-	-	\$
William Horne <sup>(3)</sup>	\$	-	\$32,145 <sup>(4)</sup>	-	-	-	\$
Moti Rosenberg	\$	-	\$[fill in]	-	-	-	\$

(1) Mr. Kohn was appointed to the Board on August 4, 2003.

(2) Mr. Ault was appointed as Executive Chairman of the Board on March 16, 2017.

(3) Ms. Ault and Mr. Horne were each appointed to the Board on October 13, 2016.

Effective November 2016, the non-employee directors received options to purchase 200,000 shares at \$0.70 per share with one-third of the grant to vest immediately and the remaining two-thirds to vest over the remaining two anniversary dates.

### Required Vote and Board Recommendation

The election of the directors of the Company requires the affirmative vote of a plurality of the shares of the Company's Common Stock present in person or represented by Proxy at the Annual Meeting, which will be the nominees receiving the largest number of votes, which may or may not constitute a majority.

**The Board unanimously recommends a vote "FOR" each of its nominees**

**PROPOSAL NO. 2**

**RATIFICATION OF APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has appointed the firm of Marcum, LLP, as the independent registered public accounting firm of the Company for the year ending December 31, 2017, subject to ratification of the appointment by the Company's shareholders. A representative of Marcum, LLP, is expected to attend the Annual Meeting to respond to appropriate questions and will have an opportunity to make a statement if he or she so desires.

**Review of the Company's Audited Financial Statements for the Fiscal Year Ended December 31, 2016**

The Audit Committee met and held discussions with management and the independent auditors. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Audit Committee reviewed and discussed the consolidated financial statements with management and the independent auditors. The Audit Committee also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 114 (Codification of Statements on Auditing Standards, AU 380), as amended.

In addition, the Audit Committee discussed with the independent auditors the auditors' independence from the Company and its management, and the independent auditors provided to the Audit Committee the written disclosures and letter required by the Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees).

The Audit Committee discussed with the Company's independent auditors the overall scope and plans for their respective audits. The Audit Committee met with the independent auditors, with and without management present, to discuss the results of their examinations and the overall quality of the Company's internal controls and financial reporting.

Based on the reviews and discussions referred to above, the Audit Committee approved the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for filing with the SEC.

## **Fees Paid to Auditors**

### *Audit Fees*

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountants Marcum, LLP, with respect to the year ended December 31, 2016 (“**Marcum**”) and Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, with respect to the year ended December 31, 2015 (“**Kost Forer**”), for our audit of annual financial statements and review of financial statements included in our quarterly reports or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years were:

Marcum	2016	\$129,545
Kost Forer	2015	\$100,000

### *Audit-Related Fees*

We did not incur fees to our independent registered public accounting firm for audit related fees during the fiscal years ended December 31, 2016 and 2015.

### *Tax and Other Fees*

We did not incur fees to our independent registered public accounting firm for tax services during the fiscal years ended December 31, 2016 and 2015.

## **Pre-Approval Policies and Procedures**

Consistent with SEC policies and guidelines regarding audit independence, the Audit Committee is responsible for the pre-approval of all audit and permissible non-audit services provided by our principal accountants on a case-by-case basis. Our Audit Committee has established a policy regarding approval of all audit and permissible non-audit services provided by our principal accountants. Our Audit Committee pre-approves these services by category and service. Our Audit Committee has pre-approved all of the services provided by our principal accountants.



## REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

*The Audit Committee of the Board of Digital Power Corporation has furnished the following report on its activities during the fiscal year ended December 31, 2016. The report is not deemed to be “soliciting material” or “filed” with the SEC or subject to the SEC’s proxy rules or to the liabilities of Section 18 of the Exchange Act, and the report shall not be deemed to be incorporated by reference into any prior or subsequent filing under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act, except to the extent that Digital Power Corporation specifically incorporates it by reference into any such filing.*

The Audit Committee oversees the financial reporting process on behalf of the Board. Management has the primary responsibility for the financial reporting process, principles and internal controls as well as preparation of our financial statements. For the fiscal year ended December 31, 2016, the members of the Audit Committee were Messrs. Horne, Smith and Rosenberg, each of whom was an independent director as defined by the applicable NYSE American and SEC rules.

In fulfilling its responsibilities, the Audit Committee appointed independent auditors Marcum, LLP, for the fiscal year ended December 31, 2016. The Audit Committee reviewed and discussed with the independent auditors the overall scope and specific plans for their audit. The Audit Committee also reviewed and discussed with the independent auditors and with management the Company’s audited financial statements and the adequacy of its internal controls. The Audit Committee met with the independent auditors, without management present, to discuss the results of our independent auditor’s audits, their evaluations of the Company’s internal controls and the overall quality of the Company’s financial reporting.

The Audit Committee monitored the independence and performance of the independent auditors. The Audit Committee discussed with the independent auditors the matters required to be discussed by Public Company Accounting Oversight Board (“PCAOB”) Auditing Standard No. 16—Communications with Audit Committees. The Company’s independent auditors have provided the Audit Committee with the written disclosures and the letter required by applicable requirements of the PCAOB regarding the independent auditors’ communications with the Audit Committee concerning independence, and the Audit Committee has discussed with the independent auditor the independent auditor’s independence. Based upon the review and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2016, for filing with the SEC.

*Mr. William B. Horne, Mr. Robert O. Smith, Mr. Moti Rosenberg*

### Required Vote and Board Recommendation

The ratification of the appointment of the Company's independent auditors requires the receipt of the affirmative vote of a majority of the shares of the Company's Common Stock present in person or by proxy and voting at the Annual Meeting.

**The Board unanimously recommends a vote "FOR" the ratification of Marcum, LLP, as the Company's independent registered public accounting firm for the year ending December 31, 2017**

## PROPOSAL NO. 3

### APPROVAL OF THE REINCORPORATION OF THE COMPANY FROM CALIFORNIA TO DELAWARE

#### Overview

We are seeking shareholder approval to grant the Board discretionary authority to change the Company's state of incorporation from California to Delaware (the "**Reincorporation**"). If our shareholders approve this Proposal, the Board will have the sole discretion, until the 2018 Annual Meeting of Shareholders, to effectuate the Reincorporation. The Board has unanimously approved effectuating the Reincorporation, subject to approval by our shareholders, potentially securing certain third-party consents and approvals that the Board determines are in the best interests of the Company to obtain and other factors that the Board may consider. If authorized by the Board, the Reincorporation will be effectuated pursuant to the terms of a merger agreement providing for us to merge with and into a newly formed, wholly-owned subsidiary of the Company incorporated in the State of Delaware ("**DPW-Delaware**"). The name of the Company after the Reincorporation will be "DPW Holdings, Inc." Even if our shareholders approve this Proposal, the Board reserves the right not to effect the Reincorporation if the Board does not deem it to be in the best interests of the Company's shareholders. The Board believes that granting this discretion provides the Board with maximum flexibility to act in the best interests of the Company's shareholders. If this Proposal is approved by the shareholders, the Board will have the authority, in its sole discretion, without further action by the shareholders, to effect the Reincorporation. For purposes of the discussion below, the Company as it currently exists as a corporation organized under the laws of the State of California is referred to as "DPW-California" or as "we" or "us."

Shareholders are urged to read this proposal carefully, including the exhibits attached to this Proxy Statement, before voting on the Reincorporation Proposal. The following discussion summarizes material provisions of the proposed Reincorporation. This summary is subject to and qualified in its entirety by the Agreement and Plan of Merger (the "**Reincorporation Agreement**") that will be entered into in the event of Reincorporation by DPW-California and DPW-Delaware in substantially the form attached hereto as Appendix C, the Certificate of Incorporation of DPW-Delaware to be effective immediately following the Reincorporation (the "**Delaware Certificate**"), in substantially the form attached hereto as Appendix D, and the Bylaws of DPW-Delaware to be effective immediately following the Reincorporation (the "**Delaware Bylaws**"), in substantially the form attached hereto as Appendix E. Copies of the Articles of Incorporation of DPW-California filed in California, as amended to date (the "**California Articles**"), and the Bylaws of DPW-California, as amended to date (the "**California Bylaws**"), are publicly available as exhibits to the reports we have filed with the SEC and also are available for inspection at our principal executive offices. Additionally, we will send copies to shareholders free of charge upon written request to Digital Power Corporation, 48430 Lakeview Blvd., Fremont, California 94538-3158.

#### Reasons for the Reincorporation

Because state corporate law governs the internal affairs of a corporation, choice of a state domicile is an extremely important decision for a public company. Management and boards of directors of corporations look to state corporate law, and judicial interpretations of state law, to guide their decision-making on many key issues, including determining appropriate governance policies and procedures, ensuring that boards satisfy their fiduciary obligations to shareholders and evaluating key strategic alternatives for a corporation, including mergers, acquisitions and divestitures. Our Board and management believe that it is important for us to be able to draw upon well-established principles of corporate governance in making legal and business decisions. The primary purpose for effecting the Reincorporation, should the Board choose to effect it, would be the prominence and predictability of Delaware corporate law, which provides a reliable foundation on which our governance decisions can be based. We believe that our shareholders will benefit from the responsiveness of Delaware corporate law and the Delaware judiciary to their needs and to the needs of the corporation they own. The principal factors the Board considered in deciding to pursue and recommending that our shareholder approve the proposed Reincorporation are summarized below:

- greater predictability, flexibility and responsiveness of Delaware law to corporate needs;
- access to specialized courts;
- enhanced ability of Delaware corporations to attract and retain directors and officers; and
- more certainty with respect to indemnification and limitation of liability for directors.

*Predictability, Flexibility and Responsiveness of Delaware Law.* Delaware has adopted comprehensive and flexible corporate laws that are updated regularly to meet changing business circumstances. The Delaware legislature is sensitive to and experienced in addressing issues regarding corporate law and is especially responsive to developments in modern corporate law. The Delaware Secretary of State is viewed as particularly flexible and responsive in its administration of the filings required for mergers, acquisitions and other corporate transactions. Delaware has become a preferred domicile for many major American corporations and its corporate law and administrative practices have become comparatively well-known and widely understood. In addition, Delaware case law provides a well-developed body of law defining the proper duties and decision making processes expected of boards of directors in evaluating potential or proposed extraordinary corporate transactions. As a result of these factors, it is anticipated that Delaware law provides more efficiency, predictability and flexibility in our legal affairs than is presently available under California law.



*Access to Specialized Courts.* Delaware offers a system of specialized Chancery Courts to adjudicate cases involving corporate law issues. These courts have developed considerable expertise in dealing with corporate legal issues, as well as a substantial and influential body of case law construing Delaware's corporate law and have streamlined procedures and processes that help provide relatively quick decisions. In contrast, California does not have a similar specialized court established to hear only corporate law cases. Disputes involving questions of California corporate law are either heard by the California Superior Court, the general trial court in California that hears all manner of cases, from criminal to civil (including personal injury and marital dissolution cases) or, if federal jurisdiction exists, a federal district court.

*Enhanced Ability to Attract and Retain Directors and Officers.* The Board believes that the Reincorporation enhances our ability to attract and retain qualified directors and officers, as well as encourage directors and officers to continue to make independent decisions in good faith on behalf of the Company. We are in a competitive industry and compete for talented individuals to serve on our management team and on our Board. The majority of public companies are incorporated in Delaware. Not only is Delaware law more familiar to directors, it also offers greater certainty and stability from the perspective of those who serve as corporate officers and directors. The parameters of director and officer liability have been more extensively addressed in Delaware court decisions and, accordingly, are better defined and better understood than under California law. The Board believes that the Reincorporation provides appropriate protection for shareholders from possible abuses by directors and officers, while enhancing our ability to recruit and retain directors and officers. Please note that directors' personal liability is not, and cannot be, eliminated under Delaware law for intentional misconduct, bad faith conduct or any transaction from which the director derives an improper personal benefit. We believe that the better understood and comparatively stable corporate environment afforded by Delaware law would enable us to compete more effectively with other public companies in the recruitment of talented and experienced directors and officers.

*More Certainty Regarding Indemnification and Limitation of Liability for Directors.* In general, both California and Delaware permit a corporation to include a provision in its charter which reduces or limits the monetary liability of directors for breaches of fiduciary duties, subject to certain exceptions further discussed in "Elimination of Director Personal Liability for Monetary Damages" below. The increasing frequency of claims and litigations directed against directors and officers has greatly expanded the risks facing directors and officers of corporations in exercising their respective duties. The amount of time and money required to respond to such claims and to defend such litigation can be substantial and distracting to the directors and officers. It is our desire to reduce these risks to our directors and officers and to limit situations in which monetary damages can be recovered against directors so that we may continue to attract and retain qualified directors who otherwise might be unwilling to serve because of the risks involved. In addition, enhanced protection of directors is expected to reduce the extent to which directors, due to the threat of personal liability, are inhibited from making business decisions which, though entailing some degree of risks, are in the best interests of the Company and its shareholders. We believe that, in general, Delaware law provides greater protection to directors than California law, and that Delaware case law regarding a corporation's ability to limit director liability is more developed and provides more guidance than California law. However, the shareholders should be aware that such protection and limitation of liability inure to the benefit of directors, and the interest of the Board in recommending the approval of this Proposal may therefore not be aligned with the interests of the shareholders.

## **Mechanics of the Reincorporation**

If the Proposal is approved by our shareholders, the Board, in its sole discretion, will determine whether the Reincorporation remains in the best interests of the Company and its shareholders. Should the Board choose to exercise this discretion and effect the Reincorporation, the Reincorporation will be effectuated by the merger of DPW-California with and into DPW-Delaware, a wholly-owned subsidiary of the Company that recently has been incorporated under the Delaware General Corporation Law (the “**DGCL**”) for purposes of the Reincorporation. The Company, as it currently exists as a California corporation, will cease to exist as a result of the merger, and DPW-Delaware will be the surviving corporation and will continue to operate our businesses as it exists prior to the Reincorporation. The existing holders of our Common Stock will own all of the outstanding shares of DPW-Delaware Common Stock, and there will be no change in number of shares owned by or in the percentage ownership of any shareholder as a result of the Reincorporation (but see “Differences between the Charters and Bylaws of DPW-California and DPW-Delaware – Classes of Common Stock” below). Assuming approval of the Reincorporation Proposal at the Annual Meeting and a decision by our Board to consummate with the Reincorporation, we currently anticipate that we will effectuate the Reincorporation as soon as reasonably practicable thereafter.

In the Reincorporation, all outstanding equity awards, including stock options to purchase DPW-California Common Stock and restricted stock units representing the right to receive DPW-California Common Stock upon vesting, that are outstanding under DPW-California's equity incentive plans, including employee benefit and incentive compensation plans immediately prior to the Reincorporation (the "**Equity Plans**"), as well as options, restricted stock units or other equity awards granted under the Equity Plans in the future, will automatically be assumed by DPW-Delaware and will represent an option or restricted stock unit, as applicable, to acquire or receive shares of DPW-Delaware on the basis of one share of DPW-Delaware Common Stock for each one share of DPW-California Common Stock relating to such award and, in the case of stock options, at an exercise price equal to the exercise price of the DPW-California option. Other than a change in the identity of the corporation to which the awards granted under the Equity Plans are subject, the terms and conditions of these equity awards will not change. In particular, the merger of DPW-California into DPW-Delaware will not be treated as a "Change in Control" under any of the Equity Plans, and therefore the provisions of the Equity Plans that provide for more favorable treatment to holders of awards in that event will not apply.

If and at the time and date on which the Reincorporation becomes effective (the "**Effective Time**"), we will be governed by the Delaware Certificate, the Delaware Bylaws and the DGCL. Although the Delaware Certificate and the Delaware Bylaws contain provisions that are similar to the provisions of the California Articles and the California Bylaws, they also include certain provisions that are different from the provisions contained in the California Articles and the California Bylaws or under the California General Corporation Law (the "**CGCL**"), as described in more detail below.

### **Changes to the Business of the Company as a Result of the Reincorporation**

In addition to the change in corporate domicile, the Company will increase its number of authorized shares from 2,000,000 shares of Preferred Stock and 30,000,000 shares of Common Stock to 25,000,000 shares of preferred stock and 225,000,000 shares of Common Stock. The Reincorporation will not result in any change in the business, physical location, management, assets or liabilities of the Company, nor will it result in any change in location of our current officers or employees. Upon consummation of the Reincorporation, our daily business operations will continue as they are presently conducted at our principal executive offices located at 48430 Lakeview Blvd., Fremont, California 94538-3158. The consolidated financial condition and results of operations of DPW-Delaware immediately after consummation of the Reincorporation will be the same as those of DPW-California immediately prior to the consummation of the Reincorporation. In addition, upon the effectiveness of the Reincorporation, the Board of Directors of DPW-Delaware will be comprised of the persons who were elected to the Board of Directors of DPW-California at the Annual Meeting and will continue to serve until the next annual stockholders' meeting and until their successors are elected. There will be no changes in our executive officers or in their responsibilities. Upon effectiveness of the Reincorporation, DPW-Delaware will be the successor in interest to DPW-California, and the stockholders will become stockholders of DPW-Delaware, owning the same number of shares of its Common Stock as they owned of DPW-California's Common Stock.

All of our employee benefit and incentive compensation plans existing immediately prior to the Reincorporation, including the Equity Plans, will be continued by DPW-Delaware, and, as described above, each outstanding option to purchase shares of DPW-California's Common Stock and each outstanding restricted stock unit representing the right to receive one share of DPW-California Common Stock upon vesting will be converted into an option to purchase the same number of shares of DPW-Delaware's Common Stock or a restricted stock unit relating to the same number of shares of DPW-Delaware's Common Stock on the same terms, at the same price, and subject to the same conditions. The registration statements of DPW-California on file with the SEC immediately prior to the Reincorporation will be assumed by DPW-Delaware, and the shares of DPW-Delaware will continue to be listed on NYSE American.

**IN THE EVENT OF A REINCORPORATION, DPW-CALIFORNIA SHARE CERTIFICATES AND BOOK-ENTRY POSITIONS WILL AUTOMATICALLY REPRESENT SHARES AND BOOK-ENTRY POSITIONS OF DPW-DELAWARE UPON THE EFFECTIVENESS OF THE REINCORPORATION. SHAREHOLDERS WHO HOLD DPW-CALIFORNIA SHARE CERTIFICATES WILL NOT BE REQUIRED TO SURRENDER OR EXCHANGE THEIR DPW-CALIFORNIA SHARE CERTIFICATES SOLELY IN CONNECTION WITH THE REINCORPORATION.**

The Reincorporation Agreement provides that the Board may abandon the Reincorporation at any time prior to the Effective Time if the Board determines that the Reincorporation is inadvisable for any reason. For example, the DGCL or CGCL, may be changed to reduce the benefits that the Board is seeking to achieve through the Reincorporation, or the costs of operating as a Delaware corporation may be increased, although we do not know of any such changes under consideration. The Reincorporation Agreement may be amended at any time prior to the Effective Time, either before or after the shareholders have voted to adopt the proposal, subject to applicable law. We will re-solicit shareholder approval of the Reincorporation if the terms of the Reincorporation Agreement are materially changed.

### **Anti-Takeover Implications**

Delaware, like many other states, permits a domestic corporation to adopt various measures designed to reduce a corporation's vulnerability to unsolicited takeover attempts through provisions in the corporate charter or bylaws or otherwise, and provides default legal provisions in the DGCL that apply to certain publicly held corporations that have not affirmatively opted out, which further limits such vulnerability. The Reincorporation was not proposed to prevent such a change in control; nor is it a response to any specific attempt to acquire control known to our Board.

Nevertheless, the Reincorporation may have certain anti-takeover effects by virtue of the Company being subject to Delaware law instead of California law. For example, Section 203 of the DGCL generally prohibits certain “business combinations” (including mergers, sales and leases of assets, issuances of securities and similar transactions) with “interested stockholders” (generally a person who beneficially owns 15% or more of a corporation’s voting stock) for three years following the date that a person becomes an interested stockholder, unless: (a) before such stockholder becomes an “interested stockholder,” the board of directors approves the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (b) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the outstanding stock of the corporation at the time of the transaction (excluding stock owned by certain persons); or (c) at the time or after the stockholder became an interested stockholder, the board of directors and at least 66 2/3% of the outstanding voting stock of the corporation approves the transaction, excluding shares held by the interested stockholder.

Our Board believes that unsolicited takeover attempts may be unfair or disadvantageous to the Company and its shareholders because a non-negotiated takeover bid may: (a) be timed to take advantage of temporarily depressed stock prices; (b) be designed to foreclose or minimize the possibility of more favorable competing bids; (c) involve the acquisition of only a controlling interest in our Company’s stock or a two-tiered bid, without affording all shareholders the opportunity to receive the same economic benefits; or (d) be predicated on confidential and/or proprietary information that is not generally known by our shareholders, thereby creating a disparity of information that could negatively prejudice our shareholders. By contrast, in a transaction in which an acquirer must negotiate with our Company, our Board would evaluate our Company’s assets and business prospects to attempt to force the bidder to offer consideration equal to the true value of our Company, or to withdraw the bid.

Although our Board believes the advantages of the Reincorporation outweigh the disadvantages, our Board has carefully considered and will continue to carefully consider the detriments of the Reincorporation proposal. These include the possibility that future takeover attempts that are not approved by our Board, but which a majority of our shareholders may nonetheless deem to be in its best interests, may be discouraged. In addition, to the extent that the provisions of the DGCL would better enable the board of directors of DPW-Delaware to resist a takeover or a change in control, it could become more difficult to remove existing directors and management.

### **Possible Negative Considerations**

Notwithstanding the belief of the Board as to the benefits to our shareholders of the Reincorporation, Delaware law has been criticized by some commentators and shareholders on the grounds that it does not afford minority shareholders the same substantive rights and protections as are available in certain other states, including California. In addition, the Delaware Certificate and the Delaware Bylaws, in comparison to the California Articles and the California Bylaws, contain certain provisions that may have the effect of reducing the rights of minority shareholders. The Reincorporation may have the effect of making it more difficult for minority shareholders to call special meetings of shareholders. In addition, the minimum annual franchise taxes payable by us in Delaware may be greater than in California.

It should also be noted that the interests of the Board of Directors and management in voting on the Reincorporation proposal may not be the same as those of shareholders since some substantive provisions of California and Delaware law apply only to directors and officers. See “Interests of Our Directors and Executive Officers in the Reincorporation” below. For a comparison of shareholders’ rights and the material substantive provisions that apply to the Board of Directors and management under Delaware and California law, see “Differences between the Charters and Bylaws of DPW-California and DPW-Delaware” below.

The members of the Board have considered the potential disadvantages of the Reincorporation and they have unanimously concluded at this time that the potential benefits of the Reincorporation outweigh the possible disadvantages of the Reincorporation.

### **Differences between the Charters and Bylaws of DPW-California and DPW-Delaware**

The following is a comparison of certain key provisions in the Articles of Incorporation and the Bylaws of DPW-California and comparable provisions in the Certificate of Incorporation and the Bylaws of DPW-Delaware, as well as certain provisions of California law and Delaware law. These comparisons summarize certain difference that shareholders may deem important, but are not intended to list all differences, and is qualified in its entirety by reference to those documents and to the DGCL and CGCL. Shareholders are encouraged to read the Certificate of Incorporation and the Bylaws of DPW-Delaware and the Articles of Incorporation and the Bylaws of DPW-California, in their entirety. Copies of the Certificate of Incorporation and the Bylaws of DPW-Delaware are attached as Appendices D and E, respectively, to this proxy statement, and the Articles of Incorporation and the Bylaws of DPW-California are filed publicly as exhibits to the periodic reports we have previously filed with the SEC.

<b>Provision</b>	<b>DPW-California</b>	<b>DPW-Delaware</b>
<b>Authorized Shares</b>	<p>30,000,000 shares of Common Stock, no par value per share.</p> <p>1,000,000 shares of Preferred Stock, no par value per share.</p>	<p>225,000,000 shares of Common Stock, par value \$0.001 per share, consisting of 200,000,000 shares of Class A Common Stock and 25,000,000 shares of Class B Common Stock.</p> <p>25,000,000 shares of Preferred Stock, par value \$0.001 per share.</p>
<b>Classes of Common Stock</b>	<p>Only one class of Common Stock</p>	<p>Two classes of Common Stock. The Class A Common Stock is substantially identical to the Company's Common Stock; the Class B Common Stock carries the voting power of 10 shares of Class A Common Stock.</p>
<b>Vote Required to Approve Merger or Sale of Company</b>	<p>Except in limited circumstances, California law requires the affirmative vote of a majority of the outstanding shares entitled to vote in order to approve a merger of the corporation or a sale of all or substantially all the assets of the corporation, including, in the case of a merger, the affirmative vote of each class of outstanding stock. The California Articles do not include any voting requirements with respect to the approval of a merger or sale.</p>	<p>Substantially similar to California. The Delaware Certificate does not include super-majority voting requirements with respect to the approval of a merger or such an asset sale.</p>
<b>50/90 Rule Restriction on Cash Mergers</b>	<p>Under California law, a merger may not be consummated for cash if the purchaser owns more than 50%, but less than 90%, of the then outstanding shares (the "50/90 Rule"), unless either (i) all the shareholders consent, which is not practical for a public company, or (ii) the California Department of Business Oversight approves the merger.</p> <p>The 50/90 Rule may make it more difficult for certain acquirors to make an-all cash acquisition of the Company if the acquisition were to be opposed by the Board of DPW-California. Specifically, the 50/90 rule</p>	<p>Delaware law does not have a provision similar to California's 50/90 Rule.</p>

encourages an acquiror making an unsolicited tender offer to either tender for less than 50% of the outstanding shares or more than 90% of the outstanding shares. A purchase by such acquiror of less than 50% of the outstanding shares, however, does not allow the acquiror to gain ownership of a majority of the outstanding shares needed to approve a second step merger (for purposes of enabling the acquiror to acquire the remaining shares of the Company) and, therefore, creates risk for such an acquiror that such a favorable vote will not be obtained. On the other hand, a tender offer conditioned upon receipt of tenders from at least 90% of the outstanding shares also creates risk for the acquiror, because it is likely to be very difficult to obtain tenders from holders of at least 90% of the outstanding shares. Consequently, it is possible that these risks would discourage some potential acquirors from pursuing an all cash acquisition of the Company that is opposed by the Board of Directors.



**Restrictions on Statutory Mergers or Company Sales Transactions with Interested Shareholders**

Section 1203 of the CGCL, which applies to mergers or corporate acquisition transactions with interested shareholders or their affiliates, makes it a condition to the consummation of a merger or other acquisition transaction with an interested shareholder that an affirmative opinion be obtained in writing as to the fairness of the consideration to be received by the shareholders of the corporation being acquired.

Section 203 of the DGCL generally prohibits “business combinations,” including mergers, sales and leases of assets, issuances of securities and similar transactions, by a corporation or a subsidiary with an “interested stockholder” who beneficially owns 15% or more of a corporation’s voting stock, within three years after the person or entity becomes an interested stockholder, unless certain conditions, which are described in more detail above, are satisfied. Delaware corporation may elect not to be governed by Section 203 of the DGCL; however, DPW-Delaware has not made such an election.

Section 203 makes certain types of unfriendly or hostile corporate takeovers, or other non-board approved transactions involving a corporation and one or more of its significant stockholders, more difficult.

**Bylaw Amendments**

The California Bylaws may be amended by the affirmative vote of a majority of the outstanding shares or by action of the Board of Directors, except (i) a bylaw or amendment changing the authorized number of directors (except to fix the authorized number of directors pursuant to a by-law providing for a variable number of directors); and (ii) if the California Articles set forth the number of authorized directors of the corporation, the authorized number of directors may be changed only by an amendment as required by applicable law.

Under Delaware law, the stockholders possess the right to amend, alter or repeal the bylaws. In addition, the Delaware Certificate provides the Board the power to amend, alter or repeal the bylaws. The Delaware Bylaws may be amended by the Board or by the affirmative vote of the holders of a majority of the voting power of the Company’s outstanding shares that are entitled to vote on the amendment.

**Shareholder Action by Written Consent**

The California Bylaws provide that any action that may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice if a consent in writing, setting forth the actions so taken, is filed with the Secretary of the Company after having been signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

The Delaware Bylaws provide that any action that may be taken at any annual or special meeting of stockholders may be taken without a meeting and without prior notice if a consent in writing, setting forth the action so taken, is signed by holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and is delivered to the Company.



The California Bylaws provide that, in the case of election of directors, such a consent shall be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors and that shareholders may elect a director to fill a vacancy, other than a vacancy created by removal, by the written consent of a majority of all outstanding shares entitled to vote for the election of directors.

**Ability of Shareholders to Call**

As prescribed by California law, the California Bylaws provide that a special meeting of shareholders may be called by the Board, the Chairman of the Board, the President, or holders of shares entitled to cast not less than 10% of the votes at such meeting.

Under the DGCL, a special meeting of shareholders may be called by the board of directors or by any person authorized to do so in the certificate of incorporation or the bylaws.

**Special Meetings**

The Delaware Bylaws provide that a special meeting of shareholders may be called by the Board or stockholders owning shares representing not less than 20% of the voting power of the stock entitled to vote at such meeting.

**Exclusive Forum Selection Provision**

The California Bylaws do not contain an exclusive forum selection provision that requires certain legal actions, including shareholder derivative lawsuits, to be brought in courts located in California.

The Delaware Certificate and Bylaws contain an exclusive forum selection provision that requires certain legal actions, including stockholder derivative lawsuits, to be brought in courts located in Delaware.

**Shareholder Proposal Notice**

The California Bylaws provide that a written notice containing the name of any person to be nominated by any shareholder for election as a director of the Company or containing any shareholder proposal to be presented at an upcoming shareholders meeting must generally be received by the Secretary of the Company not less than 70 days prior to the first anniversary of the date the Company's proxy statement for the prior year's annual meeting was first released to shareholders.

The Delaware Bylaws contain notice provisions that are similar to those contained in the California Bylaws that require advance notice in order for a stockholder submitted director nomination or business proposal (other than proposals included in DPW-Delaware's notice of meeting pursuant to Rule 14a-8 promulgated under the Securities Exchange Act of 1934) to be properly brought before a stockholder meeting. These notice provisions are similar to the provisions in the California Bylaws except that, to be timely, the notice must be generally delivered not earlier than the close of business on the 120<sup>th</sup> day prior to such meeting and not later than the close of business on the later of the 90<sup>th</sup> day prior to such meeting or the 10<sup>th</sup> day following the day on which public announcement is first made of the date of the meeting.

**Provisions**

**Change in Number of Directors**

Under California law, a change in the number of directors must generally be approved by the shareholders, but the board of directors may fix the exact number of directors within a stated range set forth in the articles of incorporation or the bylaws, if the range has been approved by the

Under the DGCL, the number of directors will be fixed by or in the manner provided in the bylaws, unless the Delaware Certificate fixes the number of directors.

The Delaware Certificate does not fix the number of directors, but provides that the Board may by

shareholders.

The California Bylaws provide that the number of directors of the Company shall not be less than five nor more than nine, with the exact number of directors to be fixed, within the limit specified, by approval of the board or the shareholders in the manner provided in the by-laws and Section 204(a) of the California Corporations Code.

resolution fix the number of directors, subject to any minimum and maximum number of directors set forth in the Bylaws.

<b>Classified Board</b>	The California Bylaws do not provide for a classified board. Instead, directors are elected annually.	The Delaware Certificate does not provide for a classified board. As a result, DPW-Delaware’s directors will be elected annually.
<b>Filling Vacancies on the Board</b>	The California Bylaws provide that vacancies on the Board not caused by removal may be filled by a majority of the directors then in office, regardless of whether they constitute a quorum, or by a sole remaining director. The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors, but any such election other than to fill a vacancy created by removal, if by written consent, shall require the consent of the holders of a majority of the outstanding shares entitled to vote thereon	The Delaware Bylaws provide that any vacancies on the Board shall, subject to the right of the holders of any series of Preferred Stock and unless the Board otherwise determines, be filled solely by the affirmative vote of a majority of the directors then in office.
<b>Removal of Directors</b>	Under California law, any or all of the directors may be removed without cause if the removal is approved by the outstanding shares; <i>provided</i> that no director may be removed (unless the entire board is removed) when the votes cast against removal, or not consenting in writing to the removal, would be sufficient to elect the director if voted cumulatively at an election at which the same total number of votes were cast (or, if the action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of the director’s most recent election were then being elected.	Under Delaware law, directors may be removed with or without cause, provided that directors may only be removed for cause if a corporation has either a classified board or cumulative voting. Because the DPW-Delaware Certificate does not establish a classified board or authorize cumulative voting, directors may be removed with or without cause.
<b>Cumulative Voting; Vote Required to Elect Directors; Majority Vote Standard</b>	The California Articles and the California Bylaws do not provide for cumulative voting.  California law provides that if any shareholder has given notice of his or her intention to cumulate votes for the election of directors, all other shareholders of the corporation are also entitled to cumulate their votes at such election. In the absence of such notification, directors are elected by a plurality of the votes cast. California law permits a corporation that is listed on a national securities exchange to amend its articles or bylaws to eliminate cumulative voting by approval of the board of directors and of the outstanding shares voting together as a single class.	The Delaware Certificate does not provide for cumulative voting.  Under Delaware law, cumulative voting is not permitted unless a corporation provides for cumulative voting rights in its certificate of incorporation. The default voting standard for the election of directors under Delaware law is a plurality vote; however, the certificate of incorporation or bylaws may specify a different vote required for the election of directors.

## **Indemnification**

California law requires indemnification when the indemnitee has defended the action successfully on the merits. Expenses incurred by an officer or director in defending an action may be paid in advance, if the director or officer undertakes to repay such amounts if it is ultimately determined that he or she is not entitled to indemnification. California law authorizes a corporation to purchase indemnity insurance for the benefit of its officers, directors, employees and agents whether or not the corporation would have the power to indemnify against the liability covered by the policy.

California law permits a corporation to provide rights to indemnification beyond those provided therein to the extent such additional indemnification is authorized in the corporation's articles of incorporation. Thus, if so authorized, rights to indemnification may be provided pursuant to agreements or bylaw provisions which make mandatory the permissive indemnification provided by California law.

The California Articles and Bylaws authorize indemnification to the fullest extent permissible under California law.

The DGCL generally requires a corporation to indemnify a current or former director or officer against expenses incurred in defending a proceeding related to such person's service to the corporation to the extent such person has been successful on the merits or otherwise in such proceeding. In addition, Delaware law generally provides that a corporation may indemnify, among others, its present and former directors and officers against expenses (including attorney's fees), judgments, fines and amounts paid in settlement of actions, if certain requirements are met including that the individual acted in good faith and in a manner reasonably believed to be in, or not opposed to, the best interests of the corporation; except that no indemnification may be paid for judgments and settlements in actions by or in the right of the corporation.

A Delaware corporation generally may not indemnify a person against expenses to the extent the person is adjudged liable to the corporation.

The Delaware Bylaws generally provide that DPW-Delaware will indemnify, to the fullest extent authorized by the DGCL, among others, any person who was or is a party to any threatened, pending or completed action, suit or

**Elimination of Director Personal Liability for Monetary Damages**

California law permits a corporation to eliminate the personal liability of directors for monetary damages, except where such liability is based on:

- Intentional misconduct or knowing and culpable violation of law;
- Acts or omissions that a director believes to be contrary to the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director;

- Receipt of an improper personal benefit;

- Acts or omissions that show reckless disregard for the director's duty to the corporation or its shareholders, where the director in the ordinary course of performing a director's duties should be aware of a risk of serious injury to the corporation or its shareholders;

- Acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the corporation and its shareholders;

- Transactions between the corporation and a director who has a material financial interest in such transaction; or
- Liability for improper distributions, loans or guarantees.

proceeding by reason of the fact that such person is or was a director or officer of the Company against all expense, liability and loss (including attorneys' fees) incurred by such person in connection, therewith, subject to certain exceptions.

The DGCL permits a corporation to eliminate the personal liability of directors for monetary damages, except where such liability is based on:

- Breaches of the director's duty of loyalty to the corporation or its shareholders;
- Acts or omissions not in good faith or involving intentional misconduct or knowing violations of law;
- The payment of unlawful dividends or unlawful stock repurchases or redemption under Section 174 of the DGCL; or

- Transactions in which the director derived an improper personal benefit.

Such a limitation of liability provision also may not limit a director's liability for violation of, or otherwise relieve the Company or the directors from the necessity of complying with, federal or state securities laws, or affect the availability of non-monetary remedies such as injunctive relief or rescission.

The Delaware Certificate eliminates the liability of

directors for monetary damages to the fullest extent permissible under the DGCL.

The California Articles eliminate the liability of directors for monetary damages to the fullest extent permissible under California law.



**Dividends and Repurchases of Shares**

Under California law, a corporation may not make any distribution to its shareholders or repurchase its shares unless either:

The DGCL is more flexible than California law with respect to payment of dividends and the implementation of share repurchase programs. The DGCL generally provides that a corporation may redeem or repurchase its shares out of its surplus. Surplus is defined as the excess of a corporation's net assets (i.e., its total assets minus its total liabilities) over a corporation's statutory capital, which the Board may generally increase or decrease by resolution, subject to a statutory requirement that at a minimum a corporation's capital must equal the aggregate par

value of its  
issued shares.

The amount of retained earnings of the corporation immediately prior to the distribution or payment of the price of the shares being repurchased equals or exceeds the sum of (i) the amount of the proposed distribution, *plus* (ii) the preferential dividends arrears amount, if any; or  
Immediately after the distribution or share repurchase, the value of the corporation's assets would equal or exceed the sum of its total liabilities, *plus* the preferential rights amount, if any.

For purposes of determining whether a California corporation meets either of these tests, the determination may be based on any of the following:

- The corporation's financial statements;
- A fair valuation; or
- Any other method that is reasonable under the circumstances.

These tests are applied to California corporations on a consolidated basis.

## **Dissolution**

Under California law, holders of 50% or more of a corporation's total voting power may authorize the corporation's dissolution, with or without approval of the corporation's board of directors, and this right may not be modified by the articles of incorporation.

Under the DGCL, unless the Board of Directors approves the proposal to dissolve, the dissolution must be unanimously approved by all the stockholders entitled to vote on the matter. Only if the dissolution is initially approved by the Board of Directors may the dissolution be approved by a simple majority of the outstanding shares

entitled to  
vote. The  
DGCL allows  
a Delaware  
corporation to  
include in its  
certificate of  
incorporation  
a  
supermajority  
voting  
requirement  
in connection  
with such a  
board-initiated  
dissolution,  
but the  
Delaware Certificate  
contains no  
such  
supermajority  
voting  
requirement.

Delaware courts have upheld the right of Delaware corporations to include forum selection provisions in their bylaws. Such provisions normally provide that shareholders bringing derivative claims or claims alleging breaches of fiduciary duties arising from the DGCL or otherwise implicating the internal affairs of the corporation be brought exclusively in Delaware state or federal courts.

<b>Forum Selection</b>	Not addressed.	Under the Delaware Certificate, unless we consent in writing to the selection of an alternative forum, the Delaware Court of Chancery will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of the corporation, any action asserting a claim of breach of a fiduciary duty owed by any director, officer, other employee or stockholder of the corporation to the corporation or the corporation's stockholders, any action asserting a claim arising pursuant to any provision of the DGCL or as to which the DGCL confers jurisdiction upon the Delaware Court of Chancery, any action asserting a claim arising pursuant to any provision of our Delaware Certificate or Delaware Bylaws, or any action asserting a claim governed by the internal affairs doctrine.
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### **Interest of the Company's Directors and Executive Officers in the Reincorporation**

The shareholders should be aware that certain of our directors and executive officers may have interests in the transaction that are different from, or in addition to, the interests of the shareholders generally. For example, the Reincorporation may provide officers and directors of the Corporation with more clarity and certainty in the reduction of their potential personal liability in their fiduciary roles for the Corporation, and to strengthen the ability of directors to resist takeover bids on behalf of shareholders. The Board has considered these interests, among other matters, in reaching its decision to recommend that our shareholders vote in favor of this proposal.

### **Certain U.S. Federal Income Tax Consequences**

The following discussion summarizes certain U.S. federal income tax consequences of the Reincorporation to holders of our Common Stock. The discussion is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), regulations promulgated under the Code by the U.S. Treasury Department (including proposed and temporary regulations), rulings, current administrative interpretations and official pronouncements of the Internal Revenue Service (the "**IRS**"), and judicial decisions, all as currently in effect and all of which are subject to differing interpretations or to change, possibly with retroactive effect. Such change could materially and adversely affect the U.S. federal income tax consequences described below. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described herein.



This discussion is for general information only, and does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular holder in light of its investment or tax circumstances or to holders subject to special tax rules, such as partnerships, subchapter S corporations or other pass-through entities (and investors in such entities), banks, financial institutions, tax-exempt entities, insurance companies, regulated investment companies, real estate investment trusts, trusts and estates, dealers in stocks, securities or currencies, traders in securities that have elected to use the mark-to-market method of accounting for their securities, persons holding our Common Stock as part of an integrated transaction, including a “straddle,” “hedge,” “constructive sale,” or “conversion transaction,” persons whose functional currency for tax purposes is not the U.S. dollar, former citizens or residents of the United States, persons who acquired our Common Stock pursuant to the exercise of stock options or otherwise as compensation, persons who hold our Common Stock as qualified small business stock within the meaning of Section 1202 of the Code and persons subject to the alternative minimum tax provisions of the Code. This discussion does not address any U.S. federal taxes (other than U.S. federal income taxes), any state or local taxes, or of any foreign taxes, that may be applicable to a particular holder.

This discussion is directed solely to holders that hold our Common Stock as capital assets within the meaning of Section 1221 of the Code, which generally means as property held for investment. In addition, the following discussion only addresses “U.S. persons” for U.S. federal income tax purposes, generally defined as beneficial owners of our Common Stock who are, for U.S. federal income tax purposes:

• Individuals who are citizens or residents of the United States;

• Corporations created or organized in or under the laws of the United States or of any state of the United States or the District of Columbia;

• Estates the income of which is subject to U.S. federal income taxation regardless of its source;

• Trusts if a court within the United States is able to exercise primary supervision over the administration of any such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust; or

• Trusts in existence on August 20, 1996 that have valid elections in effect under applicable Treasury regulations to be treated as U.S. persons.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our Common Stock, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. A partner of a partnership holding our Common Stock should consult its own tax advisor regarding the U.S. federal income tax consequences to the partner of the Reincorporation.

**This discussion does not purport to be a complete analysis of all of the Reincorporation's tax consequences that may be relevant to holders. We urge you to consult your own tax advisor regarding your particular circumstances and the U.S. federal income and other federal tax consequences to you of the Reincorporation, as well as any tax consequences arising under the laws of any state, local, foreign or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws.**

We have not requested a ruling from the IRS or an opinion of counsel regarding the U.S. federal income tax consequences of the Reincorporation. However, the Reincorporation is intended to qualify as a tax-free reorganization under Section 368(a) of the Code. Assuming that the Reincorporation qualifies as a tax-free reorganization under Section 368(a) of the Code, and subject to the qualifications and assumptions described in this proxy statement: (a) holders of DPW-California Common Stock will not recognize any gain or loss as a result of the consummation of the Reincorporation, (b) the aggregate tax basis of the DPW-Delaware Common Stock held by each holder immediately following the consummation of the Reincorporation will equal the aggregate tax basis of the DPW-California Common Stock converted therefor and (c) the holding period of the DPW-Delaware Common Stock held by each holder following the consummation of the Reincorporation will include the period during which such holder held the DPW-California Common Stock converted therefor.

#### **Required Vote and Board Recommendation**

Approval of the proposed change in corporate domicile from California to Delaware requires the receipt of the affirmative vote of the holders of a majority of the Company's issued and outstanding shares of Common Stock as of the Record Date.

Shareholders are urged to read this proposal carefully, including all of the related Exhibits attached to this Proxy Statement, before voting on Shareholder approval of the Reincorporation. The discussion above is qualified in its entirety by the Merger Agreement in substantially the form attached hereto as Appendix C, the Delaware Certificate in substantially the form attached hereto as Appendix D, and the Delaware Bylaws in substantially the form attached hereto as Appendix E.

**The Board unanimously recommends a vote "FOR" the approval of the proposed change in corporate domicile from California to Delaware**

## PROPOSAL NO. 4

### **APPROVAL OF THE CONVERSION OF UP TO 500,000 SHARES OF SERIES B PREFERRED STOCK INTO SHARES OF COMMON STOCK AND THE EXERCISE OF WARRANTS TO PURCHASE SHARES OF COMMON STOCK IN ORDER TO COMPLY WITH RULE 713 OF THE NYSE AMERICAN**

#### **Terms of the Transaction**

On March 9, 2017, the Company entered into a Preferred Stock Purchase Agreement (the “**Preferred Stock Purchase Agreement**”) with Philou Ventures, LLC (“**Philou**”). Philou is the Company’s largest shareholder and Kristine Ault, a director of the Company, controls and is a Manager of Philou. Pursuant to the terms of the Preferred Stock Purchase Agreement, Philou will invest up to \$5,000,000 in the Company through the purchase of Series B Convertible Preferred Stock (the “**Series B Preferred Stock**”) over the Term, as specified herein. In addition, for each share of Series B Preferred Stock purchased by Philou, Philou will receive warrants (the “**Series B Warrants**”) to purchase shares of Common Stock in a number equal to the stated value of each share of Series B Preferred Stock of \$10.00 purchased divided by \$0.70 at an exercise price equal to \$0.70 per share of Common Stock (the “**Series B Conversion Price**”). In connection with the Preferred Stock Purchase Agreement, the Company entered into a registration rights agreement with Philou.

For each share of Series B Preferred Stock purchased by Philou, Philou will receive a Series B Warrant to purchase shares of Common Stock in a number equal to the stated value of all shares of Series B Preferred Stock sold divided by \$0.70 for an exercise price equal to \$0.70 per share (the “**Series B Warrant Exercise Price**”). The exercise period will begin on the six month after, and end on the fifth year and six month anniversary of, the date of issuance. The exercise price of the Series B Warrant is subject to adjustment for stock splits, stock dividends, combinations or similar events. The Series B Warrant may be exercised for cash or, upon the failure to maintain an effective registration statement, on a cashless basis.

Pursuant to the Preferred Stock Purchase Agreement, the Company agreed to recommend that its shareholders approve the Reincorporation at its next annual meeting. In addition, the Company agreed to use its best efforts to obtain its shareholders’ approval, pursuant to NYSE American Rule 713, for the actions contemplated by the Preferred Stock Purchase Agreement as soon as possible.

Each share of Series B Preferred Stock shall be purchased at \$10.00 up to a maximum issuance of 500,000 shares of Series B Preferred Stock. Philou guaranteed that it would purchase, no later than May 31, 2017, the greater of: (i) 100,000 shares of Series B Preferred Stock or (ii) a sufficient number of shares of Series B Preferred Stock to ensure that the Company has sufficient stockholders’ equity to meet the minimum continued listing standards of the NYSE



American. Philou has purchased 100,000 shares of Series B Preferred Stock. In addition, for as long as any shares of Series B Preferred Stock remain outstanding during the Term, Philou agreed to purchase additional shares of Series B Preferred Stock in a sufficient amount in order for the Company to meet the NYSE American's minimum stockholders' equity continued listing requirement subject to the maximum number of 500,000 shares of Series B Preferred Stock (collectively, "**Guaranteed Purchases**"). In addition, at any time during the Term, Philou may, in its sole and absolute discretion, purchase additional shares of Series B Preferred Stock, up to the 500,000 share maximum ("**Voluntary Purchases**"). All consideration for Voluntary Purchases shall be delivered through a series of varying payments ("**Payments**") by Philou, at its sole and absolute discretion, during the period commencing on the closing date and ending 36 months therefrom (the "**Term**"). The Company shall have the right to request, with 90-day written notice to Philou, that Guaranteed Purchases be accelerated to meet deadlines for maintaining the minimum stockholders' equity required by the NYSE American. The Series B Preferred Stock shall not be callable by the Company for 25 years from the closing date.

Pursuant to the Preferred Stock Purchase Agreement, at any time while no fewer than one hundred thousand (100,000) Series B Preferred Stock are issued and outstanding and held by Philou, Philou shall have the right to participate in the Company's future financings under substantially the same terms and conditions as other investors in those respective financings in order to maintain its then percentage ownership interest in the Company. Philou's right to participate in such financings shall accrue and accumulate provided that it still owns at least 100,000 shares of Series B Preferred Stock.

In order to comply with NYSE American Rule 713, Philou may not (i) vote the shares of Series B Preferred Stock; (ii) convert such shares of Series B Preferred Stock into shares of Common Stock or (iii) exercise its rights under the Series B Warrant until the requirement of NYSE American Rule 713 has been met at a meeting, or by the requisite written consent, of the holders of the outstanding shares of Common Stock.

### **Description of the Series B Preferred Stock**

Each share of Series B Preferred Stock has a stated value of \$10.00 per share and may be convertible at the holder's option into shares of Common Stock of the Company at a conversion rate of \$0.70 per share, subject to customary adjustment, upon the earlier to occur of: (i) 60 months from the closing date, or (ii) upon the filing by the Company of one or more periodic reports that, singly or collectively, evidence(s) that the Company's gross revenues have reached no less than \$10,000,000 in the aggregate, on a consolidated reporting basis, over four consecutive quarters in accordance with U.S. generally accepted accounting principles.

The Series B Conversion Price will be subject to standard anti-dilution provisions in connection with any stock split, stock dividend, subdivision or similar reclassification of the Common Stock.

Each share of Series B Preferred Stock shall have the right to receive dividends equal to one ten millionth (0.0000001) of the Company's EBITDAS calculated for a particular calendar year. Assuming the purchase of the entire \$5,000,000 of shares of Series B Preferred Stock, the holders thereof will be entitled to receive dividends equal to five percent (5%) in the aggregate of EBITDAS. Payment of dividends shall be calculated for a calendar year, payable on a quarterly basis, with payments to occur no later than 90 days in arrears from each reporting period subject to a year-end reconciliation. EBITDAS shall mean earnings before interest, taxes, depreciation, amortization, and stock-based compensation.

Philou shall have the right to designate a number of directors to the Company's Board of Directors equal to a percentage determined by the number of shares of Series B Preferred Stock (determined on an "as converted" basis) divided by the sum of the number of shares of Common Stock outstanding plus the number of shares of Series B Preferred Stock outstanding as determined on an as converted basis. Philou's percentage to designate a number of directors shall be determined each time Philou makes a purchase of shares of Series B Preferred Stock and cannot be decreased unless Philou converts or sells all or part of its shares of Series B Preferred Stock, in which case the number of directors that Philou may designate will be re-calculated. The right to designate a director shall be a contractual right granted to Philou and not to any potential subsequent owner of shares of Series B Preferred Stock.

In the case for the election of directors, the Series B Preferred Stock shall be voted on an "as converted" basis together with the Common Stock. In all other cases, the Series B Preferred Stock shall be voted in accordance with California law.

Each share of Series B Preferred Stock shall have dividend and liquidation rights in priority to any shares of Common Stock, the Company's Series A Preferred Stock (of which none are outstanding) and other subordinated securities.

At such time as (i) all shares of Common Stock issuable upon conversion of all outstanding shares of Series B Preferred Stock (the “**Series B Conversion Shares**”) shall have been registered for resale pursuant to an effective Registration Statement covering such Series B Conversion Shares, (ii) but no earlier than the twenty-fifth (25<sup>th</sup>) anniversary of the effective date, the shares of Series B Preferred Stock shall be subject to redemption in cash at the option of the Company in an amount per share equal to 120% of the greater of (a) the stated value plus all accrued and unpaid dividends, if any and (b) the fair market value of such shares of Series B Preferred Stock.

### **Why the Company Needs Shareholder Approval**

Rule 713 of the NYSE American requires shareholder approval of a transaction, other than a public offering, involving the sale, issuance or potential issuance by an issuer of Common Stock (or securities convertible into or exercisable for Common Stock) at a price less than the greater of book or market value which together with sales by officers, directors or principal shareholders of the issuer equals 20% or more of presently outstanding Common Stock, or equal to 20% or more of presently outstanding stock for less than the greater of book or market value of the stock, or when the issuance or potential issuance of additional shares will result in a change of control of the issuer. The initial Conversion Price of the Series B Preferred Stock and the initial Exercise Price of the Warrants were higher than the market price of our Common Stock on the execution date of the Preferred Stock Purchase Agreement but may be lower than the market price upon conversion.

Accordingly, Philou is prohibited from converting the Series B Preferred Stock and/or exercising the Series B Warrants and receiving shares of the Company’s Common Stock unless shareholder approval is obtained for the Preferred Stock Purchase Agreement.

### **Effect of Proposal on Current Shareholders**

If this Proposal No. 4 is adopted, based on the Series B Conversion Price and Series B Warrant Exercise Price (and provided the Company has sufficient authorized shares of Common Stock to allow for such conversion or exercise), up to a maximum of 2,857,142 shares of Common Stock would be issuable upon conversion of Series B Preferred Stock and exercise of the Series B Warrants. Based on the number of shares of Common Stock outstanding as of the Record Date, such shares would represent approximately 17.1% of our total outstanding shares (giving effect to such issuance). The issuance of such shares may result in significant dilution to our shareholders, and afford them a smaller percentage interest in the voting power, liquidation value and aggregate book value of the Company. The sale or any resale of the Common Stock issued upon conversion of Series B Preferred Stock and exercise of the Series B Warrants could cause the market price of our Common Stock to decline as well as result in substantial dilution to other shareholders since Philou may ultimately convert and sell the full amount issuable on conversion. This means that our current shareholders will own a smaller interest in our company and will have less ability to influence significant corporate decisions requiring shareholder approval.



**Further Information.**

The terms of the Certificate of Determination for the Series B Preferred Stock and the Preferred Stock Purchase Agreement, the Form of Warrants, and Form of Registration Rights Agreement are complex and only briefly summarized above. For further information, please refer to the descriptions contained in the Company's Current Report on Form 8-K filed with the SEC on March 9, 2017, and the transaction documents filed as exhibits to such report. The discussion herein is qualified in its entirety by reference to such filed transaction documents.

**Required Vote and Board Recommendation**

The issuance of the Series B Preferred Stock requires the receipt of the affirmative vote of a majority of the shares of the Company's Common Stock present in person or by proxy and voting at the Annual Meeting.

**The Board unanimously recommends a vote "FOR" the Approval of the conversion of up to 500,000 shares of Series B Preferred Stock into shares of Common Stock and the exercise of warrants to purchase shares of Common Stock in order to comply with Rule 713 of the NYSE American.**

## PROPOSAL NO. 5

### **APPROVAL OF THE ISSUANCE OF COMMON STOCK UPON THE CONVERSION OF 378,776 SHARES OF THE COMPANY'S SERIES D PREFERRED STOCK AND UPON THE EXERCISE OF WARRANTS TO PURCHASE UP TO 1,000,000 SHARES OF COMMON STOCK, IN ACCORDANCE WITH THE SHARE EXCHANGE AGREEMENT, DATED APRIL 28, 2017, IN ORDER COMPLY WITH RULE 712 OF THE NYSE AMERICAN AND CALIFORNIA LAW**

#### **Terms of the Transaction**

On April 28, 2017, the Company entered into a Share Exchange Agreement (the "**Share Exchange Agreement**") with Microphase Corporation, a Delaware corporation ("**MPC**"); Microphase Holding Company LLC, a limited liability company organized under the laws of Connecticut ("**MHC**"), the Ergul Family Limited Partnership, a partnership organized under the laws of Connecticut ("**EFLP**") RCKJ Trust, a trust organized under the laws of New Jersey ("**RCKJ**") and with MHC and EFLP, the "**Significant Stockholders**") and those additional persons who have executed the Share Exchange Agreement under the heading "Minority Stockholders" (collectively, the "**Minority Stockholders**" and with the Significant Stockholders, the "**Stockholders**"). Upon the terms and subject to the conditions set forth in the Share Exchange Agreement, the Company acquires 1,603,434 shares (the "**Subject Shares**") of the issued and outstanding Common Stock of MPC (the "**MPC Common Stock**"), including such shares presently underlying the issued and outstanding preferred stock of MPC (the "**MPC Preferred Stock**" and with the MPC Common Stock, the "**MPC Shares**") from the Stockholders in exchange (the "**Exchange**") for the issuance by the Company of: (i) the Stockholders' portion of an aggregate of 2,600,000 shares of Common Stock, no par value, of the Company, comprised of 1,842,448 shares of DPW Common Stock and 378,776 shares of Series D Convertible Preferred Stock of the Company (collectively, the "**Exchange Shares**"), which shares of Series D Convertible Preferred Stock of the Company (the "**Series D Preferred Stock**") are, subject to shareholder approval, convertible into an aggregate of 757,552 shares of Common Stock as further described below and (ii) the Stockholders' portion of warrants (the "**Exchange Warrants**") to purchase an aggregate of 1,000,000 shares of DPW Common Stock (the "**Warrant Shares**"). The Exchange Shares and the Exchange Warrants are at times collectively referred to herein as the "**Exchange Securities**." Upon the closing of the Agreement (the "**Closing**"), the Subject Shares constituted approximately 56.4% of the issued and outstanding MPC Shares, or 50.7% on a fully diluted basis.

The Share Exchange Agreement was consummated on June 2, 2017 (the "**SEA Closing Date**"). On the SEA Closing Date, the Company executed and delivered to the Stockholders the Exchange Shares and Exchange Warrants to purchase an aggregate of 1,000,000 Warrant Shares. Commencing on the SEA Closing Date and for a period of three (3) years thereafter, the Exchange Warrants may be exercised at \$1.10 per share or by means of a "cashless exercise," subject to limitations and adjustments set forth in such warrants. A holder of the Exchange Warrants shall not be entitled to any voting rights, dividends or other rights as a stockholder of the Company prior to the exercise thereof.

*Certificate of Determination of Series D Convertible Preferred Stock*

Pursuant to the Share Exchange Agreement, the Company issued and delivered to the Stockholders 378,776 shares designated as Series D Preferred Stock, no par value per share, none of which had been previously issued. Each share of Series D Preferred Stock shall automatically be converted into two shares of Common Stock (“**Conversion Ratio**”), subject to adjustments. In the event the Company shall be liquidated, dissolved or wound up, the holders of Series D Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of the Common Stock, the Company’s Series A Preferred Stock, or to the holders of any other junior series of preferred stock, by reason of their ownership thereof and subject to the rights of the Company’s Series B Preferred Stock, Series C Preferred Stock and any other class or series of Company stock subsequently issued that ranks senior to the Series D Preferred Stock, an amount per share in cash or equivalent value in securities or other consideration equal to its Stated Value of \$0.01 per share. The holders of Series D Preferred Stock shall not be entitled to receive dividends and shall have no voting rights except as otherwise required by law. Upon the shareholders of Common Stock approving the issuance of the Series D Preferred Stock and for purposes of compliance with Rule 712 of the NYSE American, then each share of Series D Preferred Stock shall automatically be converted into two shares of Common Stock, for an aggregate of 757,552 shares of Common Stock.

**Why the Company Needs Shareholder Approval**

Rule 712 of the NYSE American requires shareholder approval of a transaction in which shares are to be issued as sole or partial consideration for an acquisition of the stock or assets of another company under certain circumstances. The Company has been advised by the NYSE American that, in its view, the issuance of the shares of Series D Preferred Stock will require shareholder approval, where the Company needs the affirmative vote of the majority shares of Common Stock present in person or by proxy at the Meeting. In addition, because the Series D Preferred Stock were issued in connection with a “share exchange” to acquire a controlling interest in Microphase, and the number of shares of Common Stock, or securities convertible into Common Stock, will exceed a threshold level, the Company will require the affirmative vote of a majority of the issued and outstanding shares of Common Stock to approve the conversion pursuant to Section 1201(b) of CGCL.

### **Effect of Proposal on Current Shareholders**

If this Proposal No. 5 is adopted, based on the conversion of Series D Preferred Stock and the exercise of the Exchange Warrants (and provided the Company has sufficient authorized shares of Common Stock to allow for such conversion or exercise), up to a maximum of 1,757,552 shares of Common Stock would be issuable. Based on the number of shares of Common Stock outstanding as of the Record Date, such shares would represent 11.3% of our total outstanding shares (giving effect to such issuance). The issuance of such shares may result in significant dilution to our shareholders, and afford them a smaller percentage interest in the voting power, liquidation value and aggregate book value of the Company. The sale or any resale of the Common Stock issued upon conversion of Series D Preferred Stock and the exercise of the Exchange Warrants could cause the market price of our Common Stock to decline as well as result in substantial dilution to other shareholders since the Stockholders may ultimately convert and sell the full amount issuable on conversion. This means that our current shareholders will own a smaller interest in our company and will have less ability to influence significant corporate decisions requiring shareholder approval.

### **Further Information.**

The terms of the Certificate of Determination for the Series D Preferred Stock and the Share Exchange Agreement are complex and only briefly summarized above. For further information, please refer to the descriptions contained in the Company's Current Reports on Form 8-K filed with the SEC on May 3, 2017 and June 8, 2017, and the transaction documents filed as exhibits to such reports. The discussion herein is qualified in its entirety by reference to such filed transaction documents.

### **Required Vote and Board Recommendation**

The approval of the issuance of shares of Common Stock upon the conversion of the Series D Preferred Stock and warrants in order to comply with Rule 712 of the NYSE American and Section 1201(b) of CGCL requires the receipt of the affirmative vote of a majority of the issued and outstanding shares of Common Stock.

**The Board unanimously recommends a vote "FOR" approval of the issuance of Common Stock upon the conversion of 378,776 shares of the Company's Series D Preferred Stock and upon the exercise of warrants to purchase up to 1,000,000 shares of Common Stock, in accordance with the Share Exchange Agreement, dated April 28, 2017, in order comply with Rule 712 of the NYSE American and Section 1201(b) of the CGCL.**





## **PROPOSAL NO. 6**

### **APPROVAL OF THE ISSUANCE OF COMMON STOCK UPON THE CONVERSION OF 10,000 SHARES OF THE COMPANY'S SERIES E PREFERRED STOCK, IN ACCORDANCE WITH THE SHARE EXCHANGE AGREEMENT, DATED APRIL 28, 2017 IN ORDER TO COMPLY WITH NYSE AMERICAN RULE 712**

#### **Terms of the Transaction**

In connection with the Share Exchange Agreement and the issuance to the stockholders of the Series D Preferred Stock discussed under Proposal 5, the Company agreed to cause MPC to issue and deliver a promissory note in the principal face amount of \$450,000 (the “**Creditor Note**”) as well as 10,000 shares designated as Series E Convertible Preferred Stock, no par value per share (the “**Series E Preferred Stock**”) to an unsecured creditor of MPC (the “**Creditor**”). The Company has delivered the Creditor Note and a certificate evidencing the Series E Preferred Stock to the Creditor.

Each share of Series E Preferred Stock has a stated value equal to forty-five dollars (\$45.00) per share and is deemed Series E Parity Stock. In the event the Company shall be liquidated, dissolved or wound up, the holders of Series E Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of the Common Stock, the Company's Series A Preferred Stock, or to the holders of any other junior series of preferred stock, by reason of their ownership thereof and subject to the rights of the Company's Series B Preferred Stock, Series C Preferred Stock and any other class or series of Company stock subsequently issued that ranks senior to the Series E Preferred Stock, an amount per share in cash or equivalent value in securities or other consideration equal to \$0.01 per share. The holders of Series E Preferred Stock shall not be entitled to receive dividends and shall have no voting rights except as otherwise required by law. Upon the shareholders of Common Stock approving the issuance of the Series E Preferred Stock and for purposes of compliance with Rule 712 of the NYSE American, then each share of Series E Preferred Stock may be converted into sixty (60) shares of Common Stock, for an aggregate of 600,000 such shares.

#### **Why the Company Needs Shareholder Approval**

Rule 712 of the NYSE American requires shareholder approval of a transaction in which shares are to be issued as sole or partial consideration for an acquisition of the stock or assets of another company under certain circumstances. The Company has been advised by the NYSE American that, in its view, the issuance of the shares of Series E Preferred Stock will require shareholder approval.

### **Effect of Proposal on Current Shareholders**

If this Proposal No. 6 is adopted, based on the conversion of Series E Preferred Stock (and provided the Company has sufficient authorized shares of Common Stock to allow for such conversion or exercise), up to 600,000 shares of Common Stock would be issuable. Based on the number of shares of Common Stock outstanding as of the Record Date, such shares would represent \_\_\_\_\_% of our total outstanding shares (giving effect to such issuance). The issuance of such shares may result in significant dilution to our shareholders and afford them a smaller percentage interest in the voting power, liquidation value and aggregate book value of the Company. The sale or any resale of the Common Stock issued upon conversion of Series E Preferred Stock could cause the market price of our Common Stock to decline as well as result in substantial dilution to other shareholders since the Creditor may ultimately convert and sell the full amount issuable on conversion. This means that our current shareholders will own a smaller interest in our company and will have less ability to influence significant corporate decisions requiring shareholder approval.

### **Further Information.**

The terms of the Certificate of Determination for the Series E Preferred Stock are complex and only briefly summarized above. For further information, please refer to the descriptions contained in the Company's Current Report on Form 8-K filed with the SEC on May 3, 2017, and the transaction documents filed as exhibits to such report. The discussion herein is qualified in its entirety by reference to such filed transaction documents.

### **Required Vote and Board Recommendation**

The issuance of the Series E Preferred Stock requires the receipt of the affirmative vote of a majority of the shares of the Company's Common Stock present in person or by proxy and voting at the Annual Meeting.

**The Board unanimously recommends a vote "FOR" the approval of the issuance of 10,000 shares of the Company's Series E Preferred Stock, in accordance with the Share Exchange Agreement, dated April 28, 2017 in order to comply with Rule 712 of the NYSE American.**

**PROPOSAL NO. 7**

**APPROVAL OF THE CONVERSION OF A \$400,000 CONVERTIBLE NOTE CONVERTIBLE INTO 727,273 SHARES OF COMMON STOCK AND RELATED WARRANTS TO PURCHASE 666,667 SHARES OF COMMON STOCK IN ACCORDANCE WITH THE CONVERTIBLE NOTE PURCHASE AGREEMENT DATED AUGUST 3, 2017 IN ORDER TO COMPLY WITH RULE 713 OF THE NYSE AMERICAN.**

**Terms of the Transaction**

On August 3, 2017, we entered into a Securities Purchase Agreement to sell a 12% Convertible (“12% Convertible Note”) and a Warrant to purchase 666,666 shares of Common Stock to an accredited investor. As described further below, the principal of the 12% Convertible Note may be converted into shares of Common Stock at \$0.55 per share and under the terms of the Warrant, up to 666,666 shares of Common Stock may be purchased at an exercise price of \$0.70 per share.

*Description of the 12% Convertible Note*

The 12% Convertible Note is in the principal amount of \$400,000 and was sold for \$360,000, bears interest at 12% simple interest on the principal amount, and is due on August 13, 2018. Interest only payments are due on a quarterly basis and the principal is due on August 3, 2018. The principal may be converted into our shares of Common Stock at \$0.55 per share. Subject to certain beneficial ownership limitations, the investor may convert the principal amount of the 12% Convertible Note at any time into Common Stock. The conversion price of the 12% Convertible Note is subject to adjustment for customary stock splits, stock dividends, combinations or similar events.

*Description of the Warrant*

The Warrant entitles the holder to purchase, in the aggregate, up to 666,666 shares of Common Stock at an exercise price of \$0.70 per share for a period of five years subject to certain beneficial ownership limitations. The Warrant is exercisable six months after the issuance date. The exercise price of the \$0.70 Warrant is subject to adjustment for customary stock splits, stock dividends, combinations or similar events. The \$0.70 Warrant may be exercised for cash or on a cashless basis.

### **Why the Company Needs Shareholder Approval**

Rule 713 of the NYSE American requires shareholder approval of a transaction, other than a public offering, involving the sale, issuance or potential issuance by an issuer of Common Stock (or securities convertible into or exercisable for Common Stock) at a price less than the greater of book or market value which together with sales by officers, directors or principal shareholders of the issuer equals 20% or more of presently outstanding Common Stock, or equal to 20% or more of presently outstanding stock for less than the greater of book or market value of the stock, or when the issuance or potential issuance of additional shares will result in a change of control of the issuer. The initial conversion price of 12% Convertible Note was lower and the initial exercise price of the Warrants was greater than the market price of our Common Stock on the execution date of the Securities Purchase Agreement.

Accordingly, investor is prohibited from converting the 12% Convertible Note and exercising the Warrants and receiving shares of our Common Stock unless shareholder approval is obtained for the Securities Purchase Agreement.

### **Effect of Proposal on Current Shareholders**

If this Proposal No. 7 is adopted, based on the conversion of 12% Convertible Note and exercise of Warrants, up to 1,393,940 shares of Common Stock would be issuable. Based on the number of shares of Common Stock outstanding as of the Record Date, such shares would represent \_\_\_\_\_% of our total outstanding shares (giving effect to such issuance). The issuance of such shares may result in significant dilution to our shareholders and afford them a smaller percentage interest in the voting power, liquidation value and aggregate book value of the Company. The sale or any resale of the Common Stock issued upon conversion of 12% Convertible Note and exercise of Warrants could cause the market price of our Common Stock to decline as well as result in substantial dilution to other shareholders since the investor may ultimately convert and sell the full amount issuable on conversion and exercise. This means that our current shareholders will own a smaller interest in our company and will have less ability to influence significant corporate decisions requiring shareholder approval.

### **Further Information.**

The terms of the 12% Convertible Note and Warrants are complex and only briefly summarized above. For further information, please refer to the descriptions contained in the Company's Current Report on Form 8-K filed with the SEC on August 9, 2017, and the transaction documents filed as exhibits to such report. The discussion herein is qualified in its entirety by reference to such filed transaction documents.

### **Required Vote and Board Recommendation**

The conversion of 12% Convertible Note and exercise of Warrants requires the receipt of the affirmative vote of a majority of the shares of the Company's Common Stock present in person or by proxy and voting at the Annual Meeting.

**The Board unanimously recommends a vote "FOR" the approval issuance of Common Stock upon of the conversion of a \$400,000 12% Convertible Note convertible into 727,273 shares of Common Stock and Warrants to purchase 666,667 shares of Common Stock in accordance with the Securities Purchase Agreement dated August 3, 2017 in order to comply with Rule 713 of the NYSE American.**

## PROPOSAL NO. 8

**APPROVAL OF THE CONVERSION OF \$880,000 OF CONVERTIBLE NOTES INTO AN AGGREGATE OF 1,466,667 SHARES OF COMMON STOCK AT \$0.60 PER SHARE AND RELATED EXERCISE OF WARRANTS TO PURCHASE 1,466,667 SHARES OF COMMON STOCK AT \$0.66 PER SHARE IN ACCORDANCE WITH THE CONVERTIBLE NOTE PURCHASE AGREEMENT DATED AUGUST 10, 2017, IN ORDER TO COMPLY WITH RULE 713 OF THE NYSE AMERICAN;**

### Terms of the Transaction

On August 10, 2017, we entered into Securities Purchase Agreements with five institutional investors to sell for an aggregate purchase price of \$800,000, 10% Senior Convertible Promissory Notes (“10% Convertible Notes”) with an aggregate principal face amount of \$880,000 and Warrants to purchase an aggregate of 1,466,667 shares of Common Stock. The principal of the 10% Convertible Notes and interest earned thereon may be converted into shares of Common Stock at \$0.60 per share and under the terms of the Warrant, up to 1,466,667 shares of Common Stock may be purchased at an exercise price of \$0.66 per share.

### *Description of the 10% Senior Convertible Promissory Notes*

The 10% Convertible Notes are in the aggregate principal amount of \$880,000 and were sold for \$800,000 and bear simple interest at 10% on the principal amount, and principal and interest are due on February 10, 2018. Subject to certain beneficial ownership limitations, each investor may convert their respective principal amount of the 10% Convertible Note and accrued interest earned thereon at any time into shares of Common Stock at \$0.60 per share. The conversion price of the 10% Convertible Notes is subject to adjustment for customary stock splits, stock dividends, combinations or similar events.

The 10% Convertible Notes contain standard and customary events of default including, but not limited to, failure to make payments when due under the 10% Convertible Note, failure to comply with certain covenants contained in the 10% Convertible Note, or bankruptcy or insolvency of the Company. In the event of default, the Company may be required to pay the investors the principal amount due plus accrued interest earned thereon times 125%, plus any other expenses.

Upon notice and other conditions, we may at any time prior to conversion prepay the outstanding principal balance of the 10% Convertible Notes and accrued interest earned thereon by paying the following multiples of the outstanding

principal balance and accrued interest earn thereon depending on the prepayment date (i) within 30 days - 105%; (ii) 31 to 60 days - 110%; 61 to 120 days - 115%; and 120 days to maturity - 120%. In addition, the investors may, at their option, require us to repay all or a portion of the 10% Convertible Notes and interest earned thereon in the event we issue, or in a series within 6 months issues, debt or equity in the aggregate amount of \$2 million or more.

In addition, while any principal amount, interest or fees or expenses due under the 10% Convertible Notes remain outstanding and unpaid, we shall not enter into any public or private offering of its securities (including securities convertible into shares of Common Stock) with any other investor that has the effect of establishing rights or otherwise benefiting such other investor in a manner more favorable in any material respect to such other investor than the rights and benefits established in favor of the investor unless, in any such case, the investor has been provided with the same rights and benefits. Further, until the earlier of the 10% Convertible Notes repayment or conversion, we shall not enter into a variable rate transaction.

#### *Description of Warrants*

The Warrants entitles the holders to purchase, in the aggregate, up to 1,466,667 shares of Common Stock at an exercise price of \$0.66 per share for a period of five years subject to certain beneficial ownership limitations. The Warrant is exercisable six months after the issuance date. The exercise price of \$0.66 is subject to adjustment for customary stock splits, stock dividends, combinations or similar events. The Warrant may be exercised for cash or on a cashless basis.

#### **Why the Company Needs Shareholder Approval**

Rule 713 of the NYSE American requires shareholder approval of a transaction, other than a public offering, involving the sale, issuance or potential issuance by an issuer of Common Stock (or securities convertible into or exercisable for Common Stock) at a price less than the greater of book or market value which together with sales by officers, directors or principal shareholders of the issuer equals 20% or more of presently outstanding Common Stock, or equal to 20% or more of presently outstanding stock for less than the greater of book or market value of the stock, or when the issuance or potential issuance of additional shares will result in a change of control of the issuer. The initial conversion price of 10% Convertible Note was lower and the initial exercise price of the Warrants was greater than the market price of our Common Stock on the execution date of the Securities Purchase Agreement.



Accordingly, the investors are prohibited from converting the 10% Convertible Notes and exercising the Warrants and receiving shares of our Common Stock unless shareholder approval is obtained for the issuance under the Securities Purchase Agreement.

### **Effect of Proposal on Current Shareholders**

If this Proposal No. 8 is adopted, based on the conversion of 10% Convertible Note and exercise of Warrants, up to 2,933,334 shares of Common Stock would be issuable. Based on the number of shares of Common Stock outstanding as of the Record Date, such shares would represent \_\_\_\_\_% of our total outstanding shares (giving effect to such issuance). The issuance of such shares may result in significant dilution to our shareholders and afford them a smaller percentage interest in the voting power, liquidation value and aggregate book value of the Company. The sale or any resale of the Common Stock issued upon conversion of 10% Convertible Note and exercise of Warrants could cause the market price of our Common Stock to decline as well as result in substantial dilution to other shareholders since the investor may ultimately convert and sell the full amount issuable on conversion and exercise. This means that our current shareholders will own a smaller interest in our company and will have less ability to influence significant corporate decisions requiring shareholder approval.

### **Further Information.**

The terms of the 10% Convertible Notes and Warrants are complex and only briefly summarized above. For further information, please refer to the descriptions contained in the Company's Current Report on Form 8-K filed with the SEC on August 11, 2017, and the transaction documents filed as exhibits to such report. The discussion herein is qualified in its entirety by reference to such filed transaction documents.

### **Required Vote and Board Recommendation**

The conversion of 10% Convertible Note and exercise of Warrants requires the receipt of the affirmative vote of a majority of the shares of the Company's Common Stock present in person or by proxy and voting at the Annual Meeting.

**The Board unanimously recommends a vote "FOR" the approval issuance of Common Stock upon of the conversion of the 10% Convertible Note convertible into 1,466,667 shares of Common Stock and Warrants to purchase 1,466,667 shares of Common Stock in accordance with the Securities Purchase Agreement dated August 10, 2017 in order to comply with Rule 713 of the NYSE American.**



**PROPOSAL NO. 9**

**APPROVAL OF ISSUANCE OF WARRANTS TO PURCHASE 317,460 SHARES OF COMMON STOCK AT AN EXERCISE PRICE OF \$0.01 PER SHARE AND OPTIONS TO PURCHASE 1,000,000 SHARES OF COMMON STOCK AT AN EXERCISE PRICE OF \$0.65 PER SHARE, AND ISSUANCE OF SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF SUCH WARRANTS AND OPTIONS, IN ACCORDANCE WITH THE EXECUTIVE EMPLOYMENT AGREEMENT, DATED NOVEMBER 30, 2016, AS SUBSEQUENTLY AMENDED ON FEBRUARY 22, 2017 IN ORDER TO COMPLY WITH NYSE AMERICAN RULE 711**

**Terms of the Transaction**

On November 30, 2016, as amended on February 22, 2017, the Company entered into an employment agreement with Amos Kohn to serve as President and Chief Executive Officer with an effective date of September 22, 2016. For his services, Mr. Kohn will be paid a salary of \$300,000 per annum increasing to \$350,000 per annum provided that the Company achieves revenues in the aggregate amount of at least \$10,000,000 as determined in accordance with U.S. GAAP for the trailing four calendar quarters.

In addition, Mr. Kohn shall be eligible for an annual cash bonus equal to a percentage of his annual base salary based on achievement of applicable performance goals determined by the Company's compensation committee after conferring with Mr. Kohn. The target amount of Mr. Kohn's annual performance bonus shall be 25% to 50% of his then annual base salary but may be greater upon mutual agreement between Mr. Kohn and the compensation committee.

Further, Mr. Kohn is entitled to receive equity participation as follows: (i) ten-year warrants to purchase 317,460 shares of the Company's Common Stock (the "**Warrant Grant**") at an exercise price of \$0.01 per share subject to vesting quarterly over two years effective January 1, 2017; and (ii) ten-year options to purchase 1,000,000 shares of the Company's Common Stock at an exercise price of \$0.65 per share. The option to purchase 1,000,000 shares of Common Stock is subject to the following vesting schedule: (1) options to purchase 500,000 shares of Common Stock shall vest upon the effective date; (2) options to purchase 250,000 shares of Common Stock shall vest ratably over six months beginning with the first month after the effective date; and (3) options to purchase 250,000 shares of Common Stock shall vest ratably over twelve months beginning with the first month after the effective date. As part of the grant of the options to purchase 1,000,000 shares, Mr. Kohn forfeited options to purchase 535,000 shares of Common Stock previously granted to him under the Company's Incentive Share Option Plans.

In the event that Mr. Kohn is terminated by the Company without cause, or if Mr. Kohn resigns for good reason, Mr. Kohn shall be entitled to (i) all annual salary earned prior to the termination date, any earned but unpaid portion of Mr. Kohn's annual performance bonus for the year preceding in which such termination occurred and any earned but unpaid paid time off; (ii) an amount equal to 100% of Mr. Kohn's then in effect annual base salary plus an additional 1/12th of Mr. Kohn's annual base salary for each year of employment with the Company prior to such termination; (iii) an amount equal to the average of Mr. Kohn's two prior years' annual bonuses (with such average not to exceed 50% of the Mr. Kohn's annual base salary in effect at the time of termination) prorated for the portion of the year that executive was employed; (iv) accelerated vesting of all outstanding unvested stock options and other equity arrangements subject to vesting and held by Mr. Kohn through the termination date and the Company's right to repurchase Mr. Kohn's restricted stock shall cease; and (v) to the extent required by COBRA, continuation of group health benefits pursuant to the Company's standard programs or in effect at the termination date at Company expense for a period of not less than 18 months.

If Mr. Kohn is terminated without cause, or resigns for good reason within 12 months of a change of control, Mr. Kohn shall be entitled to receive: (i) payment in a lump sum of Mr. Kohn annual base salary for 24 months and any accrued, unused paid time-off; (ii) accelerated vesting of all outstanding unvested stock options and other equity arrangements subject to vesting and the Company's right to repurchase Mr. Kohn restricted stock shall cease; and (iii) to the extent required by COBRA, continuation of group health benefits pursuant to the Company's standard programs or in effect at the termination date at the Company's expense for a period of not less than 18 months.

### **Why the Company Needs Shareholder Approval**

Rule 711 of the NYSE American requires shareholder approval with respect to the establishment of (or material amendment to) a stock option or purchase plan or other equity compensation arrangement pursuant to which options or stock may be acquired by officers, directors, employees, or consultants.

### **Effect of Proposal on Current Shareholders**

If this Proposal No. 9 is adopted, based on the issuance of shares pursuant to the Executive Employment Agreement (and provided the Company has sufficient authorized shares of Common Stock to allow for such exercise), a maximum of 1,317,460 shares of Common Stock would be issuable. Based on the number of shares of Common Stock outstanding as of the Record Date, such shares would represent \_\_\_\_\_% of our total outstanding shares (giving effect to such issuance). The issuance of such shares may result in significant dilution to our shareholders, and afford them a smaller percentage interest in the voting power, liquidation value and aggregate book value of the Company. The sale or any resale of the Common Stock issued pursuant to the Executive Employment Agreement could cause the market price of our Common Stock to decline.

### **Further Information.**

The terms of the Executive Employment Agreement are complex and only briefly summarized above. For further information, please refer to the descriptions contained in the Company's Current Report on Form 8-K filed with the SEC on December 5, 2016, and on \_\_\_, 2017 and the transaction documents filed as exhibits to such report. The discussion herein is qualified in its entirety by reference to such filed transaction documents.

### **Required Vote and Board Recommendation**

Approval of the Executive Employment Agreement requires the receipt of the affirmative vote of a majority of the shares of the Company's Common Stock present in person or by proxy and voting at the Annual Meeting.

**The Board unanimously recommends a vote "FOR" the approval of the issuance of warrants to purchase 317,460 shares of Common Stock at an exercise price of \$0.01 per share and options to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.65 per share, and shares of Common Stock issuable upon exercise of such warrants, in accordance with the Executive Employment Agreement, dated November 30, 2016, as subsequently amended on February 22, 2017 in order to comply with Rule 711 of the NYSE American.**

## PROPOSAL NO. 10

### APPROVAL OF THE 2017 STOCK INCENTIVE PLAN

#### Overview

On September 18, 2017, the Board adopted, upon the recommendation of the Compensation Committee, the 2017 Stock Incentive Plan (the “**2017 Plan**”), subject to and effective upon shareholder approval at the Annual Meeting. We are asking our shareholders to approve the 2017 Plan in order to permit the Company to use the 2017 Plan to achieve the Company's performance, recruiting, retention and incentive goals.

The 2017 Plan includes a variety of forms of awards, including stock options, stock appreciation rights, restricted stock, restricted stock units and dividend equivalents to allow the Company to adapt its incentive program to meet the needs of the Company in the changing business environment in which the Company operates.

We strongly believe that the approval of the 2017 Plan is essential to our continued success. We believe that equity is an important and significant component of our employees' compensation. The Board further believes that equity incentives motivate high levels of performance, align the interests of our employees and shareholders by giving directors, employees and consultants the perspective of an owner with an equity stake in the Company, and provide an effective means of recognizing their contributions to the success of the Company. The Board and management believe that the ability to grant equity incentives will be important to the future success of the Company and is in the best interests of the Company's shareholders.

The potential dilution resulting from issuing all of the proposed 2,000,000 shares under the 2017 Plan would be \_\_\_% on a fully-diluted basis.

If approved, the 2017 Plan will constitute the first such plan ever adopted by the Company. Assuming shareholders approve the 2017 Plan, the 2017 Plan will be effective as the date of the Annual Meeting.

We are seeking shareholder approval of the 2017 Plan in order to satisfy certain legal requirements, including making awards under it eligible for beneficial tax treatment. In addition, the Board regards shareholder approval of the 2017 Plan as desirable and consistent with good corporate governance practices.

## Summary of the 2017 Plan

The following is a description of the principal terms of the 2017 Plan. The summary is qualified in its entirety by the full text of the 2017 Plan, which is attached as Appendix F to this Proxy Statement.

*General.* The 2017 Plan would authorize the grant to eligible individuals of (1) stock options (incentive and nonstatutory), (2) restricted stock, (3) stock appreciation rights, or SARs, (4) restricted stock units, and (5) other stock-based compensation.

*Stock Subject to the 2017 Plan.* The maximum number of shares of our Common Stock that may be issued under the 2017 Plan is 2,000,000 shares, which amount will be increased to the extent that compensated granted under the 2017 Plan are forfeited, expire or are settled for cash (except as otherwise provided in the 2017 Plan).

Substitute awards (awards made or shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company acquired by the Company or any Company subsidiary or with which the Company or any subsidiary combines) will not reduce the shares authorized for grant under the 2017 Plan, nor will shares subject to a substitute award be added to the shares available for issuance or transfer under the 2017 Plan.

*No Liberal Share Recycling.* Notwithstanding anything to the contrary, any and all stock that is (i) withheld or tendered in payment of an option exercise price; (ii) withheld by the Company or tendered by the grantee to satisfy any tax withholding obligation with respect to any award; (iii) covered by a SAR that it is settled in stock, without regard to the number of shares of stock that are actually issued to the grantee upon exercise; or (vi) reacquired by the Company on the open market or otherwise using cash proceeds from the exercise of options, shall not be added to the maximum number of shares of stock that may be issued under the 2017 Plan.

*Limits per Participant.* With respect to awards intended to qualify as performance-based compensation under Section 162(m) of the Code, the 2017 Plan provides that, subject to adjustment as provided in the 2017 Plan, no participant may, in any 12-month period (i) be granted options or SARs with respect to more than 750,000 shares of our Common Stock, (ii) earn more than 500,000 shares of our Common Stock under restricted stock awards, restricted stock unit awards, performance awards and/or other share-based awards, or (iii) earn more than \$5,000,000 under an award; provided, however, that each of these limitations shall be multiplied by two (2) with respect to awards granted to a participant during the first calendar year in which the participant commences employment with us or any of our subsidiaries.





Notwithstanding any other provision of the 2017 Plan to the contrary, no non-employee director may be granted awards during any calendar year in excess of \$350,000 in total value, either in cash, shares of stock or a combination of cash and stock, provided, however, that in extraordinary circumstances, that limit can be increased to \$500,000.

*Eligibility.* Employees of, and consultants to, our Company or its affiliates and members of our Board are eligible to receive equity awards under the 2017 Plan. Only our employees, and employees of our parent and subsidiary corporations, if any, are eligible to receive Incentive Stock Options. Employees, directors (including non-employee directors) and consultants of or for our Company and its affiliates are eligible to receive Nonstatutory Stock Options, Restricted Stock, Purchase Rights and any other form of award the 2017 Plan authorizes.

*Purpose.* The purpose of the 2017 Plan is to promote the interests of the Company and its shareholders by providing executive officers, employees, non-employee directors, and key advisors of the Company and its defined subsidiaries with appropriate incentives and rewards to encourage them to enter into and remain in their positions with the Company and to acquire a proprietary interest in the long-term success of the Company, as well as to reward the performance of these individuals in fulfilling their personal responsibilities for long-range and annual achievements.

*Administration.* Unless otherwise determined by the Board, the Compensation Committee administers the 2017 Plan. The Compensation Committee is composed solely of “non-employee directors” within the meaning of Rule 16b-3 under the Exchange Act, “outside directors” within the meaning of Section 162(m) of the Internal Revenue Code, and “independent directors” within the meaning of NYSE American listing standards. The Compensation Committee has the power, in its discretion, to grant awards under the 2017 Plan, to select the individuals to whom awards are granted, to determine the terms of the grants, to interpret the provisions of the 2017 Plan and to otherwise administer the 2017 Plan. Except as prohibited by applicable law or any rule promulgated by a national securities exchange to which the Company may in the future be subject, the Compensation Committee may delegate all or any of its responsibilities and powers under the 2017 Plan to one or more of its members, including, without limitation, the power to designate participants and determine the amount, timing and term of awards under the 2017 Plan. In no event, however, shall the Compensation Committee have the power to accelerate the payment or vesting of any award, other than in the event of death, disability, retirement or a change of control of the Company.

The 2017 Plan provides that members of the Compensation Committee shall be indemnified and held harmless by the Company from any loss or expense resulting from claims and litigation arising from actions related to the 2017 Plan.

*Term.* If approved, the 2017 Plan is effective \_\_\_\_\_, 2017 and awards may be granted through \_\_\_\_\_, 2027. No awards may be granted under the 2017 Plan subsequent to that date. The Board may suspend or terminate the 2017 Plan without shareholder approval or ratification at any time or from time to time.

*Amendments.* Subject to the terms of the 2017 Plan, the Compensation Committee as administrator has the sole discretion to interpret the provisions of the 2017 Plan and outstanding awards. Our Board generally may amend or terminate the 2017 Plan at any time and for any reason, except that no amendment, suspension, or termination may impair the rights of any participant without his or her consent, and except that approval of our shareholders is required for any amendment which:

- Increases the number of shares of Common Stock subject to the 2017 Plan;
- Decreases the price at which grants may be granted;
- Reprices existing options;
- Materially increases the benefits to participants; or
- Changes the class of persons eligible to receive grants under the 2017 Plan.

*Repricing Prohibition.* Other than in connection with certain corporate events, the Compensation Committee shall not, without the approval of the Company's shareholders, (a) lower the option price per share of an option or SAR after it is granted, (b) cancel an Option or SAR when the exercise price per share exceeds the fair market value of one share in exchange for cash or another award (other than in connection with a change of control), or (c) take any other action with respect to an Option or SAR that would be treated as a repricing under the rules and regulations of the principal U.S. national securities exchange on which the Company's shares are then listed.

*Minimum Vesting Requirement.* Grantees of full-value awards (i.e., awards other than options and SARs), will be required to continue to provide services to the Company or an affiliated company) for not less than one-year following the date of grant in order for any such full-value Awards to fully or partially vest (other than in case of death, disability or a Change of Control). Notwithstanding the foregoing, up to five percent (5%) of the available shares of stock authorized for issuance under the 2017 Plan may provide for vesting of full-value awards, partially or in full, in less than one-year.

*Adjustments upon Changes in Capitalization.* In the event of any merger, reorganization, consolidation, recapitalization, dividend or distribution (whether in cash, shares or other property, other than a regular cash dividend), stock split, reverse stock split, spin-off or similar transaction or other change in our corporate structure affecting our Common Stock or the value thereof, appropriate adjustments to the 2017 Plan and awards will be made as the Board determines to be equitable or appropriate, including adjustments in the number and class of shares of stock available for issuance under the 2017 Plan, the number, class and exercise or grant price of shares subject to awards outstanding under the 2017 Plan, and the limits on the number of awards that any person may receive.

*Change of Control.* Agreements evidencing awards under the 2017 Plan may provide that upon a Change of Control (as defined in the 2017 Plan), unless otherwise provided in the agreement evidencing an award), outstanding Awards may be cancelled and terminated without payment if the consideration payable with respect to one share of Stock in connection with the Change of Control is less than the exercise price or grant price applicable to such Award, as applicable.

Notwithstanding any other provisions of the 2017 Plan to the contrary, the vesting, payment, purchase or distribution of an Award may not be accelerated by reason of a Change of Control for any participant unless the Grantee's employment is involuntarily terminated as a result of the Change of Control as provided in the Award agreement or in any other written agreement, including an employment agreement, between us and the participant. If the Change of Control results in the involuntary termination of participant's employment, outstanding awards will immediately vest, become fully exercisable and may thereafter be exercised.

Generally, under the 2017 Plan, a Change of Control occurs upon (i) the consummation of a reorganization, merger or consolidation of our Company with or into another entity, pursuant to which our shareholders immediately prior to the transaction do not own more than 50% of the total combined voting power after the transaction, (ii) the consummation of the sale, transfer or other disposition of all or substantially all of our assets, (iii) certain changes in the majority of our Board from those in office on the effective date of the 2017 Plan, (iv) the acquisition of more than 50% of the total combined voting power in our outstanding securities by any person, or (v) the Company is dissolved or liquidated.

## **Types of Awards**

*Stock Options.* Incentive Stock Options and Nonstatutory Stock Options are granted pursuant to award agreements adopted by our Compensation Committee. Our Compensation Committee determines the exercise price for a stock option, within the terms and conditions of the 2017 Plan; provided, that the exercise price of an Incentive Stock Option cannot be less than 100% of the fair market value of our Common Stock on the date of grant. Options granted under the 2017 Plan vest at the rate specified by our Compensation Committee.

The Compensation Committee determines the term of stock options granted under the 2017 Plan, up to a maximum of 10 years, except in the case of certain Incentive Stock Options, as described below. The Compensation Committee will also determine the length of period during which an optionee may exercise their options if an optionee's relationship with us, or any of our affiliates, ceases for any reason; for Incentive Stock Options, this period is limited by applicable law. The Compensation Committee may extend the exercise period in the event that exercise of the option following termination of service is prohibited by applicable securities laws. In no event, however, may an option be exercised beyond the expiration of its term unless the term is extended in accordance with applicable law.

Acceptable consideration for the purchase of Common Stock issued upon the exercise of a stock option will be determined by the Compensation Committee and may include (a) cash or its equivalent, (b) delivering a properly executed notice of exercise of the option to us and a broker, with irrevocable instructions to the broker promptly to deliver to us the amount necessary to pay the exercise price of the option, (c) any other form of legal consideration that may be acceptable to the Compensation Committee or (d) any combination of (a), (b) or (c).

Unless the Compensation Committee provides otherwise, options are generally transferable in accordance with applicable law, provided that any transferee of such options agrees to become bound by the terms of the 2017 Plan. An optionee may also designate a beneficiary who may exercise the option following the optionee's death.

*Incentive or Nonstatutory Stock Options.* Incentive Stock Options may be granted only to our employees, and the employees of our parent or subsidiary corporations, if any. The Compensation Committee may grant awards of Incentive or Nonstatutory Stock Options that are fully vested on the date made, to any of our employees, directors or consultants. Option Awards are granted pursuant to award agreements adopted by our Compensation Committee. To the extent required by applicable law, the aggregate fair market value, determined at the time of grant, of shares of our Common Stock with respect to Incentive Stock Options that are exercisable for the first time by an optionee during any calendar year may not exceed \$100,000. To the extent required by applicable law, no Incentive Stock Option may be granted to any person who, at the time of the grant, owns or is deemed to own stock possessing more than 10% of our total combined voting power or that of any of our affiliates unless (a) the option exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant and (b) the term of the incentive stock option does not exceed five years from the date of grant.

*Stock Appreciation Rights.* A SAR is the right to receive stock, cash, or other property equal in value to the difference between the grant price of the SAR and the market price of the Company's Common Stock on the exercise date. SARs may be granted independently or in tandem with an Option at the time of grant of the related Option. An SAR granted in tandem with an Option shall be exercisable only to the extent the underlying Option is exercisable. An SAR confers on the grantee a right to receive an amount with respect to each share of Common Stock subject thereto, upon exercise thereof, equal to the excess of (A) the fair market value of one share of Common Stock on the date of exercise over (B) the grant price of the SAR (which in the case of an SAR granted in tandem with an Option shall be equal to the exercise price of the underlying Option, and which in the case of any other SAR shall be such price as the Compensation Committee may determine but in no event shall be less than the fair market value of a share of Common Stock on the date of grant of such SAR).

*Restricted Stock and Restricted Stock Units.* Restricted Stock is Common Stock that the Company grants subject to transfer restrictions and vesting criteria. A Restricted Stock Unit is a right to receive stock or cash equal to the value of a share of stock at the end of a specified period that the Company grants subject to transfer restrictions and vesting criteria. The grant of these awards under the 2017 Plan are subject to such terms, conditions and restrictions as the Compensation Committee determines consistent with the terms of the 2017 Plan.

At the time of grant, the Compensation Committee may place restrictions on Restricted Stock and restricted stock units that shall lapse, in whole or in part, only upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year, and if the award is granted to a 162(m) Officer, the grant of the award and the establishment of the Performance Goals shall be made during the period required under Internal Revenue Code Section 162(m). Except to the extent restricted under the award agreement relating to the Restricted Stock, a grantee granted Restricted Stock shall have all of the rights of a shareholder including the right to vote Restricted Stock and the right to receive dividends.

Unless otherwise provided in an award agreement, upon the vesting of a Restricted Stock Unit, there shall be delivered to the grantee, within 30 days of the date on which such award (or any portion thereof) vests, the number of shares of Common Stock equal to the number of restricted stock units becoming so vested.

*Other Stock-Based Awards.* The 2017 Plan also allows the Compensation Committee to grant "Other Stock-Based Awards," which means a right or other interest that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Common Stock. Subject to the limitations contained in the 2017 Plan, this includes, without limitation, (i) unrestricted stock awarded as a bonus or upon the attainment of Performance Goals or otherwise as permitted under the 2017 Plan and (ii) a right to acquire stock from the Company containing terms and conditions prescribed by the Compensation Committee. At the time of the grant of Other Stock-Based Awards, the Compensation Committee may place restrictions on the payout or vesting of Other Stock-Based Awards that shall lapse, in whole or in part, only upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year, and if the award is granted to a 162(m) Officer, the grant of the Award and the establishment of the Performance Goals shall be made during the period required under Internal Revenue Code Section 162(m). Other Stock-Based Awards may not be granted with the

right to receive dividend equivalent payments.

*Performance Awards.* Performance awards provide participants with the opportunity to receive shares of our Common Stock, cash or other property based on performance and other vesting conditions. Performance awards may be granted from time to time as determined at the discretion of the Board, or the Compensation Committee (as applicable). Subject to the share limit and maximum dollar value set forth above under “*Limits per Participant*,” the Board, or the Compensation Committee (as applicable), has the discretion to determine (i) the number of shares of Common Stock under, or the dollar value of, a performance award and (ii) the conditions that must be satisfied for grant or for vesting, which typically will be based principally or solely on achievement of performance goals.

*Performance Criteria.* With respect to awards intended to qualify as performance-based compensation under Code Section 162(m), a committee of “outside directors” (as defined in Code Section 162(m)) with authority delegated by our Board will determine the terms and conditions of such awards, including the performance criteria. The performance goals for restricted stock awards, restricted stock units, performance awards or other share-based awards shall be based on the attainment of specified levels of one or any combination of the following:

the attainment of certain target levels of, or a specified percentage increase in, revenues, earnings, income before taxes and extraordinary items, net income, operating income, earnings before or after deduction for all or any portion of income tax, earnings before interest, taxes, depreciation and amortization or a combination of any or all of the foregoing;

the attainment of certain target levels of, or a percentage increase in, after-tax or pre-tax profits including, without limitation, that attributable to continuing and/or other operations;

the attainment of certain target levels of, or a specified increase in, operational cash flow;

the achievement of a certain level of, reduction of, or other specified objectives with regard to limiting the level of increase in, all or a portion of, the Company’s bank debt or other long-term or short-term public or private debt or other similar financial obligations of the Company, which may be calculated net of such cash balances and/or other offsets and adjustments as may be established by the Compensation Committee;

earnings per share or the attainment of a specified percentage increase in earnings per share or earnings per share from continuing operations;

the attainment of certain target levels of, or a specified increase in return on capital employed or return on invested capital;

the attainment of certain target levels of, or a percentage increase in, after-tax or pre-tax return on shareholders’ equity;

the attainment of certain target levels of, or a specified increase in, economic value added targets based on a cash flow return on investment formula;

the attainment of certain target levels in, or specified increases in, the fair market value of the shares of the Company’s Common Stock;

the growth in the value of an investment in the Company’s Common Stock;

the attainment of a certain level of, reduction of, or other specified objectives with regard to limiting the level in or increase in, all or a portion of controllable expenses or costs or other expenses or costs;

gross or net sales, revenue and growth of sales revenue (either before or after cost of goods, selling and general administrative expenses, research and development expenses and any other expenses or interest);

total shareholder return;

return on assets or net assets;

return on sales;

operating profit or net operating profit;

operating margin;

gross or net profit margin;

cost reductions or savings;

productivity;

operating efficiency;

working capital;

market share;

customer satisfaction; and

to the extent that an Award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Board.

The performance goals may be based solely by reference to our performance or the performance of one or more of our subsidiaries, parents, divisions, business segments or business units, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. The authorized committee of outside directors may also exclude under the terms of the performance awards, the impact of an event or occurrence that the committee determines should appropriately be excluded, including (i) restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring charges, or (ii) changes in generally accepted accounting principles or practices.

In connection with the approval of the 2017 Plan, the shareholders also are being asked to approve the above criteria for purposes of Section 162(m) of the Code.

### **New Plan Benefits under the 2017 Plan**

Because future awards under the 2017 Plan will be granted in the discretion of the Compensation Committee, the type, number, recipients, and other terms of such awards cannot be determined at this time.



## U.S. Federal Income Tax Considerations

*The following is a brief description of the material United States federal income tax consequences associated with awards under the 2017 Plan. It is based on existing United States laws and regulations, and there can be no assurance that those laws and regulations will not change in the future. Tax consequences in other countries may vary. This information is not intended as tax advice to anyone, including participants in the 2017 Plan.*

*Stock Options.* Neither incentive stock option grants nor non-qualified stock option grants cause any tax consequences to the participant or the Company at the time of grant. Upon the exercise of a non-qualified stock option, the excess of the market value of the shares acquired over their exercise price is ordinary income to the participant and is deductible by the Company. The participant's tax basis for the shares is the market value thereof at the time of exercise. Any gain or loss realized upon a subsequent disposition of the stock will generally constitute capital gain, in connection with which the Company will not be entitled to a tax deduction.

Upon the exercise of an incentive stock option, the participant will not realize taxable income, but the excess of the fair market value of the stock over the exercise price may give rise to alternative minimum tax. When the stock acquired upon exercise of an incentive stock option is subsequently sold, the participant will recognize income equal to the difference between the sales price and the exercise price of the option. If the sale occurs after the expiration of two years from the grant date and one year from the exercise date, the income will constitute long-term capital gain. If the sale occurs prior to that time, the participant will recognize ordinary income to the extent of the lesser of the gain realized upon the sale or the difference between the fair market value of the acquired stock at the time of exercise and the exercise price; any additional gain will constitute capital gain. The Company will be entitled to a deduction in an amount equal to the ordinary income recognized by the participant, but no deduction in connection with any capital gain recognized by the participant. If the participant exercises an incentive stock option more than three months after his or her termination of employment due to retirement or other separation other than death or disability, or more than twelve months after his or her termination of employment due to death or permanent disability, he or she is deemed to have exercised a non-qualified stock option.

Compensation realized by participants on the exercise of non-qualified stock options or the disposition of shares acquired upon exercise of any incentive stock options should qualify as performance-based compensation under the Code and thus not be subject to the \$1,000,000 deductibility limit of Code Section 162(m).

*Stock Appreciation Rights.* A participant granted a stock appreciation right under the 2017 Plan will not recognize income, and the Company will not be allowed a tax deduction, at the time the award is granted. When the participant exercises the stock appreciation right, the amount of cash and the fair market value of any shares of stock or other consideration received will be ordinary income to the participant and the Company will be allowed a corresponding federal income tax deduction at that time. Compensation realized by the participant on the exercise of the stock appreciation right should qualify as performance-based compensation under the Code and thus not be subject to the

\$1,000,000 deductibility limit of Code Section 162(m).

*Restricted Stock.* Restricted stock is not taxable to a participant at the time of grant, but instead is included in ordinary income (at its then fair market value) when the restrictions lapse. A participant may elect, however, to recognize income at the time of grant, in which case the fair market value of the restricted shares at the time of grant is included in ordinary income and there is no further income recognition when the restrictions lapse. If a participant makes such an election and thereafter forfeits the restricted shares, he or she will be entitled to no tax deduction, capital loss or other tax benefit. The Company is entitled to a tax deduction in an amount equal to the ordinary income recognized by the participant, subject to any applicable limitations under Code Section 162(m).

A participant's tax basis for restricted shares will be equal to the amount of ordinary income recognized by the participant. The participant will recognize capital gain (or loss) on a sale of the restricted stock if the sale price exceeds (or is lower than) such basis. The holding period for restricted shares for purposes of characterizing gain or loss on the sale of any shares as long- or short-term commences at the time the participant recognizes ordinary income pursuant to an award. The Company is not entitled to a tax deduction corresponding to any capital gain or loss of the participant.

*Restricted Stock Units.* A participant will not recognize income, and the Company will not be allowed a tax deduction, at the time a restricted stock unit award is granted. Upon receipt of shares of stock (or the equivalent value in cash or any combination of cash and the Company Common Stock) in settlement of a restricted stock unit award, a participant will recognize ordinary income equal to the fair market value of the stock and cash received as of that date (less any amount he or she paid for the stock and cash), and the Company will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m).

*Performance Awards.* A participant will not recognize income, and the Company will not be allowed a tax deduction, at the time a performance award is granted (for example, when the performance goals are established). Upon receipt of stock or cash (or a combination thereof) in settlement of a performance award, the participant will recognize ordinary income equal to the fair market value of the stock and cash received, and the Company will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m).

*Code Section 409A.* If an award is subject to Code Section 409A (which relates to nonqualified deferred compensation plans), and if the requirements of Section 409A are not met, the taxable events as described above could apply earlier than described, and could result in the imposition of additional taxes and penalties. All awards that comply with the terms of the 2017 Plan, however, are intended to be exempt from the application of Code Section 409A or meet the requirements of Section 409A in order to avoid such early taxation and penalties.

*Tax Withholding.* The Company has the right to deduct or withhold, or require a participant to remit to the Company, an amount sufficient to satisfy federal, state and local taxes (including employment taxes) required by law to be withheld with respect to any exercise, lapse of restriction or other taxable event arising as a result of the 2017 Plan. The Compensation Committee may, at the time the award is granted or thereafter, require or permit that any such withholding requirement be satisfied, in whole or in part, by delivery of, or withholding from the award, shares having a fair market value on the date of withholding equal to the amount required to be withheld for tax purposes.

#### **Required Vote and Board Recommendation**

Approval of the 2017 Plan requires the receipt of the affirmative vote of the holders of a majority of the shares of the Company's Common Stock present in person or by proxy and voting at the Annual Meeting.

**The Board unanimously recommends a vote “FOR” the approval of the 2017 Stock Incentive Plan**

## INFORMATION ABOUT THE EXECUTIVE OFFICERS

### Executive Officers

The executive officers are elected by our Board and hold office until their successors are elected and duly qualified. There are no family relationships between any of our directors or executive officers other than that Mr. and Mrs. Ault are married. The current executive officers of the Company are as follows:

<b>Name</b>	<b>Age</b>	<b>Offices Held</b>
Amos Kohn*	57	President and CEO
Milton C. Ault, III	47	Executive Chairman of the Board
Uri Friedlander*	54	Vice President of Finance, Chief Accounting Officer

\* On July 6, 2017, Mr. Friedlander terminated his relationship with the Company. On July 13, 2017, Mr. Kohn became our Chief Financial Officer.

Biographical information about Mr. Amos is provided in “Proposal No. 1 – Election of Directors.”

Biographical information about Mr. Ault is provided in “Proposal No. 1 – Election of Directors.”

**Uri Friedlander.** Mr. Friedlander, age 54, has served as Vice President, Chief Accounting officer since October, 2015 until July 6, 2017. Since 1997, Mr. Fridlander has served as the Chief Financial Officer of Telkoor. From 1991 to 1997, Mr. Fridlander 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.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following Summary Compensation Table sets forth all compensation earned in all capacities during the years ended December 31, 2016 and 2015, by our Chief Executive Officer (“**Named Executive Officer**”). Because we are a

Smaller Reporting Company, we only have to report information of our Chief Executive Officer as no other officer met the definition of Named Executive Officer within the meaning of SEC rules.

### Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards \$(1)	Non-equity	Nonqualified	Total (\$)	
						Incentive Plan Compensation (\$)	Deferred Compensation Earnings (\$)		Other Compensation \$(2)
Amos Kohn Chief Executive Officer	2016	\$234,866	-	-	\$366,409	-	-	\$36,269	\$637,564
	2015	\$215,118	-	-	\$120,184	-	-	\$43,677	\$378,979

(1) Represents the equity-based compensation expenses recorded in our consolidated financial statements for the year ended December 31, 2016, based upon the option's fair value on the grant date, calculated in accordance with accounting guidance for equity-based compensation. For a discussion of the assumptions used in reaching this valuation, see Note 8 to our consolidated financial statements for the year ended December 31, 2016.

(2) The amounts in "All Other Compensation" consist of health insurance benefits, long-term and short-term disability insurance benefits, and 401K matching amounts.

### Employment Agreement with Amos Kohn

On November 30, 2016, as amended on February 22, 2017, the Company entered into an employment agreement with Amos Kohn to serve as President and Chief Executive Officer with an effective date of September 22, 2016.

For his services, Mr. Kohn will be paid a salary of \$300,000 per annum increasing to \$350,000 per annum provided that the Company achieves revenues in the aggregate amount of at least \$10,000,000 as determined in accordance with U.S. GAAP for the trailing four calendar quarters.

In addition, Mr. Kohn shall be eligible for an annual cash bonus equal to a percentage of his annual base salary based on achievement of applicable performance goals determined by the Company's compensation committee after conferring with Mr. Kohn. The target amount of Mr. Kohn's annual performance bonus shall be 25% to 50% of his then annual base salary but may be greater upon mutual agreement between Mr. Kohn and the compensation committee.

Further, Mr. Kohn is entitled to receive equity participation as follows: (i) ten-year warrants to purchase 317,460 shares of the Company's Common Stock (the "Warrant Grant") at an exercise price of \$0.01 per share subject to vesting quarterly over two years effective January 1, 2017; and (ii) ten-year options to purchase 1,000,000 shares of the Company's Common Stock at an exercise price of \$0.65 per share. The option to purchase 1,000,000 shares of Common Stock is subject to the following vesting schedule: (1) options to purchase 500,000 shares of Common Stock shall vest upon the effective date; (2) options to purchase 250,000 shares of Common Stock shall vest ratably over six months beginning with the first month after the effective date; and (3) options to purchase 250,000 shares of Common Stock shall vest ratably over twelve months beginning with the first month after the effective date. As part of the grant of the options to purchase 1,000,000 shares, Mr. Kohn forfeited options to purchase 535,000 shares of Common Stock previously granted to him under the Company's Incentive Share Option Plans.

In the event that Mr. Kohn is terminated by the Company without cause, or if Mr. Kohn resigns for good reason, Mr. Kohn shall be entitled to (i) all annual salary earned prior to the termination date, any earned but unpaid portion of Mr. Kohn's annual performance bonus for the year preceding in which such termination occurred and any earned but unpaid paid time off; (ii) an amount equal to 100% of Mr. Kohn's then in effect annual base salary plus an additional 1/12th of Mr. Kohn's annual base salary for each year of employment with the Company prior to such termination; (iii) an amount equal to the average of Mr. Kohn's two prior years' annual bonuses (with such average not to exceed 50% of the Mr. Kohn's annual base salary in effect at the time of termination) prorated for the portion of the year that executive was employed; (iv) accelerated vesting of all outstanding unvested stock options and other equity arrangements subject to vesting and held by Mr. Kohn through the termination date and the Company's right to repurchase Mr. Kohn's restricted stock shall cease; and (v) to the extent required by COBRA, continuation of group health benefits pursuant to the Company's standard programs or in effect at the termination date at Company expense for a period of not less than 18 months.

If Mr. Kohn is terminated without cause, or resigns for good reason within 12 months of a change of control, Mr. Kohn shall be entitled to receive: (i) payment in a lump sum of Mr. Kohn annual base salary for 24 months and any accrued, unused paid time-off; (ii) accelerated vesting of all outstanding unvested stock options and other equity arrangements subject to vesting and the Company's right to repurchase Mr. Kohn restricted stock shall cease; and (iii) to the extent required by COBRA, continuation of group health benefits pursuant to the Company's standard programs or in effect at the termination date at the Company's expense for a period of not less than 18 months.

#### **Arrangement with Mr. Friedlander**

On October 7, 2015 the Compensation Committee agree to pay Mr. Friedlander an annual payment of \$58,000 (which includes compensation and business expenses and travel) and granted him 20,000 stock options under the 2012 Stock Option Plan. The options, which will have an exercise price equal to the closing price of the Company's shares on the close of business on October 7, 2015, vest over a four year period at 25% per year and expire 10 years from the date of grant. Mr. Friedlander does not have an employment contract. As of July 6, 2017, Mr. Friedlander is no longer associated with the Company.

### **Advisory Vote on Executive Compensation**

At the annual meeting of shareholders on December 28, 2016, the shareholders approved, on an advisory basis, the compensation paid to the Company's named executive officers. In addition, shareholders voted, on an advisory basis, that an advisory vote on executive compensation should be held every three years.

**Outstanding Equity Awards at Fiscal Year-End**

The following table provides information on outstanding equity awards as of December 31, 2016 to the Named Executive Officer.

Name	Option Award			Stock Award			
	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) exercisable	Equity incentive plan awards: Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Number of shares or units of stock that have not vested (#)	Equity income award: Number of unearned shares, units or other rights that have not vested (#)
Amos Kohn	687,500(1)	312,500	(1)	\$ 0.65	9/22/27		
		317,460	(2)	\$ 0.01	9/22/27		

Effective September 22, 2016, Mr. Kohn was granted options to 1,000,000 shares of Common Stock at \$0.65 per share. The options to purchase 1,000,000 shares of Common Stock are subject to the following vesting schedule: (1) options to purchase 500,000 shares of Common Stock shall vest upon the effective date; (2) options to purchase 250,000 shares of Common Stock shall vest ratably over six months beginning with the first month after the effective date; and (3) options to purchase 250,000 shares of Common Stock shall vest ratably over twelve months beginning with the first month after the effective date. In connection with the grant of options to purchase 1,000,000 shares of Common Stock, Mr. Kohn forfeited options to purchase 535,000 shares of Common Stock previously granted to him under the Company's 2012 Plan.

(2) Represents warrants to purchase 317,460 shares of the Company's Common Stock at an exercise price of \$0.01 per share subject to vesting quarterly over two years beginning January 1, 2017 granted to Mr. Kohn in connection with his employment agreement.



## Stock Option Plans

On December 28, 2016, the shareholder approve the 2016 Stock Incentive Plan (the “**2016 Stock Incentive Plan**”), under which options to acquire up to 4,000,000 shares of Common Stock may be granted to the Company's directors, officers, employees and consultants. The 2016 Stock Incentive Plan is in addition to the Company's current 2012 Stock Option Plan, as amended (the “**2012 Plan**”), which provides for the issuance of a maximum of 1,372,630 shares of the Company's Common Stock to be offered to the Company's directors, officers, employees, and consultants.

The purpose of both the 2016 Stock Incentive Plan and 2012 Plan is to advance the interests of the Company by providing to key employees of the Company and its affiliates, who have substantial responsibility for the direction and management of the Company, as well as certain directors and consultants of the Company, additional incentives to exert their best efforts on behalf of the Company, to increase their proprietary interest in the success of the Company, to reward outstanding performance and to provide a means to attract and retain persons of outstanding ability to the service of the Company.

As of December 31, 2016, options to purchase 2,266,000 shares of Common Stock were issued and outstanding, and 3,312,630 shares are available for future issuance, under collectively the 2012 Plan and the 2016 Stock Incentive Plan.

## 401(k) Plan

We have adopted a tax-qualified employee savings and retirement plan, or 401(k) plan, which generally covers all of our full-time employees. Pursuant to the 401(k) plan, eligible employees may make voluntary contributions to the plan up to a maximum of 5% of eligible compensation. The 401(k) plan permits, but does not require, matching contributions by Digital Power on behalf of plan participants. We match contributions at the rate of (1) \$1.00 for each \$1.00 contributed, up to 3% of the base salary and (2) \$0.50 for each \$1.00 contributed thereafter, up to 5% of the base salary. We are also permitted under the plan to make discretionary contributions. The 401(k) plan is intended to qualify under Sections 401(k) and 401(a) of the Internal Revenue Code of 1986, as amended. Contributions to such a qualified plan are deductible by the Company when made, and neither the contributions nor the income earned on those contributions is taxable to plan participants until withdrawn. All 401(k) plan contributions are credited to separate accounts maintained in trust.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information concerning the number of shares of our Common Stock owned beneficially based on \_\_\_\_\_ issued and outstanding shares of Common Stock as of the Record Date by: (i) each of our directors; (ii) each of our named executive officers; and (iii) each person known to us to be the beneficial owner of more than 5% of the outstanding shares of our Common Stock based upon Schedules 13G or 13D filed with

the SEC.

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Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Other than as described in the notes to the table, we believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them. All share ownership figures include shares issuable upon exercise of options or warrants exercisable within 60 days of the Record Date, which are deemed outstanding and beneficially owned by such person for purposes of computing his or her percentage ownership, but not for purposes of computing the percentage ownership of any other person.

The address for each of the officers and directors is c/o Digital Power Corporation, 48430 Lakeview Blvd., Fremont, California 94538-3158.

<u>Name of beneficial owner</u>	<u>Shares of Common Stock</u>	<u>Percent of Common Stock</u>
<b>Directors and Officers:</b>		
Amos Kohn	(1)	%
Robert Smith	(2)	*
Moti Rosenberg	(3)	*
Kristine Ault	(4)	%
Milton C. Ault, III	(5)	%
William Horne	(6)	*
All directors and executive officers as a group (six persons)		%
<b>5% or Greater Beneficial Owners:</b>		
Philou Ventures, LLC <sup>(7)</sup>		%

\* Denotes less than 1%

- (1) Includes options to purchase \_\_\_\_\_ shares and warrants to purchase \_\_\_\_\_ shares of Common Stock exercisable within 60 days of the Record Date.
- (2) Represents options to purchase \_\_\_\_\_ shares of Common Stock that are exercisable within 60 days of the Record Date.
- (3) Represents options to purchase \_\_\_\_\_ shares of Common Stock that are exercisable within 60 days of the Record Date.
- (4) Includes shares owned by Philou Ventures of which Ms. Ault is the Manager. Also includes options to purchase \_\_\_\_\_ shares of Common Stock that are exercisable within 60 days of the Record Date.
- (5) Mr. Ault is the spouse of Kristine Ault. Includes \_\_\_\_\_ shares owned by Philou Ventures which may be deemed beneficially owned by Mr. Ault.
- (6) Represents options to purchase \_\_\_\_\_ shares of Common Stock that are exercisable within 60 days of the Record Date.
- (7) The address of Philou Ventures is P.O. Box 3587 Tustin, CA 92705

### Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2016, with respect to compensation plans under which the Company's equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) <sup>(2)</sup> (C)
Equity compensation plans approved by security holders <sup>(1)</sup>	2,256,000	\$ 0.83	3,322,630
Equity compensation plans not approved by security holders	317,460	\$ 0.01	
Total	2,573,460		3,322,630

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following information sets forth certain related transactions between us and certain of our shareholder of directors during the fiscal year ended December 31, 2016. Prior to September 22, 2016, Telkooor was our largest shareholder and Telkooor's Chief Executive Officer, Benzi Diamant, was our Chairman of the Board. Effective September 22, 2016, Telkooor sold all of its shares of Common Stock of the Company to Philou Ventures, and as a result, Philou Ventures is our largest shareholder. Philou Ventures' Manager is Kristine L. Ault, one of our directors. Ms. Ault is the spouse of Milton C. Ault, III, who is our Executive Chairman of the Board.

*Telkoor Telecom, Ltd.*

As previously disclosed, on September 5, 2016, we entered into a securities purchase agreement with Philou Ventures, and Telkoor pursuant to which Telkoor agreed to purchase all of Telkoor's 2,714,610 shares of the Common Stock in the Company, constituting approximately 40.06% of the then Company's outstanding shares of Common Stock. In consideration for such shares, Philou agreed to pay Telkoor \$1.5 million.

In conjunction with the securities purchase agreement, we entered into a rescission agreement with Telkoor in order to resolve all financial issues between the parties, including the repurchase by Telkoor of 1,136,666 shares of Common Stock of Telkoor beneficially owned by us for book value.

Finally, as part of the securities purchase agreement, we have agreed to pay Mr. Diamant \$7,500 for a period of eighteen months from September 5, 2016, for consulting services.

*Relationship with Telkoor Power Supplies Ltd.*

During the years ended December 31, 2016 and 2015, we purchased approximately \$0 and \$594,000, respectively, of products from Telkoor Power Supplies, Ltd., a wholly-owned subsidiary of our largest then shareholder, Telkoor, of which Ben-Zion Diamant was the Chief Executive Officer and its controlling shareholder. We had no written agreement for the purchase of these products, other than purchase orders that are placed in the ordinary course of business when the products are needed. In January 2016, Telkoor sold its commercial intellectual property to Advice Electronics Ltd. As a result, of that date no further orders have been placed with Telkoor.

*Purchase of IP by Digital Power Limited ("DPL") from Telkoor Power Supplies ("TPS")*

On August 25, 2010, we and our wholly-owned subsidiary, DPL, entered into an agreement with TPS, a wholly-owned subsidiary of our largest then shareholder, Telkoor, of which Mr. Diamant is the Chief Executive Officer and controlling shareholder. Pursuant to such agreement, (1) TPS sold, assigned and conveyed to DPL all of its rights, title and interest in and to the intellectual property associated with the Compact Peripheral Component Interface 600 W AC/DC power supply series (the "Assets") and (2) DPL granted to TPS an irrevocable license to sell the Assets in Israel on an exclusive basis. In consideration for the purchase of the Assets, DPL paid TPS \$480,000. The consideration for the license provided to TPS to sell the Assets in Israel is a royalty fee of 15% of TPS's direct production costs of sales, due on a quarterly basis. In accordance with the agreement, the consideration for the IP may be reduced over a four-year period in the event annual sales for each year between 2011 and 2014 are less than a fixed

threshold of units on an annual basis based upon an offset value per unit as described in the agreement. If there is a shortfall in sale of units in one annual period and in the subsequent period we sell more than the fixed unit threshold, this difference will be offset from any reduced consideration in any annual periods between 2011 and 2014. As a result of lower than anticipated sales by our DPL subsidiary of the Compact Peripheral Component Interface 600W AC/DC power supply series (CPCI 600W) through 2013, we amended our agreement with Telkooor (effective January 1, 2014 for the duration of the original agreement or until the shortfall of CPCI 600W product sales will be offset) to include additional products in addition to the original CPCI 600W product. As of December 31, 2015, the shortfall of sales of CPCI 600W products is greater than the outstanding royalties due. In January 2016, Telkooor sold its assets, including its subsidiary TPS, to Advice Electronics Ltd. Following this asset sale, the IP agreement between the Company and Telkooor was terminated.

#### *Acquisition of Shares of Telkooor*

On June 16, 2011 we acquired 1,136,666 shares of Telkooor, a then major shareholder of the Company which was listed on the Tel Aviv Stock Exchange, for \$0.88 (NIS 3) per share, which represented 8.8% of the outstanding shares of Telkooor. As a result of this transaction, an existing manufacturing agreement between Digital Power and Telkooor was updated and extended. Until September 30, 2012 the investment was accounted for as an available-for-sale investment and then reclassified the accounting of the investment at cost less accumulated impairments derived from independent appraisals or available market valuations. As of December 31, 2105 the shares represented 8.4% of the outstanding shares of Telkooor which have since de-listed from the Tel Aviv Stock Exchange.

On September 22, 2016, the Company sold such shares back to Telkooor for \$90,000.

*Manufacturing Agreements with Telkooor and Advice Electronics Ltd.*

On December 31, 2012, we entered into a Manufacturing Rights Agreement (the “Manufacturing Agreement”) with Telkooor, pursuant to which among other things, Telkooor granted us the non-exclusive right to directly place purchase orders for certain products from third party manufacturers for the purpose of marketing, selling and distributing the products for telecom, industrial, medical and military market segments in North and South America in consideration for the payment of royalty fees by us to Telkooor. The royalty fees paid by us to Telkooor under the Manufacturing Agreement are between 5% and 25%, depending on the product. The Manufacturing Agreement has a term of five years from the date of signature. During the agreement, Telkooor agreed not to directly or indirectly participate or engage, or assist any other party in engaging or preparing to engage, our customers in North and South America in connection with the sale or distribution of any of the products under the Manufacturing Agreement.

In January 2016, Telkooor sold all its commercial IP to Advice Electronics Ltd. (“Advice”), an Israeli company. As part of the agreement with Advice, we entered into a new agreement with Advice, according to which our manufacturing rights for certain Telkooor products will be granted to us through August 2017 against royalty payments to Advice, after which we will be entitled to distribute the products under our branding until December 2020. The term of the agreement with Advice has been extended through August 1, 2018.

*Avalanche International, Corp.*

During the quarter ended December 31, 2016, Avalanche International, Corp. (“Avalanche”) issued to the Company two \$525,000 12% Convertible Promissory Notes, with identical terms, dated October 5, 2016 and November 30, 2016. In consideration for the issuance of the Notes, the Company loaned \$1,000,000 to Avalanche of which \$950,000 was funded as of December 31, 2016, and the remaining \$50,000 was funded on February 17, 2016. The Notes, in the aggregate principal amount of \$1,050,000, include an original issue discount of \$50,000. The Notes accrue simple interest at 12% per annum and are convertible into shares of Avalanche Common Stock at \$0.74536 per share.

At any time after six months from the date of the Notes, the Company may convert the principal and interest into shares of Avalanche Common Stock. The conversion price of the Notes is subject to adjustment for customary stock splits, stock dividends, combinations or similar events. The Notes contain standard and customary events of default including, but not limited to failure to make payments when due under the Notes and bankruptcy or insolvency of Avalanche.

On February 22, 2017, subsequent to year-end, Avalanche issued the Company a third \$525,000 12% Convertible Promissory Note (the “Third Note”). During the period from February 22, 2017 to March 3, 2017, the Company funded \$172,371 pursuant to this Third Note.

Avalanche is a holding company which on March 3, 2017, entered into a share exchange agreement with MTIX and the three shareholders of MTIX. Upon the terms and subject to the conditions set forth in the share exchange agreement, Avalanche will acquire MTIX from the sellers through the transfer of all issued and outstanding ordinary shares of MTIX by the sellers to Avalanche. MTIX has developed a cost effective and environment friendly material synthesis technology for textile applications utilizing the proprietary MLSE™ system which uses a combination of high voltage plasma and laser energy to imbue fabrics with desirable technical characteristics. On March 15, 2017, the Company announced that it had entered into a \$50 million purchase order with MTIX to manufacture, install and service fabric treatment machines that utilize MTIX's proprietary MLSE™ system.

Milton C. Ault, III and William Horne, two of our directors, are directors of Avalanche. In addition, based on Avalanche's Form 10-K for the year ended November 30, 2015, Philou Ventures is the largest shareholder of Avalanche. Philou Ventures is our largest shareholder, and Kristine L. Ault, Milton C. Ault, III's spouse, is the manager of Philou Ventures.



## **PROPOSALS OF SHAREHOLDERS FOR THE 2018 ANNUAL MEETING**

If you want to submit a proposal for inclusion in our proxy statement for the 2018 Annual Meeting of shareholders, you may do so by following the procedures in Rule 14a-8 under the Exchange Act. To be eligible for inclusion, shareholder proposals (other than nominees for directors) must be received at the Company's principal executive office, at the following address 48430 Lakeview Blvd., Fremont, California 94538-3158, Attention: Secretary, no later than \_\_\_\_\_, 2017 (120 days before the anniversary of this year's mailing date).

A shareholder's notice to the Secretary must set forth as to each matter the shareholder proposes to bring before the annual meeting: (i) a description in reasonable detail of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Company's books, of the shareholder proposing such business and of the beneficial owner, if any, on whose behalf the proposal is made, (iii) such information regarding each director nominee or each matter of business to be proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the U. S. Securities and Exchange Commission, or the SEC, had the nominee been nominated, or intended to be nominated, or the matter been proposed, or intended to be proposed by the Board; (iv) if applicable, the consent of each nominee to be named in the proxy statement and to serve as director of the Company if so elected; (v) the class and number of shares of the Company that are owned beneficially and of record by the shareholder proposing such business and by the beneficial owner, if any, on whose behalf the proposal is made, and (vi) any material interest of such shareholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made in such business.

Shareholder proposals intended to be presented at the 2018 Annual Meeting must be received by the Company no later than reasonable time in advance of the date of the 2018 Annual Meeting, which in the Company's opinion would be no less than 120 days before that date (pursuant to Rule 14a-8 of the Exchange Act) to be eligible for inclusion in the Company's proxy statement and form of proxy for next year's meeting. The Company has yet to determine the date of its 2018 Annual Meeting. Proposals should be addressed to Digital Power Corporation, Attention: Corporate Secretary, 48430 Lakeview Blvd., Fremont, California 94538-3158.

For any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph), but is instead sought to be presented directly at the 2018 Annual Meeting, the federal securities laws require Shareholders to give advance notice of such proposals. The required notice must (pursuant to Rule 14a-4 of the Exchange Act), be given no less than a reasonable time in advance of the date of the 2018 Annual Meeting, which in the Company's opinion would be no less than 45 days before that date. The Company has yet to determine the date of its 2018 Annual Meeting. Any such notice must be provided to Digital Power Corporation, Attention: Corporate Secretary, 48430 Lakeview Blvd., Fremont, California 94538-3158. If a shareholder fails to provide timely notice of a proposal to be presented at the 2018 Annual Meeting, the chairman of the meeting will declare it out of order and disregard any such matter.

**OTHER BUSINESS**

The Board knows of no business to be brought before the Annual Meeting other than as set forth above. If other matters properly come before the shareholders at the meeting, it is the intention of the persons named on the proxy to vote the shares represented thereby on such matters in accordance with their judgment.

By Order of the Board of Directors,

*/s/ Amos Kohn* \_\_\_\_\_

*Amos Kohn*

*Chief Executive Officer and President*

\_\_\_\_\_, 2017

**Appendix A**

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

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 Number 1-12711

**DIGITAL POWER CORPORATION**

(Exact name of registrant as specified in its charter)

California

94-1721931

(State or other jurisdiction of (I.R.S. Employer

Incorporation or organization) Identification No.)

48430 Lakeview Blvd, Fremont, California 94538-3158

(Address of principal executive offices, including zip code)

510-657-2635

(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Name of each exchange on which registered</u>
Common Stock, no par value	NYSE MKT

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

Title of Each Class  
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

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

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 No

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Indicate by check mark whether the registrant has submitted 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 (§ 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.

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.

Large accelerated filer Accelerated filer  
Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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

Yes No

As of June 30, 2016, the aggregate market value of the voting common stock held by non-affiliates was approximately \$1,601,000 based upon the closing price of the common stock on the NYSE MKT on that date. Shares of common stock held by each officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of April 5, 2017, the number of shares of common stock outstanding was 9,216,853.

#### DOCUMENTS INCORPORATED BY REFERENCE

None.



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## **Forward Looking Statement**

As used in this annual report, the terms “we,” “us,” “our,” “Company,” “Digital,” or “Digital Power,” mean Digital Power Corporation, a California corporation, and its subsidiaries unless otherwise indicated.

The following information should be read in conjunction with the Consolidated Financial Statements and the notes thereto located elsewhere in this Annual Report on Form 10-K. This Report, and in particular “Management's Discussion and Analysis of Financial Condition and Results of Operations,” contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In this report, the words "believes," "anticipates," "intends," "expects," "plans," "should," "will," "seeks" and words of similar import identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: our history of net losses; our intent to develop business in new areas and markets, our dependence on third parties, including Advice Electronics Ltd., to design certain of our standard products; the possible limits of our strategic focus on our power supply component competencies; our dependence on a few major customers; uncertainty of market acceptance of our products; the effects of the ongoing slowdown affecting world financial markets; and other factors referenced in "Risk Factors" and other sections of this Annual Report. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

## **PART I**

### **ITEM 1. Business.**

#### **General**

We are a growth company seeking to increase our revenues through acquisitions. Our strategy reflects our management and Board's current philosophy that occurred as a result of a change in control completed in September 2016. Our acquisition and development target strategy includes companies that have developed a “new way of doing business” in mature, well-developed industries experiencing changes due to new technology; companies that may become profitable or more profitable through efficiency and reduction of costs; companies that are related to our core business in the commercial and defense industries; and companies that will enhance our overall revenues. It is our goal to substantially increase our gross revenues in the near future.



We were originally a solution-driven organization that designs, develops, manufactures and sells high-grade customized and flexible power system solutions for the medical, military, telecom and industrial markets. Although we intend to seek growth through acquisitions, we will continue to focus on high-grade and custom product designs for the commercial, medical and military/defense markets, where customers demand high density, high efficiency and ruggedized products to meet the harshest and/or military mission critical operating conditions.

We also have operations located in Europe through our wholly-owned subsidiary, Digital Power Limited ("DPL"), Salisbury, England, which operates under the brand name of "Gresham Power Electronics" ("Gresham"). DPL designs, manufactures and sells power products and system solutions mainly for the European marketplace, including power conversion, power distribution equipment, DC/AC (Direct Current/Active Current) inverters and UPS (Uninterrupted Power Supply) products. Our European defense business is specialized in the field of naval power distribution products.

We are a California corporation formed in 1969 and located in the heart of the Silicon Valley at 48430 Lakeview Blvd, Fremont, California 94538-3158. Our phone number is 510-657-2635 and our website address is [www.digipwr.com](http://www.digipwr.com).

## **Recent Events – Change of Control**

On September 5, 2016, we entered into a securities purchase agreement with Philou Ventures, LLC (“Philou Ventures”), a Wyoming limited liability company, and Telkooor Telecom Ltd., an Israeli company (“Telkooor”) pursuant to which the Philou Ventures agreed to purchase all of Telkooor’s 2,714,610 shares of the common stock in the Company, constituting approximately 40.06% of the Company’s then outstanding shares of common stock. In consideration for such shares, Philou Ventures agreed to pay Telkooor \$1.5 million. On September 22, 2016, the sale between Telkooor and Philou Ventures closed and Philou Ventures became the Company’s largest shareholder with Telkooor no longer being associated with the Company. Further, in conjunction therewith, Messrs. Israel Levi, Haim Yatim, and Ben-Zion Diamant resigned from the board of directors of the Company and the remaining members of the board of directors of the Company consisting of Mr. Amos Kohn and Mr. Moti Rosenberg filled one of the vacancies caused by the resignations by appointing Mr. Robert O. Smith to the board. Shortly thereafter, on October 13, 2016, Kristine Ault and William Horne were appointed to the board of directors.

## **Strategy**

Our strategy to increase revenues through acquisitions was developed after a review of our current business. While we continue to maintain our core business of power system solutions for the military-aerospace, medical and industrial-telecommunication industries, we have determined that significant organic growth in these industries will be challenging due to our limited releases of new products offerings, insufficient sales and marketing force as a result of deferring research and development of new products because of limited working capital, and lack of financial size in industries traditionally dominated by more large, well established and capitalized power system solution companies.

Therefore, we believe that the best strategy for us and our shareholders is to invest our core business to support releases of advanced new power technologies and to expand our customer base and market share in our major serving markets. To support the organic growth, we have hired number of additional personal and investing to enhance our product offerings with state of the art technology. While we implementing new organic growth strategy, we are focusing on finding and acquiring companies which have developed new technology and but have been unable to exploit the technology because the lack of capital; companies that are run inefficiently due to the lack of experience or mismanagement; companies that can benefit from our expertise in the commercial and defense industries or companies that enhance our overall revenues. Further, as discussed below, we have made a recent investment in Avalanche International, Corp. which has acquired rights to a company that has developed a cost effective and environment friendly material synthesis technology for textile applications.

As a result of this strategy of revenue growth through acquisitions, we have hired a number of additional personnel and consultants to assist in identifying, analyzing, negotiating and acquiring potential companies and we will need to raise a substantial amount of capital for acquisitions and for supporting our infrastructure. We may invest in and continue to invest in companies that may experience losses until they can be integrated with our operations or until our

cost reduction and efficiency changes can be implemented. Because of our increase in infrastructure expenses to seek new opportunities and investing in companies that demonstrate revenue potential, but our initially incurring losses, we anticipate to continue to experience losses in the near future until revenues from these acquisitions exceed our expenses.

### **Core Business – Power Systems Solutions**

We provide the highest density, highest efficiency and high-grade flexibility power supply products and systems. We provide full custom, standard and modify-standard product solutions and value-added services to diverse industries and markets including military-aerospace, medical and industrial- telecommunication. We believe that our solutions leverage a combination of low leakage power emissions, very high power density with superior power efficiency, flexible design leveraging customize firmware and short time to market.

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Our strategy is to be the supplier of choice to those companies and OEMs requiring high-quality power system solutions where custom design, superior product, high quality, time to market and very competitive prices are critical to business success. We believe that we provide advanced custom product design services to deliver high-grade products that reach a high level of efficiency and density and can meet rigorous environmental requirements. Our customers benefit from a direct relationship with us that support all of their needs for designing and manufacturing power solutions and products. By implementing our advanced core technology, including process implementation in integrated circuits, we can provide cost reductions to our customers by replacing their existing power sources with our custom design cost-effective products. Our target market segments include the industrial- telecommunication, medical, and military-aerospace industries.

*Custom Power System Solution.* We provide high-grade custom power system solutions to several customers in multiple industry segments. Our custom solution technology includes full Digital Signal Processing (“DSP”) control, digital load sharing intelligent power management and customizable firmware. The products feature high power density, special layout and multiple outputs to meet each of our customer’s unique requirements. We combine our power design capabilities with the latest circuit designs to provide complete power solutions for virtually any need. In the design of custom power solutions, we work closely with our customers’ engineering teams to develop mechanical enclosures to ensure 100% compatibility with any hosted platform.

Our standard contract for custom power solutions includes a multi-year high-volume production forecast that allows us to secure long-term production guarantees (and therefore possible savings on manufacturing costs for volume orders) while providing an environment that promotes the development of our intellectual property (“IP”) portfolio. We believe that this business model provides an incentive to our customers to be committed to high-volume production orders.

*High-Grade Flexibility Series Power Supply Product.* We offer our feature rich based power rectifiers that support flexible configuration and high-grade design implementation. This includes innovative designs and implementation including DSP control for Power Factor Correction (“PFC”) and DC/DC, synchronous rectifier outputs under DSP control, two phase PFC, hot pluggable, current sharing and other features. While some of our customers have special requirements that include a full custom design, other customers may require only certain electrical changes to standard power supply products, such as modified output voltages and unique status and control signals, and mechanical repackaging tailored to fit the specific application. We offer a wide range of standard and modified standard products that can be easily integrated with any platform across our diversified market segments.

*Value-Added Services.* In addition to our custom solutions and high-grade flexibility series proprietary products that we offer, we also provide value-added services to original equipment manufacturers (“OEMs”). We incorporate an OEM’s selected electronic components, enclosures, cable assemblies and other compliance components into our power system solutions to produce a power subassembly that is compatible with the OEM’s own equipment and specifically tailored to meet the OEM’s needs. We purchase parts and components that the OEM itself would otherwise attach to, or integrate with, our power systems, and provide the OEM with the integration and installation service, thus eliminating a complex, time-consuming and costly integration. We believe that this value-added service is well suited

to those OEMs who wish to reduce their vendor base and minimize their investment in manufacturing that leads to increased fixed costs. Based on these value-added services, the OEMs do not need to build assembly facilities to manufacture their own power sub-assemblies and thus are not required to purchase individual parts from many vendors.

Our products have a warranty period from date of shipment to the customer.

## **Markets**

We sell our custom power system solutions, high-grade flexibility series power supply products and value-added services to customers in a diverse range of commercial and defense industries and markets throughout the world, with an emphasis on North America and Europe. Our current customer base consists of approximately 220 companies, some of which are served through our partner channels. We serve the North American power electronics market primarily through our domestic corporation, Digital Power Corporation; the European marketplace is served through DPL, our wholly-owned subsidiary.

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We sell products to our OEM customers through direct sales or through our sales channels, including our manufacturers' representatives and distributors. Our sales strategy is to identify and focus on strategic accounts. This strategy allows us to maintain a close and direct relationship with such accounts, which positions us as the supplier of choice for these customers' challenging, innovative and demanding new product requirements. In striving for additional market share, we simultaneously seek to strengthen our traditional sales channels of manufacturer representatives and distributors. We plan to continue to build more channels and increase our market share through 2017.

*Commercial Customers.* We serve global commercial markets including medical, telecom, and industrial companies. Our products are used in a variety of applications and operate in a broad range of systems where customers require mission critical power reliability and occasionally extreme environmental conditions.

*Military/Defense Customers.* We have developed a broad range of rugged product solutions for the military and defense market, featuring the ability to withstand harsh environments. These ruggedized product solutions, which include both custom modifications and full custom designs, are designed for combat environments and meet the requirements of our defense customers. We manufacture our military products by a domestic manufacturer that complies with US International Traffic in Arms Regulations ("ITAR") and is certified to perform such manufacturing services. We are compliant with the US ITAR regulations and are an approved vendor for the U.S. Air Force, Navy and Army.

At the core of every military electronic system is a power supply. Mission critical systems require rugged high performance power platforms that will operate and survive the harsh environmental conditions placed upon such systems. Our power supplies, which include the following, function effectively in these severe military environments, including Missiles – Ground-to-Air, Air-to-Air and Sea-to-Air; Naval – Naval power conversion and distribution; Mobile and Ground Communications – Active Protection, Communications and Navigation; Artillery – Gyro modular azimuth position and navigation system; Surveillance, test equipment; and UAV (Unmanned Aerial Vehicle) – Very lightweight power systems.

Our military products meet the relevant defense standards MIL-STD in accordance with the Defense Standardization Program Policies and Procedures. Space, weight, output power, electromagnetic compatibility, power density and multiple output requirements are only part of the challenges that any military power supply design faces. With many decades of experience, our engineering teams meet these tough challenges. Our power supplies are a critical component of many major weapon systems worldwide.

Our wholly-owned subsidiary DPL develops and manufactures some military and defense products mainly being deployed in international naval fleets.

**Digital Power Limited (Gresham Power Electronics)**

Digital Power Limited, our wholly-owned subsidiary organized and headquartered in Salisbury, United Kingdom , designs, manufactures, and distributes switching power supplies, uninterruptible power supplies, and power conversion and distribution equipment frequency converters for the commercial and military markets, under the name Gresham Power Electronics (“Gresham”). Frequency converters manufactured by Gresham are used by naval warships to convert their generated 60-cycle electricity supply to 400 cycles. This 400-cycle supply is used to power their critical equipment such as gyro, compass, and weapons systems. Gresham also designs and manufactures transformer rectifiers for naval use. Typically, these provide battery supported back up for critical DC systems, such as machinery and communications. In addition, higher power rectifiers are used for the starting and servicing of helicopters on naval vessels, and Gresham now supplies these as part of overall helicopter start and servicing systems. We believe that Gresham products add diversity to our product line, provide greater access to the United Kingdom and European markets, and strengthen our engineering and technical resources.

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## **Manufacturing and Testing**

Consistent with our strategy of focusing on custom design products and high-grade flexibility series products, we aim to maintain a high degree of flexibility in our manufacturing through the use of strategically focused contract manufacturers. We select contract manufacturers to ensure that they will meet our near term cost, delivery, and quality goals. In addition, we believe these relationships will eventually give us access to new markets and beneficial cross-licensing opportunities. The competitive nature of the power supply industry has placed continual downward pressure on selling prices. In order to achieve our low cost manufacturing goals with labor-intensive products, we have entered into manufacturing agreements with certain contract manufacturers domestically and in Asia.

We sell certain products that are developed, manufactured and sold to us by Advice Electronics Ltd. (“Advice”), an Israeli company that acquired the assets and commercial operations of our major shareholder Telkooor in January 2016. We entered into a manufacturing and royalty rights agreement with Advice in January 2016. This agreement formalized the business relationship between Advice and us in order to allow us to continue manufacturing certain of Telkooor’s products (currently owned by Advice) and the respective royalty charge.

In June 2015, OHM Power Solutions Ltd. (“Ohm”) acquired from Telkooor its entire military assets and military operation. The asset sale between Telkooor and Ohm does not affect our ability to manufacturing and sell certain of Telkooor’s military products.

We are continually improving our internal processes, while monitoring the processes of our contract manufacturers, to ensure the highest quality and consistent manufacturing of our power solutions. We test all of our products under stress operating conditions per defined test procedures we developed as part of the production process. This approach ensures that our customers can use our power supplies right out of the box. Customer specific testing services are offered with custom designed test stands to simulate operation within our customer applications.

Compliance with international safety agency standards is critical in every application, and power solutions play a major role in meeting these compliance requirements. Our safety engineers and quality assurance teams help ensure that our custom products are designed to meet all safety requirements and are appropriately documented to expedite safety approval processes.

## **Regulatory Requirements**



We and our contract manufacturing partners are required to meet applicable regulatory, environmental, emissions, safety and other requirements where specified by the customer and accepted by us or as required by local regulatory or legal requirements. The products that we market and sell in Europe may be subject to the 2003 European Directive on Restriction of Hazardous Substances (“RoHS”), which restricts the use of six hazardous materials in the manufacture of certain electronic and electrical equipment, as well as the 2002 European Directive on Waste Electrical and Electronic Equipment (“WEEE”), which determines collection, recycling and recovery goals for electrical goods. In July 2006, our industry began phasing in RoHS and WEEE requirements in most geographical markets with specific emphasis on consumer-based products. We believe that RoHS and WEEE-compliant components may be subject to longer lead-times and higher prices as the industry transitions to these new requirements.

Some of our products are subject to ITAR regulation and restrictions, which is administered by the U.S. Department of State. ITAR controls not only the export of certain products specifically designed, modified, configured or adapted for military systems, but also the export of related technical data and defense services and foreign production. We obtain required export licenses for any exports subject to ITAR. Compliance with ITAR may require a prolonged period of time; if the process of obtaining required export licenses for products subject to ITAR is delayed, it could have a materially adverse effect on our business, financial condition, and operating results. Any future restrictions or charges may be imposed by the United States or any other foreign country. In addition, from time to time, we enter into defense contracts to supply technology and products to foreign countries for programs that are funded and governed by the e U.S. Foreign Military Financing program.

## **Sales and Marketing**

We market our products directly through our internal sales force as well as through our channel partners including independent manufacturer representatives (Reps) and distributors. Each manufacturing Rep promotes our products in a particular assigned geographic territory. Generally, the Reps have the opportunity to earn exclusive access to all potential customers in the assigned territory as a result of achieving its marketing and sales goals as defined in the representative agreement. Our manufacturer representative agreements provide for a commission equal to 5% of gross sales of new “design-in” and 1.75% to 2.0% of gross sales for retention, payable after products were shipped to the customer in the assigned territory. Typically, either we or the Reps are entitled to terminate the Rep agreement upon 30 days’ written notice.

Historically, we have also sold products through multiple power focused distributors. Distributors are not assigned to a particular geographical territory. Each of these arrangements can be terminated by either party upon 30 days’ written notice.

We provide comprehensive collateral including product data sheets, participation in trade shows, and our website, [www.digipwr.com](http://www.digipwr.com). We use our website to emphasize our capabilities and marketing direction. All products specifications are uploaded onto our website and accessible to the marketplace. We will continue to enhance our website by adding more features and functionalities, such as e-commerce, that will allow our customers to make direct purchases through our website. Our future promotional activities will likely include advertising in industry-specific publications, as well as public relations for our new products.

## **Engineering and Technology**

Our engineering and product development efforts are primarily directed toward developing new products in connection with custom product design and modification of our standard power systems to provide a broad array of individual models.

Our new custom product solutions are driven by our ability to provide to our customers advanced technology that meets their product needs and supports special operation and environmental requirements, with a short turnaround time and a very competitive price point. We believe that we are successfully executing our strategic account focus, as evidenced by the award of second and third generation product development contracts from some of these customers. Our standard contract for custom power solutions includes a multi-year high-volume production forecast that could allow us to secure long-term production guarantees while providing an environment that promotes the development of our IP portfolio.

We also outsource some of our product development projects to engineering partners in order to achieve the best technological and product design results for the targeted application customer requirements. When required, we also modify standard products to meet specific customer requirements, including, but not limited to, redesigning commercial products to meet MIL-STD requirements for military applications based on commercial off the shelf (“COTS”) products and for other customized product requirements, when applicable. We continually seek to improve our product power density, adaptability, and efficiency, while attempting to anticipate changing market demands for increased functionality, such as PFC controlled DSP, customized firmware and improved EMI (electromagnetic interference) filtering. We continue to attempt to differentiate all of our products from commodity-type products by enhancing, modifying and customizing our existing product portfolio, using our engineering integrating laboratory located in California.

### **Competition**

The power system solutions industry is highly fragmented and characterized by intense competition. Our competition includes hundreds of companies located throughout the world, some of which have advantages over us in terms of labor and component costs, and some of which may offer products comparable in quality to ours. Many of our competitors, including Bel Fuse), Artesyn Embedded Technologies, TDK-Lambda, Delta Electronics, Murata and Mean-Well Power Supplies, have substantially greater fiscal and marketing resources and geographic presence than we do. If we are successful in increasing our revenues, competitors may notice and increase competition efforts with our customers. We also face competition from current and prospective customers who may decide to internally design and manufacture power supplies needed for their products. Furthermore, certain larger OEMs tend to contract only with larger power supply manufacturers.

We anticipate in the current economic situation, that additional competitors may enter into strategic alliances or even acquisitions. Competition could thus become more problematic if consolidation trends in the electronics industry continue and some of the OEMs to whom we sell our products are acquired by larger OEMs. To remain competitive, we must continue to compete favorably on the basis of value by providing reliable manufacturing, offering customer-driven engineering services including custom design and manufacturing, continuously improving quality and reliability levels, and offering flexible and reliable delivery schedules.

We believe that our power system solutions and advanced technology is superior to our competitors' power supplies mainly because they use the latest power technology processing and controls which make these power supplies highly customized and efficient. The power-to-volume ratio, makes our power solutions more compact compared to what is offered by our competitors and is suitable in custom infrastructures to meet our customers' requirements.

Another advantage of our power system solutions product line is based on the "Flexible" series that employs adjustable power range and a selectable number of output product design platforms. We believe we have a competitive position with our targeted customers who need a high-quality, compact product, which can be readily modified to meet the customer's unique requirements. We have designed the base model power system platform so that it can be quickly and economically modified and adapted to the specific power needs of any hosting platform or OEM. This "flexibility" approach has allowed us to provide samples of modified power systems to OEM customers only a few days after initial consultation, an important capability given the emphasis placed by OEMs on "time to market." It also results in very low non-recurring engineering ("NRE") expenses. Because of reduced NRE expenses, we do not generally charge our OEM customers for NRE related to tailoring a power system to a customer's specific requirements. We believe this gives us an advantage over our competitors, many of which charge their customers for NRE expenses.

## **Raw Materials**

The raw materials for power supplies principally consist of electronic components. These raw materials are available from a variety of sources, and thus we are not dependent on any one supplier. We generally allow our subcontractors to purchase components based on orders received or forecasts to minimize our risk of unusable inventory. To the extent necessary, we may allow them to procure materials prior to orders received to obtain shorter lead times and to achieve quantity discounts following a risk assessment. In addition, we have decided to directly procure certain long lead-time electronic components in an effort to reduce our lead-time.

Many raw material vendors have reduced capacities, closed production lines and, in some cases, discontinued operations. As a result, some materials are no longer available to support some of our products requiring us to search for cross materials or, in certain circumstances, redesign some of our products to conform to currently available materials.

**Intellectual Property**

We rely upon a combination of trade secrets, industry expertise, confidential procedures, and contractual provisions to protect our intellectual property. We believe that because our products are continually updated and revised, obtaining patents would be costly and not beneficial. However, in the future, as we continue to develop unique core technology, we may seek to obtain patents for some of the core technology. On July 10, 2012, our trademark, “DP Digital Power Flexible Power” was registered with the United States Patent and Trademark Office.

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## **Research and Development**

During the years ended December 31, 2016 and 2015, we spent approximately \$709,000 and \$894,000, respectively, on research and development.

## **Employees**

As of December 31, 2016 we had 26 employees located in the United States and the United Kingdom, of whom six were engaged in engineering and product development, seven in sales and marketing, seven in general operations and six in general administration and finance. All but two of these employees are employed on a full-time basis. None of our employees are currently represented by a trade union. We consider our relations with our employees to be good.

## **Recent Investments - Avalanche International, Corp.**

We have made an investment in Avalanche International Corp. (“Avalanche”) through a series of convertible loans in the aggregate amount of approximately \$1,530,000 as of March 31, 2017. Avalanche is a development stage company whose primary business includes manufacturing and distributing of premium vape liquid and distributor of vape accessories and the development and operating of restaurants. More recently, in March 2017, Avalanche contractually acquired the rights to MTIX Limited, an English company located in Huddersfield, West Yorkshire, U.K. that owns the proprietary rights for the development of a cost effective and environmentally friendly material synthesis technology for textile applications. MTIX’s Multiplexed Laser Surface Enhancement “MLSE<sup>EM</sup>” technology utilizes combined high powered pulsed UV laser and atmospheric plasma to create high energy reaction zone at substrate interface promoting rapid synthesis to achieve the required functional treatments. On March 15, 2017, we announced that we had entered into a \$50 million purchase order with MTIX to manufacture, install and service fabric treatment machines that utilize MTIX’s proprietary MLSE<sup>EM</sup> system. The purchase order is subject to standard terms and conditions including that MTIX can cancel its order at any time subject to payment for expenses incurred and other contractually agreed expenses owed due to the cancellation of the purchase order. No assurance can be given that MTIX will order \$50 million in fabric machines which are the subject of the purchase order.

## **ITEM 1A. Risk Factors**

An investment in our securities is speculative and involves a high degree of risk. Our business, financial condition or results of operations could be adversely affected by any of these risks. You should carefully consider the following factors as well as the other information contained in other reports that we file with the SEC before deciding to invest

in our securities. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our operations. Past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. If any of these risks actually occurs, our business, business prospects, financial condition or results of operations could be seriously harmed. This could cause the trading price of our shares of common stock to decline, resulting in a loss of all or part of your investment. Please also read carefully the section “Forward-Looking Statements” at the beginning of this Annual Report.

**We generated operating and net losses for the years ended December 31, 2016 and 2015.**

We have historically experienced operating and net losses, and anticipate continuing to experience such losses in the future. For the years ended December 31, 2016 and 2015, we had an operating loss of approximately \$1,219,000 and \$1,003,000 and net losses of approximately \$1,122,000 and \$1,096,000, respectively. Although we have actively taken steps to increase our revenue and reduce manufacturing and operating costs, we anticipate incurring operating and net losses in the future until we increase revenues.

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**Our Growth Strategy Is Risky.**

Our growth strategy through acquisitions is risky. Some of the companies that we have identified to acquire or make a significant investment in may not have a developed business or are experiencing inefficiencies and incurring losses. Therefore, we may lose our investment in the event that these companies' businesses do not develop as planned or that we are unable to achieve the cost efficiencies or reduction of losses as anticipated.

Further, in order to implement our growth plan, we have hired additional staff and consultants to review potential investments and implement our plan. As a result, we have substantially increased our infrastructure and costs. If we fail to quickly find new companies that provide revenue to offset our costs, we will continue to experience losses. No assurance can be given that our product development and investments will produce sufficient revenues to offset these increases in expenditures.

**If we do not satisfy the NYSE requirements for continued listing or are unable to fulfill our compliance plan, our common stock could be delisted from NYSE.**

The listing of our common stock on the NYSE MKT is contingent on our compliance with the NYSE MKT's conditions for continued listing. On December 18, 2015, we were notified by the NYSE MKT that we were no longer in compliance with the NYSE MKT continued listing standards because our last reported stockholders' equity was below continued listing standards. The NYSE MKT requires that a listed company's stockholders' equity be \$4.0 million or more if it has reported losses from continuing operations and/or net losses in three of its four most recent fiscal years. The NYSE MKT has indicated that we may be required to attain stockholders' equity of \$6.0 million or more if we experience a loss for the year ended December 31, 2016, which we did experience.

Following submission of our compliance plan demonstrating how we intend to regain compliance with the continued listing standards, we were notified on March 9, 2016 that the NYSE MKT granted us a listing extension on the basis of our plan until June 19, 2017. We are subject to periodic review by NYSE MKT staff during the extension period. Failure to make progress consistent with the plan or to regain compliance with the continued listing standards by the end of the extension period could result in our common stock being delisted from the NYSE MKT.

There is no assurance that we will be able to regain compliance with the abovementioned standard or any other applicable NYSE MKT continued listing standard. Upon such an occurrence, trading of our common stock will be suspended by the NYSE MKT and we may be delisted by the NYSE MKT. In the event our common stock is no longer listed for trading on the NYSE MKT, our trading volume and share price may decrease and we may experience further difficulties in raising capital which could materially affect our operations and financial results.



**We Will Need to Raise Additional Capital to Increase our Stockholders' Equity and to Fund our Operations in Furtherance of Our Business Plan.**

We will need to quickly raise additional capital in order to increase our stockholders' equity in order to meet the NYSE MKT continued listing standards and to fund our operations in furtherance of our business plan. The proposed financing may include shares of common stock, shares of preferred stock, warrants to purchase shares of common stock or preferred stock, debt securities, units consisting of the forgoing securities, equity investments from strategic development partners or some combination of each. Any additional equity financings may be financially dilutive to, and will be dilutive from an ownership perspective to our stockholders, and such dilution may be significant based upon the size of such financing. Additionally, we cannot assure that such funding will be available on a timely basis, in needed quantities, or on terms favorable to us, if at all.

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### **A Principal Stockholder Has Significant Influence Over Us.**

Per its filings with the SEC, Philou Ventures own approximately 30.8% of our current outstanding common stock. As a result, they will be able to exert a significant degree of influence over our management and affairs and over matters requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of the combined company's assets, and any other significant corporate transaction. Their interests may not always coincide with those of our other stockholders.

### **A Principal Stockholder Has Certain Rights to Maintain Its Ownership Interest in Us**

In connection with entering into a Series B Preferred Stock purchase agreement with Philou Ventures, we granted the right to Philou Ventures to participate in future offering under substantially the same term of such offerings in order to allow Philou Ventures to maintain its ownership interest. If exercised by Philou Ventures, this contractual right granted to it has the effect of allowing Philou Ventures to maintain its interest in us and dilute existing shareholders' ownership interests.

### **Our Success Is Dependent On Key Management**

Our success depends substantially on the performance of certain key officers and personnel, in particular their ability to identify, acquire and operate new businesses and opportunities. The loss of services of Messrs. Ault or Kohn could have a material adverse effect on our business, results of operations, financial condition and prospects. We have not obtained key person insurance for these individuals.

### **We Have Pledged All Of Our Assets.**

We have entered into a 12% Secured Convertible Note with a face value of \$530,000 due October 20, 2019, that is secured by all of our assets. The 12% Secured Convertible Note includes standard events of default. If we default under the 12% Secured Convertible Note, the holder may accelerate the due date of our repayment obligation. At such time, we may not have enough available cash to repay the 12% Secured Convertible Note and the holder could take control of and sell our pledged assets. An event of default could significantly harm our financial condition, operating results, business, and prospects and cause the price of our common stock to decline.

**We depend on Advice Electronics Ltd. (“Advice”) to maintain the technology used to manufacture our products and to manufacture some of our products. We also depend on the right to manufacture certain products subject to royalty payments with Advice.**

In January 2016, Telkooor, a prior affiliate, sold its entire commercial assets to Advice which included without limitation product IP, manufacturing rights, customer base, inventory, staff and technological capabilities. Following such transaction, we entered into a manufacturing and distribution agreement with Advice. This agreement allows us to manufacture certain Advice products (formerly owned by Telkooor) through August 2017 against royalty payments. From August 2017 through December 2020, subject to Advice's consent, we will be allowed to continue distributing and selling certain Advice products while keeping product branding under our brand, after which we will be entitled to distribute the products under Digital Power Corporation brand until December 2020.

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We depend on Advice to design and retain product technology up to date and for manufacturing capabilities for certain of the products that we sell. If Advice is unable or unwilling to continue designing or manufacturing our products in required volumes and with a certain level of quality on a timely basis, that could lead to loss of sales and adversely affect our operating results and cash position. We also depend on Advice's intellectual property and ability to transfer production to third party manufacturers. Failure to obtain new products in a timely manner or delay in delivery of products to customers will have an adverse effect on our ability to meet our customers' expectations. In addition, we operate in highly competitive markets where our ability to sell Advice's products could be adversely affected by Advice's agreements with third parties, long lead-times and the high cost of Advice's products. Also, in 2012, Telkoo's products manufacturing lead-times increased, which hindered our ability to respond to our customers' needs in timely manner. Advice's principal offices, research and development and manufacturing facilities are located in Israel. Political, economic, and military conditions in Israel directly affect Advice operations. We are also dependent upon Advice's terms and conditions with its contract manufacturers for some of our products, which terms and conditions may not always be in our best interest. In 2010, we purchased certain IP from Telkoo in order to reduce our dependency on Telkoo with respect to a certain line of products. We also entered into a Manufacturing Rights Agreement with Advice in 2016, pursuant to which we were granted the non-exclusive right to directly place purchase orders for certain products from a third party manufacturer in consideration for payment of royalties to Advice. This agreement currently accounts for a significant portion of our sales. In the event this agreement is terminated for any reason, it would materially affect our financial position.

**We are dependent upon our ability, and our contract manufacturers' ability, to timely procure electronic components.**

Because of the global economy, many raw material vendors have reduced capacities, closed production lines and, in some cases, even discontinued their operations. As a result, there is a global shortage of certain electronic components, which has extended our production lead-time and our production costs. Some materials are no longer available to support some of our products, thereby requiring us to search for cross materials or, even worse, redesign some of our products to support currently-available materials. Such redesign efforts may require certain regulatory and safety agency re-submittals, which may cause further production delays. While we have initiated actions that we believe will limit our exposure to such problems, the dynamic business conditions in many of our markets may challenge the solutions that have been put in place, and issues may recur in the future.

In addition, some of our products are manufactured, assembled and tested by third party subcontractors and contract manufacturers located in Asia. While we have had relationships with many of these third parties in the past, we cannot predict how or whether these relationships will continue in the future. In addition, changes in management, financial viability, manufacturing demand or capacity, or other factors, at these third parties could hurt our ability to manufacture our products.

**Our strategic focus on our custom power supply solution competencies and concurrent cost reduction plans may be ineffective or may limit our ability to compete.**

As a result of our strategic focus on custom power supply solutions, we will continue to devote significant resources to developing and manufacturing custom power supply solutions for a large number of customers, where each product represents a uniquely tailored solution for a specific customer's requirements. Failure to meet these customer product requirements or a failure to meet production schedules and/or product quality standards may put us at risk with one or more of these customers. Moreover, changes in market conditions and strategic changes at the direction of our customers may affect their decision to continue to purchase from us. The loss of one or more of our significant custom power supply solution customers could have a material adverse impact on our revenues, business or financial condition.

We have also implemented a series of initiatives designed to increase efficiency and reduce costs. While we believe that these actions will reduce costs, they may not be sufficient to achieve the required operational efficiencies that will enable us to respond more quickly to changes in the market or result in the improvements in our business that we anticipate. In such event, we may be forced to take additional cost-reducing initiatives, including those involving our personnel, which may negatively impact quarterly earnings and profitability as we account for severance and other related costs. In addition, there is the risk that such measures could have long-term adverse effects on our business by reducing our pool of talent, decreasing or slowing improvements in our products or services, making it more difficult for us to respond to customers, limiting our ability to increase production quickly if and when the demand for our solutions increases and limiting our ability to hire and retain key personnel. These circumstances could cause our earnings to be lower than they otherwise might be.

**We are dependent upon our ability to attract, retain and motivate our key personnel.**

Our success depends on our ability to attract, retain and motivate our key management personnel, including, but not limited to, our President and Chief Executive Officer, our Vice President of Finance, marketing and sales personnel, and key engineers necessary to implement our business plan and to grow our business. Competition for certain specific technical and management skill sets is intense. If we are unable to identify and hire the personnel that we need to succeed, or if one or more of our present key employees were to cease to be associated with us, our future results could be adversely affected.

**We depend upon a few major customers for a majority of our revenues, and the loss of any of these customers, or the substantial reduction in the quantity of products that they purchase from us, would significantly reduce our revenues and net income.**

We currently depend upon a few major OEMs and other customers for a significant portion of our revenues. If our major OEM customers will reduce or cancel their orders scaling back some of their activities, our revenues and net income would be significantly reduced. Furthermore, diversions in the capital spending of certain of these customers to new network elements have and could continue to lead to their reduced demand for our products, which could, in turn, have a material adverse effect on our business and results of operations. If the financial condition of one or more of our major customers should deteriorate, or if they have difficulty acquiring investment capital due to any of these or other factors, a substantial decrease in our revenues would likely result. We are dependent on the electronic equipment industry, and accordingly will be affected by the impact on that industry of current economic conditions.

Substantially all of our existing customers are in the electronic equipment industry, and they manufacture products that are subject to rapid technological change, obsolescence, and large fluctuations in demand. This industry is further characterized by intense competition and volatility. The OEMs serving this industry are pressured for increased product performance and lower product prices. OEMs, in turn, make similar demands on their suppliers, such as us, for increased product performance and lower prices. Such demands may adversely affect our ability to successfully compete in certain markets or our ability to sustain our gross margins.

**Our reliance on subcontract manufacturers to manufacture certain aspects of our products involves risks, including delays in product shipments and reduced control over product quality.**

Since we do not own significant manufacturing facilities, we must rely on, and will continue to rely on, a limited number of subcontract manufacturers to manufacture our power supply products. Our reliance upon such subcontract manufacturers involves several risks, including reduced control over manufacturing costs, delivery times, reliability and quality of components, unfavorable currency exchange fluctuations, and continued inflationary pressures on many

of the raw materials used in the manufacturing of our power supply products. If we were to encounter a shortage of key manufacturing components from limited sources of supply, or experience manufacturing delays caused by reduced manufacturing capacity, inability of our subcontract manufacturers to procure raw materials, the loss of key assembly subcontractors, difficulties associated with the transition to our new subcontract manufacturers or other factors, we could experience lost revenues, increased costs, and delays in, or cancellations or rescheduling of, orders or shipments, any of which would materially harm our business.

**We outsource, and are dependent upon developer partners for, the development of some of our custom design products.**

We made an operational decision to outsource some of our custom design products to numerous developer partners. This business structure will remain in place until the custom design volume justifies expanding our in house capabilities. Incomplete product designs that do not fully comply with the customer specifications and requirements might affect our ability to transition to a volume production stage of the custom designed product where the revenue goals are dependent on the high volume of custom product production. Furthermore, we rely on the design partners' ability to provide high quality prototypes of the designed product for our customer approval as a critical stage to approve production.

**We face intense industry competition, price erosion and product obsolescence, which, in turn, could reduce our profitability.**

We operate in an industry that is generally characterized by intense competition. We believe that the principal bases of competition in our markets are breadth of product line, quality of products, stability, reliability and reputation of the provider, along with cost. Quantity discounts, price erosion, and rapid product obsolescence due to technological improvements are therefore common in our industry as competitors strive to retain or expand market share. Product obsolescence can lead to increases in unsaleable inventory that may need to be written off and, therefore, could reduce our profitability. Similarly, price erosion can reduce our profitability by decreasing our revenues and our gross margins. In fact, we have seen price erosion over the last several years on most of the products we sell, and we expect additional price erosion in the future.

**Our future results are dependent on our ability to establish, maintain and expand our manufacturers' representative OEM relationships and our other relationships.**

We market and sell our products through domestic and international OEM relationships and other distribution channels, such as manufacturers' representatives and distributors. Our future results are dependent on our ability to establish, maintain and expand our relationships with OEMs as well as with manufacturers' representatives and distributors to sell our products. If, however, the third parties with whom we have entered into such OEM and other arrangements should fail to meet their contractual obligations, cease doing, or reduce the amount of their, business with us or otherwise fail to meet their own performance objectives, customer demand for our products could be adversely affected, which would have an adverse effect on our revenues.

**We may not be able to procure necessary key components for our products, or we may purchase too much inventory or the wrong inventory.**

The power supply industry, and the electronics industry as a whole, can be subject to business cycles. During periods of growth and high demand for our products, we may not have adequate supplies of inventory on hand to satisfy our customers' needs. Furthermore, during these periods of growth, our suppliers may also experience high demand and, therefore, may not have adequate levels of the components and other materials that we require to build products so that we can meet our customers' needs. Our inability to secure sufficient components to build products for our customers could negatively impact our sales and operating results. We may choose to mitigate this risk by increasing the levels of inventory for certain key components. Increased inventory levels can increase the potential risk for excess and obsolescence should our forecasts fail to materialize or if there are negative factors impacting our customers' end markets. If we purchase too much inventory or the wrong inventory, we may have to record additional inventory reserves or write-off the inventory, which could have a material adverse effect on our gross margins and on our results of operations.



**Although we depend on sales of our legacy products for a meaningful portion of our revenues, these products are mature and their sales will decline.**

A relatively large portion of our sales have historically been attributable to our legacy products. We expect that these products may continue to account for a meaningful percentage of our revenues for the foreseeable future. However, these sales are declining. Although we are unable to predict future prices for our legacy products, we expect that prices for these products will continue to be subject to significant downward pressure in certain markets for the reasons described above. Accordingly, our ability to maintain or increase revenues will be dependent on our ability to expand our customer base, to increase unit sales volumes of these products and to successfully, develop, introduce and sell new products such as custom design and value added products. We cannot assure you that we will be able to expand our customer base, increase unit sales volumes of existing products or develop, introduce and/or sell new products.

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**Our operating results may vary from quarter to quarter.**

Our operating results have in the past been subject to quarter-to-quarter fluctuations, and we expect that these fluctuations will continue, and may increase in magnitude, in future periods. Demand for our products is driven by many factors, including the availability of funding for our products in our customers' capital budgets. There is a trend for some of our customers to place large orders near the end of a quarter or fiscal year, in part to spend remaining available capital budget funds. Seasonal fluctuations in customer demand for our products driven by budgetary and other concerns can create corresponding fluctuations in period-to-period revenues, and we therefore cannot assure you that our results in one period are necessarily indicative of our revenues in any future period. In addition, the number and timing of large individual sales and the ability to obtain acceptances of those sales, where applicable, have been difficult for us to predict, and large individual sales have, in some cases, occurred in quarters subsequent to those we anticipated, or have not occurred at all. The loss or deferral of one or more significant sales in a quarter could harm our operating results for such quarter. It is possible that, in some quarters, our operating results will be below the expectations of public market analysts or investors. In such events, or in the event adverse conditions prevail, the market price of our common stock may decline significantly.

**Failure of our information technology infrastructure to operate effectively could adversely affect our business.**

We depend heavily on information technology infrastructure to achieve our business objectives. If a problem occurs that impairs this infrastructure, the resulting disruption could impede our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on business in the normal course. Any such events could cause us to lose customers or revenue and could require us to incur significant expense to remediate.

**We are subject to certain governmental regulatory restrictions relating to our international sales.**

Some of our products are subject to International Traffic In Arms Regulation ("ITAR"), which are interpreted, enforced and administered by the U.S. Department of State. ITAR regulation controls not only the export, import and trade of certain products specifically designed, modified, configured or adapted for military systems, but also the export of related technical data and defense services as well as foreign production. Any delays in obtaining the required export, import or trade licenses for products subject to ITAR regulation and rules could have a material adverse effect on our business, financial condition, and/or operating results. In addition, changes in United States export and import laws that require us to obtain additional export and import licenses or delays in obtaining export or import licenses currently being sought could cause significant shipment delays and, if such delays are too great, could result in the cancellation of orders. Any future restrictions or charges imposed by the United States or any other country on our international sales or foreign subsidiary could have a materially adverse effect on our business, financial condition, and/or operating results. In addition, from time to time, we have entered into contracts with the Israeli Ministry of Defense which were governed by the U.S. Foreign Military Financing program ("FMF"). Any such future sales would be subject to these regulations. Failure to comply with ITAR or FMF rules could have a material adverse effect on our

financial condition, and/or operating results.

**We depend on international operations for a substantial majority of our components and products.**

We purchase a substantial majority of our components from foreign manufacturers and have a substantial majority of our commercial products assembled, packaged, and tested by subcontractors located outside the United States. These activities are subject to the uncertainties associated with international business operations, including trade barriers and other restrictions, changes in trade policies, governmental regulations, currency exchange fluctuations, reduced protection for intellectual property, war and other military activities, terrorism, changes in social, political, or economic conditions, and other disruptions or delays in production or shipments, any of which could have a materially adverse effect on our business, financial condition, and/or operating results.

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**We depend on international sales for a portion of our revenues.**

Sales to customers outside of North America accounted for 40.2% and 55.8% of net revenues for the years ended December 31, 2016 and 2015, and we expect that international sales will continue to represent a material portion of our total revenues. International sales are subject to the risks of international business operations as described above, as well as generally longer payment cycles, greater difficulty collecting accounts receivable, and currency restrictions. In addition, DPL, our wholly-owned subsidiary in the United Kingdom, supports our European and other international customers, distributors, and sales representatives, and therefore is also subject to local regulation. International sales are also subject to the export laws and regulations of the United States and other countries.

**If our accounting controls and procedures are circumvented or otherwise fail to achieve their intended purposes, our business could be seriously harmed.**

We evaluate our disclosure controls and procedures as of the end of each fiscal quarter, and are annually reviewing and evaluating our internal control over financial reporting in order to comply with Securities and Exchange Commission (“SEC”) rules relating to internal control over financial reporting adopted pursuant to the Sarbanes-Oxley Act of 2002. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain effective internal control over financial reporting or our management does not timely assess the adequacy of such internal control, we may be subject to regulatory sanctions, and our reputation may decline.

**The sale of our products is dependent upon our ability to satisfy the proprietary requirements of our customers.**

We depend upon a relatively narrow range of products for the majority of our revenue. Our success in marketing our products is dependent upon their continued acceptance by our customers. In some cases, our customers require that our products meet their own proprietary requirements. If we are unable to satisfy such requirements, or forecast and adapt to changes in such requirements, our business could be materially harmed.

The sale of our products is dependent on our ability to respond to rapid technological change, including evolving industry-wide standards, and may be adversely affected by the development, and acceptance by our customers, of new technologies which may compete with, or reduce the demand for, our products.

Rapid technological change, including evolving industry standards, could render our products obsolete. To the extent our customers adopt such new technology in place of our products, the sales of our products may be adversely affected. Such competition may also increase pricing pressure for our products and adversely affect the revenues from such products.

**Our limited ability to protect our proprietary information and technology may adversely affect our ability to compete, and our products could infringe upon the intellectual property rights of others, resulting in claims against us, the results of which could be costly.**

Many of our products consist entirely or partly of proprietary technology owned by us. Although we seek to protect our technology through a combination of copyrights, trade secret laws and contractual obligations, these protections may not be sufficient to prevent the wrongful appropriation of our intellectual property, nor will they prevent our competitors from independently developing technologies that are substantially equivalent or superior to our proprietary technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States. In order to defend our proprietary rights in the technology utilized in our products from third party infringement, we may be required to institute legal proceedings, which would be costly and would divert our resources from the development of our business. If we are unable to successfully assert and defend our proprietary rights in the technology utilized in our products, our future results could be adversely affected.

Although we attempt to avoid infringing known proprietary rights of third parties in our product development efforts, we may become subject to legal proceedings and claims for alleged infringement from time to time in the ordinary course of business. Any claims relating to the infringement of third-party proprietary rights, even if not meritorious, could result in costly litigation, divert management's attention and resources, require us to reengineer or cease sales of our products or require us to enter into royalty or license agreements which are not advantageous to us. In addition, parties making claims may be able to obtain an injunction, which could prevent us from selling our products in the United States or abroad.

**If we are unable to satisfy our customers' specific product quality, certification or network requirements, our business could be disrupted and our financial condition could be harmed.**

Our customers demand that our products meet stringent quality, performance and reliability standards. We have, from time to time, experienced problems in satisfying such standards. Defects or failures have occurred in the past, and may in the future occur, relating to our product quality, performance and reliability. From time to time, our customers also require us to implement specific changes to our products to allow these products to operate within their specific network configurations. If we are unable to remedy these failures or defects or if we cannot effect such required product modifications, we could experience lost revenues, increased costs, including inventory write-offs, warranty expense and costs associated with customer support, delays in, or cancellations or rescheduling of, orders or shipments and product returns or discounts, any of which would harm our business.

**If we ship products that contain defects, the market acceptance of our products and our reputation will be harmed and our customers could seek to recover their damages from us.**

Our products are complex, and despite extensive testing, may contain defects or undetected errors or failures that may become apparent only after our products have been shipped to our customers and installed in their network or after product features or new versions are released. Any such defect, error or failure could result in failure of market acceptance of our products or damage to our reputation or relations with our customers, resulting in substantial costs for us and our customers as well as the cancellation of orders, warranty costs and product returns. In addition, any defects, errors, misuse of our products or other potential problems within or out of our control that may arise from the use of our products could result in financial or other damages to our customers. Our customers could seek to have us pay for these losses. Although we maintain product liability insurance, it may not be adequate.

**Our common stock price is volatile.**

Our common stock is listed on the NYSE MKT. In the past, our trading price has fluctuated widely, depending on many factors that may have little to do with our operations or business prospects. The exercise of outstanding options and warrants may adversely affect our stock price and a shareholder's percentage of ownership. As of December 31, 2016, we had outstanding options to purchase an aggregate of 2,256,000 shares of common stock, with a weighted average exercise price of \$0.83 per share, exercisable at prices ranging from \$0.65 to \$1.69 per share and warrants to purchase up 1,749,126 shares of common stock at exercise prices ranging from \$0.01 to \$0.90 per share.

In addition, we have contractually agreed to register shares of common stock, and common stock underlying outstanding warrants and convertible debt in connection with private placement of our securities. Our shares of common stock are thinly traded. Therefore, the resale of a large number of shares of common stock and common

stock underlying warrants and convertible debt by the selling stockholders may adversely affect the market price of our common stock.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

Our headquarters utilize 12,396 square foot of leased office, engineering, laboratory, and warehouse space in Fremont, California. Our headquarter lease commenced on November 1, 2012 and expires on June 30, 2019. The annual base rent under the lease, payable on a monthly basis, increases during the term of the lease from approximately \$138,000 during the first year to approximately \$160,000 during the final year. The lease also provides for one option to renew for a term of five years.

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In September, 2010, our wholly-owned subsidiary, DPL, entered into a fifteen-year lease for its 25,000 square-foot facility in Salisbury, United Kingdom, where it designs, develops, manufactures, markets and distributes commercial and military power products for the European market. Sales and service support staff for its European network of distributors are located within the building together with other functions, such as engineering and administration. DPL's rent expense is approximately \$12,000 per month, and DPL has the option to cancel the lease after ten years.

We currently anticipate that the current leased space will be sufficient to support our current and foreseen future needs.

**Item 3. Legal Proceedings.**

None.

**Item 4. Mine Safety Disclosures.**

Not Applicable

**PART II**

**Item 5. Market For Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities.**

(a) Market Information.

Our common stock is listed on the NYSE MKT under the symbol DPW. The following table sets forth our high and low sale prices on the NYSE MKT through March 31, 2017 and for each quarter for the past two fiscal years.

**NYSE-MKT**



<b>2017</b>	<b>High</b>	<b>Low</b>
January 1, 2017 through March 31, 2017	\$1.75	\$0.59

<b>For 2016</b>		
December 31, 2016	\$0.85	\$0.52
September 30, 2016	\$1.40	\$0.39
June 30, 2016	\$0.62	\$0.35
March 31, 2016	\$0.60	\$0.39

<b>For 2015</b>		
December 31, 2015	\$0.82	\$0.54
September 30, 2015	\$0.95	\$0.61
June 30, 2015	\$1.25	\$0.79
March 31, 2015	\$1.30	\$0.87

(b) Holders

As of March 31, 2017, there was an aggregate of 8,856,851 shares of our common stock outstanding, held by approximately 68 holders of record.

## (c) Dividends

We have not declared or paid any cash dividends since our inception, and we do not intend to pay any cash dividends in the foreseeable future. The declaration of dividends in the future, if any, will be at the discretion of our Board of Directors and will depend upon our earnings, capital requirements, and financial position.

## (d) Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2016, with respect to compensation plans under which our shares of common stock are authorized for issuance, aggregated as follows:

- All compensation plans previously approved by security holders; and
- All compensation plans not previously approved by security holders.

**Equity Compensation Plan Information**

Name	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2,256,000	\$ 0.83	3,322,630
Equity compensation plans not approved by security holders	317,460	0.01	-
<b>Total</b>	<b>2,573,460</b>		<b>3,322,630</b>

**Item 6. Selected Financial Data.**

Because we are a smaller reporting company, this section is not applicable.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**General**

Our business strategy is to grow the Company by making strategic acquisitions. We are a solution-driven organization that designs, develops, manufactures and markets high-grade, customized and flexible power solutions for demanding applications in the medical, military, telecom, and industrial markets. Our products serve global markets worldwide. Revenues are generated from selling products to our customers directly by our sales force and through manufacturing representatives and distributors. The forgoing discussions may not be indicative of our future.

Our net loss was \$1,122,000 for the year ended December 31, 2016 compared to a net loss of \$1,096,000 for the year ended December 31, 2015. Our net loss for the year ended December 31, 2016 includes expenses that related to our growth plan and approximately \$543,000 of stock compensation expense. During 2016 our cash decreased by \$245,000.

To fulfill our business plan and strategy, we will actively seek additional capital to finance our operations for the next 12 months.

## Foreign Currency Fluctuations

Our wholly-owned subsidiary, DPL, operates using the United Kingdom pound sterling. Therefore, we are subject to monetary fluctuations between the U.S. dollar and the United Kingdom pound sterling. The financial statements of the subsidiary which are included in our consolidated financial statements have been translated into U.S. dollars. For the year ended December 31, 2016 and 2015, we recorded a foreign currency translation loss of \$362,000 and \$100,000 as reported in our consolidated statements of comprehensive income (loss).

## Results of Operations

The table below sets forth certain statements of operations data as a percentage of revenues for the years ended December 31, 2016 and 2015:

	<b>Years Ended</b>	
	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenues</b>	100.00 %	100.00 %
Cost of revenues	64.38	65.07 %
Gross profit	35.62	34.93
Engineering and product development	9.33	11.51
Sales and marketing	12.06	15.39
General and administrative	30.29	20.97
Total Operating expenses	51.67	47.87
Operating loss	(16.06 )	(12.94 )
Impairment of investment	-	(1.56 )
Other income, net	1.01	0.21
Loss before tax	(15.05 )	(14.29 )%
Tax Income (benefit)	0.26	0.01
Net loss	(14.79 )%	(14.28 )%

The following discussion and analysis should be read in connection with the consolidated financial statements and the notes thereto and other financial information included elsewhere in this Annual Report. We prepared the financial statements in accordance with U.S. generally accepted accounting principles, which requires management to make estimates, and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

**Revenues**

For the year ended December 31, 2016, revenues decreased by 2.2 % to \$7,596,000 from \$7,766,000 for the year ended December 31, 2015. The decrease is attributed to a decline in value of military product orders shipped by DPL.

Revenues derived from our defense products for the year ended December 31, 2016 were \$2,289,000, a decrease of 22.8% from revenues of \$2,964,000 from defense products for the year ended December 31, 2015. The decrease was primarily attributable to a decrease of sales of major international naval military contracts in 2016. Revenues derived from our commercial products for the year ended December 31, 2016 increased by 10.5% to \$5,307,000 from \$4,802,000 for the year ended December 31, 2015. The increase in commercial product revenue in 2016 resulted primarily from sales of commercial products by our domestic operation.

Revenues from our domestic operations increased by 18.8% to \$4,552,000 for the year ended December 31, 2016, from \$3,833,000 for the year ended December 31, 2015. The increase in revenue is mostly attributable from a rising sales volume of commercial and military products in North America.

Revenues from our European operations (Gresham/DPL) decreased 22.6% to \$3,044,000 for the year ended December 31, 2016 compared to \$3,933,000 for the year ended December 31, 2015. The decrease was primarily attributable to a decrease of military product sales and the impact of a weakening of the British Pound and Euro against the USD.

### **Gross Profit Margins**

Gross margins were 35.62% for the year ended December 31, 2016, compared to 34.9% for the year ended December 31, 2015. The slight increase in gross margins for the year ended December 31, 2016 compared to the prior year 2015 was mainly attributable to the increase in profitability of our commercial products sold by our U.S. operations.

### **Engineering and Product Development**

Engineering and product development expenses were \$709,000, or 9.3% of revenues, for the year ended December 31, 2016, compared to \$894,000, or 11.5% of revenues, for the year ended December 31, 2015. The overall decrease in our engineering and product development expenses for the comparative year was primarily related to the completion of custom product development efforts for medical and broadband applications, which lowered the amount of outside contracted engineering services incurred by our U.S. operations.

### **Selling and Marketing**

Selling and marketing expenses were \$916,000, or 12.1% of revenues, for the year ended December 31, 2016, compared to \$1,195,000, or 15.4% of revenues, for the year ended December 31, 2015. The decrease in sales and marketing expenses for the comparative period was primarily the result of reduction in sales staff. The decrease in selling and marketing expenses for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily the result of a temporary decrease in direct manpower cost due to a reduced headcount. In July 2015 the Company hired two senior sales who were dismissed in December 2015.

### **General and Administrative**

General and administrative expenses were \$2,300,000, or 30.29% of revenues, for the year ended December 31, 2016, compared to \$1,627,000, or 20.9% of revenues, for the year ended December 31, 2015. The increase in our general and administrative expenses for the comparative period was mainly due to higher stock based compensation expenses which accounted for a \$322,000 increase from 2015 to 2016, an increase in legal costs related to the Telkooor and Philou Ventures transaction and an increase in investor relationship costs.

### **Impairment of investment**

No impairment related to our investment in Telkooor was recognized for the year ended December 31, 2016. For the year ended December 31, 2015, we recognized an \$110,000 impairment expense related to our Telkooor investment. On September 22, 2016, we sold our investment in Telkooor back to Telkooor for \$90,000 which was equal to the carrying amount of the investment.

### **Other Income, Net**

Other income, net was \$77,000 for the year ended December 31, 2016 and consisted of foreign currency transaction gains of \$110,000 offset by non-cash interest expense resulting from the accretion of discount on our 12% Secured Convertible Note plus contractual interest compared to \$16,000 for the year ended December 31, 2015 which consisted only of foreign currency transaction gains.

## **Net Loss**

For the year ended December 31, 2016, we had a net loss of \$1,122,000 compared to a net loss of \$1,096,000 for the year ended December 31, 2015.

## **Other comprehensive income (loss)**

Other comprehensive loss was \$362,000 and \$100,000, respectively, for the years ended December 31, 2016 and 2015. The significant other comprehensive loss for the year ended December 31, 2016, which decreased our equity reflects the impact of the weakening of the British Pound on the equity of our UK-based subsidiary DPL following the referendum in the UK on membership in the European Union.

## **Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported assets, liabilities, revenues, and expenses in the accompanying consolidated financial statements. Critical accounting policies are those that require the most subjective and complex judgments, often employing the use of estimates about the effect of matters that are inherently uncertain. The following are considered our most critical accounting policies that, under different conditions or using different assumption or estimates, could show materially different results on our financial condition and results of operations.

## **Revenue Recognition**

Revenue from product sales is recognized in accordance with the provisions of ASC 605-15, "Revenue Recognition in Financial Statements", when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred (when risk of loss and title have transferred to the customer), the sale price is fixed or determinable and collection is reasonably assured.

We generally use customer purchase orders and contracts to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. We assess whether the sales price is fixed or determinable based on the payment terms associated with the transaction and whether the price is subject to



refund or adjustment. We assess collectability based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

Revenue on shipments to distributors and resellers is recognized on delivery. Generally, we do not grant a right of return. However, certain distributors are allowed, in the sixth month after the initial stock purchase, to rotate stock that has not been sold for other products. Revenues subject to stock rotation rights are deferred until the products are sold to the end customer or until the rotation rights expire.

### **Inventory Obsolescence Accruals**

We periodically assess our inventory valuation by reviewing revenue forecasts and technological obsolescence. We write down the value of obsolete or unmarketable inventory to the estimated net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs would be necessary.

During 2016 and 2015, we recorded inventory write-down of \$84,000 and \$9,000, respectively.

### **Allowance for Doubtful Accounts**

Our accounts receivable are derived from sales to customers located primarily in the U.S. and Europe. We perform ongoing credit evaluations of our customers' financial condition and currently require no collateral from our customers. An allowance for doubtful accounts for estimated losses is maintained in anticipation of the inability of customers to make required payments. The allowance for doubtful accounts as of December 31, 2016 and 2015 was \$32,000 and \$0, respectively. When we become aware that a specific customer is unable to meet its financial obligations as a result of bankruptcy or the deterioration of the customer's operating results or financial position, for example, we record a specific allowance to reflect the level of credit risk in the customer's outstanding receivable balance. We are not able to predict changes in the financial condition of customers, and if the condition or circumstances of our customers deteriorates, estimates of the recoverability of trade receivables could be materially affected and we may be required to record additional allowances. Alternatively, if our estimates are determined to be greater than the actual amounts necessary, we may decrease a portion of such allowance in future periods based on actual collection experience.

### **Marketable Securities**

We classify our investment in shares of common stock of Telkooor and Avalanche International Corp. ("Avalanche") in accordance with Accounting Standards Codification (ASC) 320, "Investment in Debt and Equity Securities" (ASC No. 320) and ASC 325, "Investment – Other" ("ASC No. 325"). Marketable securities classified as "available for sale securities" are carried at fair value, based on quoted market prices. Unrealized gains and losses are reported in a separate component of shareholder's equity in "accumulated other comprehensive loss" in equity. When evaluating the investment for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and our intent to sell, or whether it is more likely than not that we will be required to sell the investment before recovery of the investment's amortized cost basis.

Equity securities that do not have readily determinable fair values (i.e., non-marketable equity securities) and are not required to be accounted for under the equity method are typically carried at cost (i.e., cost method investments), as described in ASC 325-20.

We did not record any impairment of our investments in Telkooor or Avalanche during the year ended December 31, 2016. For the year ended December 31, 2015, we recognized an impairment of our investment in Telkooor in the amount of \$110,000. On September 22, 2016, we sold our shares in Telkooor back to Telkooor for \$90,000 which represented our book value.

## **Equity-based Compensation Expense**

We account for equity-based compensation in accordance with ASC 718, "Compensation – Stock compensation" ("ASC 718"). Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service periods. Determining the fair value of share-based awards at the grant date requires the exercise of judgment, including the amount of share-based awards that are expected to be forfeited. Estimated forfeitures are based on historical pre-vesting forfeitures. If actual results differ from these estimates, equity-based compensation expense, and therefore our results of operations, could be impacted.

We estimate the fair value of stock options granted under ASC 718, using the Black-Scholes option-pricing model, which uses the following assumption:

Expected volatility is based on historical volatility, which is representative of future volatility over the expected term of the options. The expected term of options granted was determined based on the simplified method, which is calculated as the midpoint between the vesting date and the end of the contractual term of the option. The risk free interest rate is based on the yield of U.S. Treasury bonds with equivalent terms. The dividend yield is based on our historical and future expectation of dividends payouts. We have not paid cash dividends historically and have no plans to pay cash dividends in the foreseeable future.

## **Convertible Instruments**

The Company accounts for hybrid contracts that feature conversion options in accordance with applicable GAAP. ASC 815 "Derivatives and Hedging Activities," ("ASC 815") requires companies to bifurcate conversion options from their host instruments and account for them as freestanding derivative financial instruments according to certain criteria. The criteria includes circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under other applicable GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

Conversion options that contain variable settlement features such as provisions to adjust the conversion price upon subsequent issuances of equity or equity linked securities at exercise prices more favorable than that featured in the hybrid contract generally result in their bifurcation from the host instrument.

The Company accounts for convertible instruments, when the Company has determined that the embedded conversion options should not be bifurcated from their host instruments, in accordance with ASC 470-20 “Debt with Conversion and Other Options” (“ASC 470-20”). Under ASC 470-20 the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. The Company accounts for convertible instruments (when the Company has determined that the embedded conversion options should be bifurcated from their host instruments) in accordance with ASC 815. Under ASC 815, a portion of the proceeds received upon the issuance of the hybrid contract are allocated to the fair value of the derivative. The derivative is subsequently marked to market at each reporting date based on current fair value, with the changes in fair value reported in results of operations.

### **Common Stock Warrants**

The Company classifies as equity any warrants that (i) require physical settlement or net-share settlement or (ii) provide the Company with a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any warrants that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the Company’s control), (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement) or (iii) that contain reset provisions that do not qualify for the scope exception. The Company assesses classification of its common stock warrants and other freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required. The Company’s freestanding derivatives consist of warrants to purchase common stock that were issued in connection with its (i) convertible notes, (ii) equity funding, and (iii) officer of the Company for the services. The Company evaluated these warrants to assess their proper classification and determined that the common stock warrants meet the criteria for equity or liability classification in the balance sheet. The warrants classified as liability are initially recorded at fair value, with gains and losses arising from changes in fair value recognized in other income (expense) in the statements of operations at each period end while such instruments remain outstanding

### **Liquidity and Capital Resources**

On December 31, 2016, we had cash and cash equivalents of \$996,000 and working capital of \$1,963,000. This compares with cash and cash equivalents of \$1,241,000 and working capital of \$2,659,000 at December 31, 2015. The decrease in cash and cash equivalents was due mainly to operational losses and our investment in Avalanche International in the form convertible notes in the aggregate amount of \$1,036,000.

Net cash used in operating activities totaled \$358,000 and \$529,000 for the years ended December 31, 2016 and December 31, 2015, respectively. The decrease in net cash used in operating activities for the year ended December 31, 2016, was principally due to a decrease in our operating loss.

Net cash used in investing activities was \$1,029,000 for the year ended December 31, 2016, compared to net cash used in investing activities of \$306,000 for the year ended December 31, 2015. The increase of the net usage of cash from investing activities was primarily related to the investment in Avalanche.

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Net cash provided by financing activities was \$1,279,000 and \$0 for the year ended December 31, 2016 and December 31, 2015, respectively. The increase in financing activities related to the sale of a \$530,000 convertible note for net proceeds of \$488,000, a term loan of \$250,000 and the sale of \$541,000 in units consisting of shares of Common stock and warrants to purchase Common Stock.

Subsequent to year end through April 5, 2017, we 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, we sold 25,000 shares of Series B Preferred Stock at \$10.00 per share in exchange for the cancellation of debt of \$250,000.

We expect to continue to incur losses for the foreseeable future and will be required to raise additional capital to continue to support our working capital requirements. We believe that the MLSE purchase order contract of \$50 million by MTIX will contribute to generate meaningful revenue and corresponding cash in 2017. In addition, we have been successful over the last 12 months in raising capital to support our working capital requirements. We will anticipate that we will continue to raise capital through public and private equity offerings, debt financings, or other means. If we are unable to secure additional capital, we may be required to curtail our current operations and take additional measures to reduce costs expenses, including reducing our workforce, eliminating outside consultants, ceasing or reducing review of potential acquisitions and reducing legal fees in order to conserve cash in order to sustain operations and meet our obligations.

Based on the above, we believe that we will have sufficient capital resources to sustain operations through at least the next twelve months from the date of this filing.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

Because we are a smaller reporting company, this section is not applicable

**Item 8. Financial Statements and Supplementary Data.**

The financial statements required by this Item 8 are included in this Annual Report following Item 15 hereof. As a smaller reporting company, we are not required to provide supplementary financial information.

**Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.**

On December 29, 2016, we dismissed Kost Forer Gabbay and Kasierer, a member of Ernst & Young Global (“Kost Forer”) as our independent registered public accounting firm. Our Audit Committee approved the dismissal of Kost Forer. Kost Forer’s report on our consolidated financial statements as of and for the fiscal years ended December 31, 2014 and 2015 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principle.

During the fiscal years ended December 31, 2014 and 2015 and through December 29, 2016, there were (i) no disagreements with Kost Forer on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Kost Forer’s satisfaction, would have caused Kost Forer to make reference thereon in their report on the financial statements for the fiscal years ended December 31, 2014 and 2015, and (ii) no “reportable events” as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

On January 13, 2017, we, as approved by the Audit Committee, appointed Marcum LLP (“Marcum”) as our independent registered public accounting firm for the fiscal year ended December 31, 2016. During our two most recent fiscal years (fiscal years ended December 31, 2014 and 2015) and during the subsequent interim period through January 13, 2017, neither we nor anyone acting on our behalf consulted with Marcum regarding (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on our financial statements, and neither a written report nor oral advice was provided to us that Marcum concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

As of December 31, 2016, we have carried out an evaluation, under the supervision of, and with the participation of, our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act) were effective as of the end of the period covered by the report to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations



of the Treadway Commission (“COSO”) in Internal Control-Integrated 2013 Framework. The 2013 Framework is expected to help organizations design and implement internal control in light of many changes in business and operating environments since the issuance of the original framework, broaden the application of internal control in addressing operation and reporting objectives, and clarify the requirements for determining what constitutes effective internal controls. Our management has concluded that, as of December 31, 2016, our internal control over financial reporting was effective.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our independent registered public accounting firm pursuant to a provision under the Dodd-Frank Wall Street Reform and Consumer Protection Act which grants a permanent exemption for non-accelerated filers from complying with Section 404(b) of the Sarbanes-Oxley Act of 2002.

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**Evaluation of Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None

**PART III****Item 10. Directors, Executive Officers and Corporate Governance.**

The following table sets forth the positions and offices presently held by each of our current directors and executive officers and their ages:

<b>Name</b>	<b>Age</b>	<b>Position Held</b>
Milton C. Ault, III <sup>(1)</sup>	47	Executive Chairman of the Board
Amos Kohn	57	President, Chief Executive Officer, Director
Kristine Ault <sup>(2)</sup>	47	Director
William B. Horne <sup>(2)(4)</sup>	49	Director
Robert O. Smith <sup>(3)(4)</sup>	73	Director
Moti Rosenberg <sup>(4)</sup>	68	Director
Uri Friedlander	54	Vice President of Finance, Chief Accounting Officer

(1) Effective March 16, 2017, Mr. Ault was appointed to the Board.

On October 13, 2016, Kristine Ault and William B. Horne were appointed to the Board. Pursuant to a securities purchase agreement dated September 5, 2016 by and among the Company, Philou Ventures, and Telkooor, Philou Ventures has the right to appoint two members to the Board of Directors.

(3) On September 22, 2016, Mr. Robert O. Smith was appointed to the board

(4) Independent Director and Member of the Audit, Compensation and Nominating and Governance Committees.

Each of the directors named above will serve until the next annual meeting of our shareholders or until his respective successor is elected and qualified. Subject to the terms of applicable employment agreements, our executive officers serve at the discretion of our Board.

**Mr. Milton “Todd” Ault, III**

On March 16, 2017, Mr. Ault, age 47, was appointed Executive Chairman of the Board. Mr. Ault is a seasoned business professional and entrepreneur that has spent more than twenty-seven years identifying value in various financial markets including equities, fixed income, commodities, and real estate. Mr. Ault founded on February 25, 2016 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. Mr. Ault has served as Chairman of Ault & Company, a holding company since December 2015, and as Chairman of Avalanche International Corp since September 2014, a company whose shares are registered under the Exchange Act. Since January, 2011, Mr. Ault has been the Vice President of Business Development for MCKEA Holdings, LLC, a family office. Through this position, Mr. Ault has consulted for a few publicly traded and privately held companies, providing each of them the benefit of his diversified experience, that range from development stage to seasoned businesses. He was the President, Chief Executive Officer, Director and Chairman of the Board of Zealous, Inc. from August 2007 until June 4, 2010 and again from February 2011 through May 1, 2011. Mr. Ault was a registered representative at Strome Securities, LP, from July 1998 until December 2005, where he was involved in portfolio management and worked on several activism campaigns including Taco Cabana, Jack In The Box (formerly Foodmaker), and 21st Century Holdings Co. Mr. Ault became majority shareholder of Franklin Capital Corp and was elected to its board of directors in July 2004 and became its Chairman and Chief Executive Officer 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. (OTCBB:PSTX, OTCQB:PSTX) (“PST”) and purchased SurgiCount Medical, Inc. Stryker Corporation (NYSE:SYK) acquired PST at the beginning of 2014 in a deal valued at approximately one hundred twenty million dollars (\$120,000,000). PST’s wholly owned operating subsidiary, SurgiCount Medical, Inc., is the company that developed the SafetySponge® System a bar coding technology for inventory control that aims to detect and prevent the incidence of foreign objects left in the body after surgery. We believe that Mr. Ault’s business background demonstrates he has the qualifications to serve as one of our directors and as Chairman.

### **Amos Kohn**

Amos Kohn, 57, has served as a member of our board of directors since 2003, as our President and Chief Executive Officer since 2008. From March 2011 until August 2013 Mr. Kohn also served as interim Chief Financial Officer. Mr. Kohn has more than 20 years of successful global executive management experience, including multiple C-level roles across private and established, publicly-traded companies. Mr. Kohn has successfully managed cross-functional teams, driven corporations to high profitability, built customer loyalty and led businesses through expansion and sustained growth. His areas of expertise include operations, technology innovation, manufacturing, strategic analysis and planning and M&A. Mr. Kohn was Vice President of Business Development at Scopus Video Networks, Inc., a Princeton, New Jersey company that develops and markets digital video networking products (2006-2007); Vice President of Solutions Engineering at ICTV Inc., a leading provider of network-based streaming media technology solutions for digital video and web-driven programming, located in Los Gatos, California (2003-2006); Chief Architect at Liberate Technologies, a leading company in the development of a full range of digital media processing for telecom and cable TV industries, located in San Carlos, California (2000-2003); and Executive Vice President of Engineering and Technology at Golden Channel & Co., the largest cable television multiple-systems operator (MSO) in Israel, where he had executive responsibility for developing and implementing the entire nationwide cable TV system (1989-2000). Mr. Kohn holds a degree in electrical and electronics engineering and is named as an inventor on several United States and international patents. We believe that Mr. Kohn's extensive executive-level management experience in diversified industries, including, but not limited to, power electronics, telecommunications, cable television, broadcast and wireless, as well as his service as a director on our board since 2003, give him the qualifications and skills to serve as one of our directors.

### **Kristine Ault**

Kristine Ault, age 47, serves as one of our directors. She is a seasoned business woman who has served as the managing member of a private holding company that make equity investments in other operating businesses since 2011 and has served as a member of our board of directors since October 2016. Prior to that, she worked in the finance department of Strome Securities, L.P. in Santa Monica, California. Ms. Ault 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. She also received an A.A in Natural Sciences and Mathematics from Napa Valley College. We believe that Ms. Ault's experiences, attributes and abilities in business administration and accounting with equity investments give her the qualifications and skill set to serve as one of our directors.

**William B. Horne**

William B. Horne, age 49, serves as one of our independent directors. He has served as the Chief Financial Officer of Targeted Medical Pharma, Inc. (OTCBB: TRGM) since August 2013 and has served as a member of our board of directors since October 2016. Mr. Horne is a director of and chief financial officer to Avalanche International, Co., a company whose shares of common stock are registered under the Exchange Act. Mr. Horne previously held the position of Chief Financial Officer in various companies in the healthcare and high-tech field, including OptimisCorp, from January 2008 to May 2013, a privately held, diversified healthcare technology company located in Los Angeles, California. Mr. Horne served as the Chief Financial Officer of Patient Safety Technologies, Inc. (OTCBB: PSTX), a medical device company located in Irvine, California, from June 2005 to October 2008 and as the interim Chief Executive Officer from January 2007 to April 2008. In his dual role at Patient Safety Technologies, Mr. Horne was directly responsible for structuring the divestiture of non-core assets, capital financings and debt restructuring. Mr. Horne held the position of Managing Member & Chief Financial Officer of Alaska Wireless Communications, LLC, a privately held, advanced cellular communications company, from its inception in May 2002 until November 2007. Mr. Horne was responsible for negotiating the sale of Alaska Wireless to General Communication Inc. (NASDAQ: GNCMA). From November 1996 to December 2001, Mr. Horne held the position of Chief Financial Officer of The Phoenix Partners, a venture capital limited partnership located in Seattle, Washington. Mr. Horne has also held supervisory positions at Price Waterhouse, LLP and has a Bachelor of Arts Magna Cum Laude in Accounting from Seattle University. We believe that Mr. Horne's extensive financial and accounting experience in diversified industries and with companies involving complex transactions give him the qualifications and skills to serve as one of our directors.

**Robert O. Smith**

Robert Smith, age 73, serves as one of our independent directors. Previously, he served as a member of our Board of Directors from November 2010 until May 2015, and served as a member of our Advisory Board from 2002 until 2015. He is currently a C-level executive consultant working with Bay Area high-tech firms on various strategic initiatives in all aspects of their business. From 2004 to 2007, he served on the Board of Directors of Castelle Corporation. From 1990 to 2002, he was our President, Chief Executive Officer and Chairman of the Board. From 1980 to 1990, he held several management positions with Computer Products, Inc., the most recent being President of their Compower/Boschert Division. From 1970 to 1980, he held managerial accounting positions with Ametek/Lamb Electric and with the JM Smucker Company. Mr. Smith received his BBA degree in Accounting from Ohio University. We believe that Mr. Smith's executive-level experience, including his previous service as our President, Chief Executive Officer and Chairman of the Board, his extensive experience in the accounting industry, and his service on our Board from November 2010 until May 2015, give him the qualifications and skills to serve as one of our directors.

**Moti Rosenberg**

Moti Rosenberg, age 70, serves as one of our independent directors. He has served as 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 the general manager of ZIV U.P.V.C Products Ltd.'s doors and window factory. Mr. Rosenberg 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 platoon, company, battalion, and brigade commander, head of the training center for all IDF infantry, and head of the Air Force's Special Forces. Mr. Rosenberg received a B.A in History from the University of Tel Aviv and a Master of Arts in Political Science from the University of Haifa in Israel. We believe that Mr. Rosenberg's business background give him the qualifications to serve as one of our directors.

### **Uri Friedlander**

Mr. Friedlander, age 54, has served as Vice President, Chief Accounting officer since October, 2015. Since 1997, Mr. Fridlander has served as the Chief Financial Officer of Telkooor. From 1991 to 1997, Mr. Fridlander 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.

## Involvement in Certain Legal Proceedings

Except as disclosed below, to our knowledge, none of our current directors or executive officers has, during the past ten years:

been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;

been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity;

been found by a court of competent jurisdiction in a civil action or by the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;

been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

1. Mr. Ault held series 7, 24, and 63 licenses and managed four domestic hedge funds and one bond fund from 1998 through 2008. On April 26, 2012, as a result from an investigation by FINRA involving activities during 2008, Mr. Ault agreed to a settlement with FINRA in which he did not admit to any liability or violation of any laws or regulatory rules and that included restitution and a suspension from association with a FINRA member firm for a period of two years. As part of that settlement, Mr. Ault agreed that he would make restitution to certain investors. Mr. Ault did not within the prescribed time period make a restitution payment to certain of the investors as he was unable to locate all of them, nor did he forward the undistributed restitution in the state where the investor was known to have resided, as directed by FINRA.

2. Mr. Ault was CEO, President and Chairman of Zealous Holdings, Inc. that filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") on February 20, 2009, in the U.S. Bankruptcy Court, Central District of California. This Chapter 11 filing was subsequently converted to a Chapter 7

filing by order of the Bankruptcy Court. Zealous Holdings, Inc. was not an entity that was entitled to a discharge under the bankruptcy code. As such Zealous Holdings, Inc. did not receive a discharge. Ultimately, Zealous Holdings, Inc. ceased doing business and was permanently closed.

3. Mr. Ault filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”) on December 8, 2009, in the U.S. Bankruptcy Court, Central District of California. This Chapter 13 filing was subsequently converted to a Chapter 7 filing by order of the Bankruptcy Court and months later, the petition being withdrawn and dismissed without prejudice.

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Except as set forth in our discussion below in “Certain Relationships and Related Transactions,” none of our directors or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

**Family Relationships.** Milton C. Ault, III and Kristine Ault are spouses.

### **Board and Committee Membership**

Our Board is currently composed of five members and maintains the following three standing committees: (1) the Audit Committee; (2) the Compensation Committee; and (3) the Nominating and Governance Committee. The membership and the function of each of the committees are described below. Our Board may, from time to time, establish a new committee or dissolve an existing committee depending on the circumstances. Current copies of the charters for the Audit Committee, the Compensation Committee and the Nominating and Governance Committee can be found on our website at [www.digipwr.com](http://www.digipwr.com).

#### **Audit Committee**

Messrs. Horne, Smith, and Rosenberg currently comprise the Audit Committee of our Board. Our Board has determined that each of the current members of the Audit Committee satisfies the requirements for independence and financial literacy under the standards of the SEC and the NYSE MKT. Our Board has also determined that Mr. Horne qualifies as an “audit committee financial expert” as defined in SEC regulations and satisfies the financial sophistication requirements set forth in the NYSE MKT Rules.

The Audit Committee is responsible for, among other things, selecting and hiring our independent auditors, approving the audit and pre-approving any non-audit services to be performed by our independent auditors; reviewing the scope of the annual audit undertaken by our independent auditors and the progress and results of their work; reviewing our financial statements, internal accounting and auditing procedures, and corporate programs to ensure compliance with applicable laws; and reviewing the services performed by our independent auditors to determine if the services rendered are compatible with maintaining the independent auditors’ impartial opinion.

#### **Compensation Committee**

Messrs. Horne, Smith, and Rosenberg currently comprise the Compensation Committee of our Board. Our Board has determined that each of the current members of the Compensation Committee meets the requirements for independence under the standards of the NYSE MKT. Mr. Smith serves as Chairman of the Compensation Committee.

The Compensation Committee is responsible for, among other things, reviewing and approving executive compensation policies and practices; reviewing and approving salaries, bonuses and other benefits paid to our officers, including our Chief Executive Officer and Chief Financial Officer; and administering our stock option plans and other benefit plans.

#### Nominating and Governance Committee

Messrs. Smith, Horne, and Rosenberg currently comprise the Nominating and Governance Committee of our Board. Our Board has determined that each of the current members of the Nominating and Governance Committee meets the requirements for independence under the standards of the NYSE MKT. Mr. Rosenberg serves as Chairman of the Nominating and Governance Committee.

The Nominating and Governance Committee is responsible for, among other things, assisting our Board in identifying prospective director nominees and recommending nominees for each annual meeting of shareholders to the Board; developing and recommending governance principles applicable to our Board; overseeing the evaluation of our Board and management; and recommending potential members for each Board committee to our Board.

The Nominating and Governance Committee considers diversity when identifying Board candidates. In particular, it considers such criteria as a candidate's broad-based business and professional skills, experiences and global business and social perspective.

In addition, the Committee seeks directors who exhibit personal integrity and a concern for the long-term interests of shareholders, as well as those who have time available to devote to Board activities and to enhancing their knowledge of the power-supply industry. Accordingly, we seek to attract and retain highly qualified directors who have sufficient time to attend to their substantial duties and responsibilities.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our executive officers and directors and persons who own more than ten percent of a registered class of our equity securities to file an initial report of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC. Executive officers, directors and ten percent shareholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms they file. Based solely upon our review of Forms 3, 4 and 5 received by us, or written representations from certain reporting persons, we believe that during the during current fiscal year and the year ended December 31, 2016, all such filing requirements applicable to our officers, directors and ten percent shareholders were fulfilled with the following exceptions.

During the fiscal year 2016, Messrs. Horne, Smith and Rosenberg, and Ms. Ault each inadvertently filed late one Form 4 reporting one transaction and Mr. Kohn inadvertently file three Forms 4s late reporting eight transactions.

### **Code of Ethics**

We have adopted the Code of Ethical Conduct that applies to our principal executive officer, principal financial officer, principal accounting officer, controller or person performing similar functions (collectively, the "Financial Managers"). The Code of Ethical Conduct is designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. The full text of our Code of Ethical Conduct is published on our website at [www.digipwr.com](http://www.digipwr.com). We will disclose any substantive amendments to the Code of Ethical Conduct or any waivers, explicit or implicit, from a provision of the Code on our website or in a current report on Form 8-K. Upon request to our President and CEO, Amos Kohn, we will provide without charge, a copy of our Code of Ethical Conduct.

## **ITEM 11. EXECUTIVE COMPENSATION.**

**Summary Compensation Table**

The following Summary Compensation Table sets forth all compensation earned in all capacities during the years ended December 31, 2016 and 2015, by our Chief Executive Officer ("Named Executive Officer"). Because we are a Smaller Reporting Company, we only have to report information of our Chief Executive Officer as no other officer met the definition of Named Executive Officer within the meaning of SEC rules.

## Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards \$(1)	Non-equity	Nonqualified	Other Compensation \$(2)	Total (\$)
						Incentive Plan Compensation (\$)	Deferred Compensation Earnings (\$)		
Amos Kohn Chief Executive Officer	2016	\$234,866	-	-	\$366,409	-	-	\$36,269	\$637,564
	2015	\$215,118	-	-	\$120,184	-	-	\$43,677	\$378,979

Represents the equity-based compensation expenses recorded in our consolidated financial statements for the year ended December 31, 2016, based upon the option's fair value on the grant date, calculated in accordance with (1) accounting guidance for equity-based compensation. For a discussion of the assumptions used in reaching this valuation, see Note 8 to our consolidated financial statements for the year ended December 31, 2016.

(2) The amounts in "All Other Compensation" consist of health insurance benefits, long-term and short-term disability insurance benefits, and 401K matching amounts.

### **Employment Agreement with Amos Kohn**

On November 30, 2016, as amended on February 22, 2017, the Company entered into an employment agreement with Amos Kohn to serve as President and Chief Executive Officer with an effective date of September 22, 2016.

For his services, Mr. Kohn will be paid a salary of \$300,000 per annum increasing to \$350,000 per annum provided that the Company achieves revenues in the aggregate amount of at least \$10,000,000 as determined in accordance with U.S. GAAP for the trailing four calendar quarters.

In addition, Mr. Kohn shall be eligible for an annual cash bonus equal to a percentage of his annual base salary based on achievement of applicable performance goals determined by the Company's compensation committee after conferring with Mr. Kohn. The target amount of Mr. Kohn's annual performance bonus shall be 25% to 50% of his then annual base salary but may be greater upon mutual agreement between Mr. Kohn and the compensation committee.

Further, Mr. Kohn is entitled to receive equity participation as follows: (i) ten-year warrants to purchase 317,460 shares of the Company's Common Stock (the "Warrant Grant") at an exercise price of \$0.01 per share subject to vesting quarterly over two years effective January 1, 2017; and (ii) ten-year options to purchase 1,000,000 shares of the Company's Common Stock at an exercise price of \$0.65 per share. The option to purchase 1,000,000 shares of Common Stock is subject to the following vesting schedule: (1) options to purchase 500,000 shares of Common Stock shall vest upon the effective date; (2) options to purchase 250,000 shares of Common Stock shall vest ratably over six months beginning with the first month after the effective date; and (3) options to purchase 250,000 shares of common stock shall vest ratably over twelve months beginning with the first month after the effective date. As part of the grant of the options to purchase 1,000,000 shares, Mr. Kohn forfeited options to purchase 535,000 shares of common stock previously granted to him under the Company's Incentive Share Option Plans.

In the event that Mr. Kohn is terminated by the Company without cause, or if Mr. Kohn resigns for good reason, Mr. Kohn shall be entitled to (i) all annual salary earned prior to the termination date, any earned but unpaid portion of Mr. Kohn's annual performance bonus for the year preceding in which such termination occurred and any earned but unpaid paid time off; (ii) an amount equal to 100% of Mr. Kohn's then in effect annual base salary plus an additional 1/12th of Mr. Kohn's annual base salary for each year of employment with the Company prior to such termination; (iii) an amount equal to the average of Mr. Kohn's two prior years' annual bonuses (with such average not to exceed 50% of the Mr. Kohn's annual base salary in effect at the time of termination) prorated for the portion of the year that executive was employed; (iv) accelerated vesting of all outstanding unvested stock options and other equity arrangements subject to vesting and held by Mr. Kohn through the termination date and the Company's right to repurchase Mr. Kohn's restricted stock shall cease; and (v) to the extent required by COBRA, continuation of group health benefits pursuant to the Company's standard programs or in effect at the termination date at Company expense for a period of not less than 18 months.

If Mr. Kohn is terminated without cause, or resigns for good reason within 12 months of a change of control, Mr. Kohn shall be entitled to receive: (i) payment in a lump sum of Mr. Kohn annual base salary for 24 months and any accrued, unused paid time-off; (ii) accelerated vesting of all outstanding unvested stock options and other equity arrangements subject to vesting and the Company's right to repurchase Mr. Kohn restricted stock shall cease; and (iii) to the extent required by COBRA, continuation of group health benefits pursuant to the Company's standard programs or in effect at the termination date at the Company's expense for a period of not less than 18 months.

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**Mr. Friedlander**

On October 7, 2015 the Compensation Committee agree to pay Mr. Friedlander an annual payment of \$58,000 (which includes compensation and business expenses and travel) and granted him 20,000 stock options under the 2012 Stock Option Plan. The options, which will have an exercise price equal to the closing price of the Company’s shares on the close of business on October 7, 2015, vest over a four year period at 25% per year and expire 10 years from the date of grant. Mr. Friedlander does not have an employment contract.

**Advisory Vote on Executive Compensation**

At the annual meeting of shareholders on December 28, 2016, the shareholders approved, on an advisory basis, the compensation paid to the Company’s named executive officers. In addition, shareholders voted, on an advisory basis, that an advisory vote on executive compensation should be held every three years.

**Outstanding Equity Awards at Fiscal Year-End**

The following table provides information on outstanding equity awards as of December 31, 2016 to the Named Executive Officer.

Name	Option Award Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) exercisable	Equity incentive awards: Number of securities underlying unexercised unearned	Option exercise price (\$)	Option expiration date	Stock Award Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested	Equity income plan award: Number of unearned shares, units	Equity income plan awards: Market or payout value of unearned

	options (#)	vested (#)	or other rights	shares, units
			that have not	or other rights
			vested (#)	that have not
				vested (\$)
Amos Kohn	687,500(1)	312,500 (1)		\$ 0.65 9/22/27
		317,460 (2)		\$ 0.01 9/22/27

(1) Effective September 22, 2016, Mr. Kohn was granted options to 1,000,000 shares of Common Stock at \$0.65 per share. The options to purchase 1,000,000 shares of Common Stock are subject to the following vesting schedule: (1) options to purchase 500,000 shares of Common Stock shall vest upon the effective date; (2) options to purchase 250,000 shares of Common Stock shall vest ratably over six months beginning with the first month after the effective date; and (3) options to purchase 250,000 shares of common stock shall vest ratably over twelve months beginning with the first month after the effective date. In connection with the grant of options to purchase 1,000,000 shares of Common Stock, Mr. Kohn forfeited options to purchase 535,000 shares of common stock previously granted to him under the Company's 2012 Plan.

(2) Represents warrants to purchase 317,460 shares of the Company's Common Stock at an exercise price of \$0.01 per share subject to vesting quarterly over two years beginning January 1, 2017 granted to Mr. Kohn in connection with his employment agreement.

### Director Compensation

During 2015, independent directors received \$10,000 annually for serving on our Board. Directors are paid quarterly in arrears for their services. For 2016, and thereafter, the Company pays each independent director \$20,000 annually, other than Mr. Smith, who will receive \$30,000 annually due to anticipated additional services to be provided by Mr. Smith as a lead independent director.



On November 22, 2016, each non-employee director received options to purchase 200,000 shares of Common Stock at an exercise price of \$0.70 per share. The options are subject to vesting of which one-third vested immediately and the remaining unvested options will vest equally on the subsequent anniversary dates.

The table below sets forth, for each non-employee director, the total amount of compensation related to his or her service during the year ended December 31, 2016:

Name	Fees		Non-Equity		Nonqualified		Total (\$)
	Earned or Paid in Cash	Warrant Awards	Option Awards	Incentive Plan Compensation	Deferred Compensation Earnings	All Other Compensation	
Robert Smith <sup>(1)</sup>	\$5,000	-	\$32,145 <sup>(5)</sup>	-	-	-	\$37,145
Kristine Ault <sup>(2)</sup>	-		\$32,145 <sup>(5)</sup>				\$32,145
William B Horne <sup>(2)</sup>	\$3,333		\$32,145 <sup>(5)</sup>				\$35,478
Moti Rosenberg	\$11,666		\$33,355 <sup>(5)</sup>				\$45,021
Ben-Zion Diamant <sup>(3)</sup>			\$24,693			\$ 85,983	\$110,676
Haim Yatim <sup>(4)</sup>	\$13,498		\$1,758				\$15,256
Israel Levi <sup>(4)</sup>	\$7,500		\$1,758				\$9,258

(1) Mr. Smith was appointed to the Board on September 22, 2016.

(2) Ms. Ault and Mr. Horne were each appointed to the Board on October 13, 2016.

On September 12, 2011, our Board of Directors approved the payment of monthly consulting fees of \$6,000 to Ben-Zion Diamant, our former Chairman of the Board of Directors. On March 21, 2016, the Compensation Committee and Board of Directors approved an increase to the monthly consulting fee to Mr. Diamant to \$7,500 effective as of March 21, 2016. Mr. Diamant resigned as a director on September 22, 2016, but as part of a Securities Purchase Agreement by and among the Company, Philou Ventures and Telkoor, Mr. Diamant will continue to receive \$7,500 for a period of 18 months from September 5, 2016.

(4) Messrs. Yatim and Levi each resigned from the board on September 22, 2016.

Effective November 2016, the non-employee director received options to purchase 200,000 shares at \$.70 per share with one-third of the grant to vest immediately and the remaining two-thirds to vest over the remaining two anniversary dates.

### Stock Option Plans

On December 28, 2016, the shareholder approve the 2016 Stock Incentive Plan (the "2016 Stock Incentive Plan"), under which options to acquire up to 4,000,000 shares of common stock may be granted to the Company's directors, officers,

employees and consultants. The 2016 Stock Incentive Plan is in addition to the Company's current 2012 Stock Option Plan, as amended (the "2012 Plan"), which provides for the issuance of a maximum of 1,372,630 shares of the Company's common stock to be offered to the Company's directors, officers, employees, and consultants.

The purpose of both the 2016 Stock Incentive Plan and 2012 Plan is to advance the interests of the Company by providing to key employees of the Company and its affiliates, who have substantial responsibility for the direction and management of the Company, as well as certain directors and consultants of the Company, additional incentives to exert their best efforts on behalf of the Company, to increase their proprietary interest in the success of the Company, to reward outstanding performance and to provide a means to attract and retain persons of outstanding ability to the service of the Company.

As of December 31, 2016, options to purchase 2,266,000 shares of common stock were issued and outstanding, and 3,312,630 shares are available for future issuance, under collectively the 2012 Plan and the 2016 Stock Incentive Plan.

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**401(k) Plan**

We have adopted a tax-qualified employee savings and retirement plan, or 401(k) plan, which generally covers all of our full-time employees. Pursuant to the 401(k) plan, eligible employees may make voluntary contributions to the plan up to a maximum of 5% of eligible compensation. The 401(k) plan permits, but does not require, matching contributions by Digital Power on behalf of plan participants. We match contributions at the rate of (1) \$1.00 for each \$1.00 contributed, up to 3% of the base salary and (2) \$0.50 for each \$1.00 contributed thereafter, up to 5% of the base salary. We are also permitted under the plan to make discretionary contributions. The 401(k) plan is intended to qualify under Sections 401(k) and 401(a) of the Internal Revenue Code of 1986, as amended. Contributions to such a qualified plan are deductible by the Company when made, and neither the contributions nor the income earned on those contributions is taxable to plan participants until withdrawn. All 401(k) plan contributions are credited to separate accounts maintained in trust.

**Item 12. Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters.**

Except as otherwise indicated below, the following table sets forth certain information regarding beneficial ownership of our common stock as of March 20, 2017 by (1) each of our current directors; (2) each of the named executive officers listed in the Summary Compensation Table located above in the section entitled "Executive Compensation"; (3) each person known to us to be the beneficial owner of more than 5% of the outstanding shares of our common stock based upon Schedules 13G or 13D filed with the SEC; and (4) all of our directors and executive officers as a group. As of March 20, 2017, there were 8,856,851 shares of our common stock outstanding.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of the Record Date are deemed to be outstanding and to be beneficially owned by the person or group holding such options or warrants for the purpose of computing the percentage ownership of such person or group, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group. Unless otherwise indicated by footnote, to our knowledge, the persons named in the table have sole voting and sole investment power with respect to all common stock shown as beneficially owned by them, subject to applicable community property laws. Unless otherwise indicated below, the address of each beneficial owner listed below is c/o Digital Power Corporation, 48430 Lakeview Blvd, Fremont, California 94538.

<b>Name and address of beneficial owner</b>	<b>Number of</b>	<b>Approximate</b>
	<b>shares</b>	<b>percent of</b>
	<b>beneficially</b>	<b>class</b>

**owned**

Philou Ventures, LLC	2,725,860		30.8	%
P.O. Box 3587 Tustin, CA 92705				
Amos Kohn	951,865	(1)	9.8	%
Uri Friedlander	5,000	(2)	*	
Robert Smith	66,667	(3)	*	
Moti Rosenberg	66,667	(4)	*	
Kristine Ault	2,794,327	(5)	31.3	%
Milton Ault, III	2,794,327	(6)	31.3	%
William Horne	66,667	(7)	*	
All directors and executive officers as a group (seven persons)	3,955,043	(8)	39.5	%
Barry W. Blank,	419,900		4.7	%
P.O. Box 32056, Phoenix, AZ 85064				

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\* Less than one percent.

- (1) Includes options to purchase 812,500 shares and warrants to purchase 79,365 exercisable within 60 days of March 20, 2017.
- (2) Represents options to purchase 5,000 shares of common stock that are exercisable within 60 days of March 20, 2017.
- (3) Represents options to purchase 66,667 shares of common stock that are exercisable within 60 days of March 20, 2017.
- (4) Represents options to purchase 66,667 shares of common stock that are exercisable within 60 days of March 20, 2017.
- (5) Includes shares owned by Philou Ventures of which Ms. Ault is the Manager. Also includes options to purchase 66,667 shares of common stock that are exercisable within 60 days of March 20, 2017.
- (6) Mr. Ault is the spouse of Kristine Ault. Includes 2,715,610 shares owned by Philou Ventures which may be deemed beneficially owned by Mr. Ault.
- (7) Represents options to purchase 66,667 shares of common stock that are exercisable within 60 days of March 20, 2017.
- (8) Include options and warrants to purchase 1,163,533 shares of common stock that are exercisable within 60 days of March 20, 2017.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The following information sets forth certain related transactions between us and certain of our shareholder of directors. Prior to September 22, 2016, Telkooor was our largest shareholder and Telkooor's Chief Executive Officer, Benzi Diamant, was our Chairman of the Board. Effective September 22, 2016, Telkooor sold all of its shares of common stock of the Company to Philou Ventures, and as a result, Philou Ventures is our largest shareholder. Philou Ventures' Manager is Kristine L. Ault, one of our directors. Ms. Ault is the spouse of Milton C. Ault, III, who is our Executive Chairman of the Board.

#### **Telkooor Telecom, Ltd.**

As previously disclosed, on September 5, 2016, we entered into a securities purchase agreement with Philou Ventures, and Telkooor pursuant to which Telkooor agreed to purchase all of Telkooor's 2,714,610 shares of the common stock in the Company, constituting approximately 40.06% of the then Company's outstanding shares of common stock. In consideration for such shares, Philou agreed to pay Telkooor \$1.5 million.

In conjunction with the securities purchase agreement, we entered into a rescission agreement with Telkooor in order to resolve all financial issues between the parties, including the repurchase by Telkooor of 1,136,666 shares of common stock of Telkooor beneficially owned by us for book value.

Finally, as part of the securities purchase agreement, we have agreed to pay Mr. Diamant \$7,500 for a period of eighteen months from September 5, 2016 for consulting services.

**Relationship with Telkooor Power Supplies Ltd.**

During the years ended December 31, 2016 and 2015, we purchased approximately \$0 and \$594,000, respectively, of products from Telkooor Power Supplies, Ltd., a wholly-owned subsidiary of our largest then shareholder, Telkooor, of which Ben-Zion Diamant was the Chief Executive Officer and its controlling shareholder. We had no written agreement for the purchase of these products, other than purchase orders that are placed in the ordinary course of business when the products are needed. In January 2016, Telkooor sold its commercial intellectual property to Advice Electronics Ltd. As a result, of that date no further orders have been placed with Telkooor.

### **Purchase of IP by Digital Power Limited (“DPL”) from Telkoo Power Supplies (“TPS”)**

On August 25, 2010, we and our wholly-owned subsidiary, DPL, entered into an agreement with TPS, a wholly-owned subsidiary of our largest then shareholder, Telkoo, of which Mr. Diamant is the Chief Executive Officer and controlling shareholder. Pursuant to such agreement, (1) TPS sold, assigned and conveyed to DPL all of its rights, title and interest in and to the intellectual property associated with the Compact Peripheral Component Interface 600 W AC/DC power supply series (the “Assets”) and (2) DPL granted to TPS an irrevocable license to sell the Assets in Israel on an exclusive basis. In consideration for the purchase of the Assets, DPL paid TPS \$480,000. The consideration for the license provided to TPS to sell the Assets in Israel is a royalty fee of 15% of TPS's direct production costs of sales, due on a quarterly basis. In accordance with the agreement, the consideration for the IP may be reduced over a four-year period in the event annual sales for each year between 2011 and 2014 are less than a fixed threshold of units on an annual basis based upon an offset value per unit as described in the agreement. If there is a shortfall in sale of units in one annual period and in the subsequent period we sell more than the fixed unit threshold, this difference will be offset from any reduced consideration in any annual periods between 2011 and 2014. As a result of lower than anticipated sales by our DPL subsidiary of the Compact Peripheral Component Interface 600W AC/DC power supply series (CPCI 600W) through 2013, we amended our agreement with Telkoo (effective January 1, 2014 for the duration of the original agreement or until the shortfall of CPCI 600W product sales will be offset) to include additional products in addition to the original CPCI 600W product. As of December 31, 2015, the shortfall of sales of CPCI 600W products is greater than the outstanding royalties due. In January 2016, Telkoo sold its assets, including its subsidiary TPS, to Advice Electronics Ltd. Following this asset sale, the IP agreement between the Company and Telkoo was terminated.

### **Acquisition of Shares of Telkoo**

On June 16, 2011 we acquired 1,136,666 shares of Telkoo, a then major shareholder of the Company which was listed on the Tel Aviv Stock Exchange, for \$0.88 (NIS 3) per share, which represented 8.8% of the outstanding shares of Telkoo. As a result of this transaction, an existing manufacturing agreement between Digital Power and Telkoo was updated and extended. Until September 30, 2012 the investment was accounted for as an available-for-sale investment and then reclassified the accounting of the investment at cost less accumulated impairments derived from independent appraisals or available market valuations. As of December 31, 2015 the shares represented 8.4% of the outstanding shares of Telkoo which have since de-listed from the Tel Aviv Stock Exchange.

On September 22, 2016, the Company sold such shares back to Telkoo for \$90,000.

### **Manufacturing Agreements with Telkoo and Advice Electronics Ltd.**

On December 31, 2012, we entered into a Manufacturing Rights Agreement (the "Manufacturing Agreement") with Telkoo, pursuant to which among other things, Telkoo granted us the non-exclusive right to directly place purchase orders for certain products from third party manufacturers for the purpose of marketing, selling and distributing the products for telecom, industrial, medical and military market segments in North and South America in consideration for the payment of royalty fees by us to Telkoo. The royalty fees paid by us to Telkoo under the Manufacturing Agreement are between 5% and 25%, depending on the product. The Manufacturing Agreement has a term of five years from the date of signature. During the agreement, Telkoo agreed not to directly or indirectly participate or engage, or assist any other party in engaging or preparing to engage, our customers in North and South America in connection with the sale or distribution of any of the products under the Manufacturing Agreement.

In January 2016, Telkoo sold all its commercial IP to Advice Electronics Ltd. ("Advice"), an Israeli company. As part of the agreement with Advice, we entered into a new agreement with Advice, according to which our manufacturing rights for certain Telkoo products will be granted to us through August 2017 against royalty payments to Advice, after which we will be entitled to distribute the products under our branding until December 2020.



## **Philou Ventures, LLC**

On March 9, 2017, we entered into a Preferred Stock Purchase Agreement (the “Purchase Agreement”) with Philou Ventures. Philou Ventures is the Company’s largest stockholder and Kristine L. Ault, one of our directors, controls and is a Manager of Philou Ventures. Pursuant to the terms of the Purchase Agreement, Philou Ventures will invest up to \$5,000,000 in us through the purchase of Series B Preferred Stock (“Preferred Stock”) over the Term, as specified herein. Each share of Preferred Stock shall be purchased at \$10.00 up to a maximum issuance of 500,000 shares of Preferred Stock. Philou Ventures 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 we have sufficient stockholders’ equity to meet the minimum continued listing standards of the NYSE MKT. In addition, for as long as the Preferred Stock is outstanding, Philou Ventures agrees to purchase additional shares of Preferred Stock in a sufficient amount in order us to meet the NYSE MKT’s minimum stockholders’ equity continued listing requirement subject to the maximum number of 500,000 shares of Preferred Stock (collectively, “Guaranteed Purchases”). In addition, at any time during the Term, Philou Ventures may in its sole and absolute discretion purchase additional shares of Preferred Stock, up to the 500,000 share maximum (“Voluntary Purchases”). All consideration for Voluntary Purchases shall be delivered through a series of varying payments (“Payments”) by Philou Ventures, at its sole and absolute discretion, during the period commencing on the closing date and ending 36 months therefrom (the “Term”). We have the right to request, with 90-day written notice to Philou Ventures, that Guaranteed Purchases be accelerated to meet deadlines for maintaining the minimum stockholders’ equity required by the NYSE MKT. The Preferred Stock shall not be callable by us for 25 years from the closing date.

In addition, for each share of Preferred Stock purchased by Philou Ventures, Philou Ventures 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

Further, Philou Ventures shall have the right to participate our future financings under substantially the same terms and conditions as other investors in those respective financings in order to maintain its then percentage ownership interest us Philou Ventures’ right to participate in such financings shall accrue and accumulate provided that it still owns at least 100,000 shares of Preferred Stock.

Finally, in order to meet the requirement of the NYSE Mkt Rule 713, Philou Ventures will not (i) vote the shares of Preferred Stock; (ii) convert such shares of Preferred Stock into shares of Common Stock or (iii) exercise its rights under the Warrant until the requirement of NYSE Mkt Rule 713 has been met at a meeting, or by the requisite written consent, of the holders of the outstanding shares of Common Stock.

On December 29, 2016, MCKEA Holdings lent us \$250,000 in the form of a demand note bearing simple interest at 6.0%. Kristine L. Ault is the managing member of MCKEA Holdings, which in turn, is the member of Philou Ventures. On March 24, 2017, MCKEA Holdings cancelled the \$250,000 demand note to purchase 25,000 shares of

Preferred Stock and received warrants to purchase 357,143 shares of common stock at \$0.70 per share.

**Avalanche International, Corp.**

During the quarter ended December 31, 2016, Avalanche International, Corp. (“Avalanche”) issued to the Company two \$525,000 12% Convertible Promissory Notes, with identical terms, dated October 5, 2016 and November 30, 2016. In consideration for the issuance of the Notes, the Company loaned \$1,000,000 to Avalanche of which \$950,000 was funded as of December 31, 2016, and the remaining \$50,000 was funded on February 17, 2016. The Notes, in the aggregate principal amount of \$1,050,000, include an original issue discount of \$50,000. The Notes accrue simple interest at 12% per annum and are convertible into shares of Avalanche common stock at \$0.74536 per share.

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At any time after six months from the date of the Notes, the Company may convert the principal and interest into shares of Avalanche common stock. The conversion price of the Notes is subject to adjustment for customary stock splits, stock dividends, combinations or similar events. The Notes contain standard and customary events of default including, but not limited to failure to make payments when due under the Notes and bankruptcy or insolvency of Avalanche.

On February 22, 2017, subsequent to year-end, Avalanche issued the Company a third \$525,000 12% Convertible Promissory Note (the "Third Note"). During the period from February 22, 2017 to March 3, 2017, the Company funded \$172,371 pursuant to this Third Note.

Avalanche is a holding company which on March 3, 2017, entered into a share exchange agreement with MTIX and the three shareholders of MTIX. Upon the terms and subject to the conditions set forth in the share exchange agreement, Avalanche will acquire MTIX from the sellers through the transfer of all issued and outstanding ordinary shares of MTIX by the sellers to Avalanche. MTIX has developed a cost effective and environment friendly material synthesis technology for textile applications utilizing the proprietary MLSE™ system which uses a combination of high voltage plasma and laser energy to imbue fabrics with desirable technical characteristics. On March 15, 2017, the Company announced that it had entered into a \$50 million purchase order with MTIX to manufacture, install and service fabric treatment machines that utilize MTIX's proprietary MLSE™ system.

Milton C. Ault, III and William Horne, two of our directors, are directors of Avalanche. In addition, based on Avalanche's Form 10-K for the year ended December 31, 2015, Philou Ventures is the largest shareholder of Avalanche. Philou Ventures is our largest shareholder, and Kristine L. Ault, Milton C. Ault, III's spouse, is the manager for Philou Ventures.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

Marcum LLP serves as our independent registered public accounting firm for the year ended December 31, 2016. Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global ("Kost Forer") was our prior independent registered public accounting firm.

##### **Fees and Services**

The following table shows the aggregate fees billed to us for professional services by Marcum LLP and Kost Forer, respectively, for the years ended December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Audit Fees	\$ 129,545	\$ 100,000
Audit Related Fees		
Tax Fees		
All Other Fees		
Total	\$ 129,545	\$ 100,000

*Audit Fee.* This category includes the aggregate fees billed for professional services rendered for the audits of our financial statements for the years ended December 31, 2016 and 2015, for the reviews of the financial statements included in our quarterly reports on Form 10-Q during 2016 and 2015, and for other services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for the relevant years.

*Audit-Related Fees.* This category includes the aggregate fees billed in each of the last two years for assurance and related services by the independent auditors that are reasonably related to the performance of the audits or reviews of the financial statements and are not reported above under "Audit Fees," and generally consist of fees for other engagements under professional auditing standards, accounting and reporting consultations, internal control-related matters, and audits of employee benefit plans.

*Tax Fees.* This category includes the aggregate fees billed in each of the last two years for professional services rendered by the independent auditors for tax compliance, tax planning and tax advice.

*All Other Fees.* This category includes the aggregate fees billed in each of the last two years for products and services provided by the independent auditors that are not reported above under "Audit Fees," "Audit-Related Fees," or "Tax Fees."

The Audit Committee's policy is to pre-approve all services provided by our independent auditors. These services may include audit services, audit-related services, tax services and other services. The Audit Committee may also pre-approve particular services on a case-by-case basis. Our independent auditors are required to report periodically to the Audit Committee regarding the extent of services they provide in accordance with such pre-approval.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

#### **(a) Exhibits**

- 3.1 Amended and Restated Articles of Incorporation of Digital Power Corporation (1)
- 3.2 Amendment to the Articles of Incorporation (1)
- 3.3 Amendment to the Articles of Incorporation (2)
- 3.4 Certificate of Determination; Series B Preferred Stock (3)
- 3.4 Bylaws of Digital Power Corporation (1)
- 10.1 Avalanche International \$500,000 12% Senior Secured Note
- 10.2 Employment Agreement, as amended, with Amos Kohn \* (5)
- 10.3 2012 Stock Option Plan, as amended (6)
- 10.4 Manufacturing and Distribution Rights Agreement, dated January 7, 2016, by and between the Company and Advice Electronics Ltd. (7)
- 10.6 Securities Purchase Agreement among the Company, Philou Ventures, LLC and Telkoor Telecom. (8)
- 10.7 Rescission Agreement with Telkoor Telecom (9)
- 10.8 Form of 12% Secured Convertible Note (10)
- 10.9 Digital Power Corporation 2016 Stock Incentive Plan (11)
- 10.10 Preferred Stock Securities Agreement (12)
- 10.11 2016 Stock Incentive Plan (13)
- 21.1 Digital Power Limited
- 23.1 Consent of Kost Forer Gabbay & Kasierer
- 23.2 Consent of Marcum, LLP
- 31.1

Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act

(1) Previously filed with the Commission on October 16, 1996 as an exhibit to the Company's Registration Statement on Form SB-2.

(2) Previously filed with the Commission as Exhibit 3.1 to the Company's Form 8-K filed December 9, 2013.

(3) Previously filed with the Commission as Exhibit 3.1 to the Company's Form 8-K filed March 9, 2017.

(4) Previously filed with the Commission as Exhibit 10.1 to the Company's Form 8-K filed on October 22, 2007.

(5) Previously filed with the Commission as Exhibit 10.1 to the Company's Form 8-K filed on December 5, 2016, as amended with such amendment filed on Form 8-K on March 27, 2017.

(6) Previously filed with the Commission as Exhibit A to the Company's DEF-14A filed on June 26, 2013.

(7) Previously filed with the Commission on Form 10-K for the year ended December 31, 2015 on March 30, 2016.

- (8) Previously filed with the Commission as Exhibit 10.1 to the Company's Form 8-K filed September 9, 2016.
- (9) Previously filed with the Commission as Exhibit 10.2 to the Company's Form 8-K filed September 9, 2016.
- (10) Previously filed with the Commission as Exhibit 10.1 to the Company's Form 8-K filed October 27, 2016
- (11) Previously filed with the Commission as Exhibit 10.1 to the Company's Form 8-K filed December 30, 2016
- (12) Previously filed with the Commission as Exhibit 10.1 to the Company's Form 8-K filed on March 9, 2017.
- (13) Previously filed with the Commission as Exhibit 10.1 to the Company's Form 8-K filed on December 30, 2016.

101.INS XBRL Instance Document‡

101.SCH XBRL Taxonomy Extension Schema Document‡

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document‡

101.DEF XBRL Taxonomy Extension Definition Linkbase Document‡

101.LAB XBRL Taxonomy Extension Label Linkbase Document‡

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document‡

#### Footnotes to Exhibit Index

‡ XBRL information is furnished and not filed for purpose of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

\*Management contract or compensatory plan or arrangement.

SIGNATURES

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

Dated: April 10, 2017

DIGITAL POWER CORPORATION

By: /s/ Amos Kohn  
Amos Kohn  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Uri Friedlander  
V.P of Finance  
(Principal Accounting Officer)

In accordance with the Exchange Act, this report has been signed below by the following person on behalf of the registrant and in the capacities indicated.

/s/ Milton C. Ault, III

Milton "Todd" Ault, III, Executive Chairman of the Board

/s/ Amos Kohn

Amos Kohn, President, Chief Executive Officer, and Director

/s/ Kristine Ault



Kristine Ault, Director

/s/ William Horne

William Horne, Director

/s/ Moti Rosenberg

Moti Rosenberg, Director

/s/ Robert O. Smith

Robert O. Smith, Director

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**DIGITAL POWER CORPORATION AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016 AND 2015**

**INDEX**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**The Board of Directors and Shareholders of**

**DIGITAL POWER CORPORATION**

We have audited the accompanying consolidated balance sheet of Digital Power Corporation (the "Company") and subsidiary as of December 31, 2015, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the year 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits 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 purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiary at December 31, 2015, and the consolidated results of its operations and its cash flows for year then ended in conformity with U.S. generally accepted accounting principles.

/s/ KOST FORER GABBAY & KASIERER  
Tel-Aviv, Israel KOST FORER GABBAY & KASIERER  
March 30, 2016 A Member of Ernst & Young Global



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the  
Board of Directors and Shareholders  
Of Digital Power Corporation and Subsidiary.

We have audited the accompanying consolidated balance sheet of Digital Power Corporation and Subsidiary (the “Company”) as of December 31, 2016, and the related consolidated statements of operations, comprehensive loss, changes in stockholders’ equity, and cash flows for the year 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 audit.

We conducted our audit 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 includes 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital Power Corporation and Subsidiary, as of December 31, 2016, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Marcum llp

New York, NY  
April 10, 2017

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**DIGITAL POWER CORPORATION AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS****U.S. dollars in thousands**

	<b>As of December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$996	\$1,241
Accounts receivable, net	1,439	1,240
Accounts receivable – related party	-	77
Inventories, net	1,122	1,542
Prepaid expenses and other current assets	285	187
Total current assets	3,842	4,287
Property and equipment, net	570	709
Investments, - related parties, net of original issue discount of \$45 and \$0, respectively.	1,036	90
Deposits	24	13
<b>TOTAL ASSETS</b>	<b>\$5,472</b>	<b>\$5,099</b>

The accompanying notes are an integral part of these consolidated financial statements.

**DIGITAL POWER CORPORATION AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS (continued)****U.S. dollars in thousands**

	<b>As of December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$1,231	\$937
Note payable – related party	250	-
Advances from customers and deferred revenues	-	211
Other current liabilities	398	480
Total current liabilities	1,879	1,628
Convertible notes – related party, net of unamortized issuance discount of \$497	34	-
Total liabilities	1,913	1,628
<b>COMMITMENTS</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Series A Redeemable Convertible Preferred Stock, no par value, - 500,000 shares authorized; 0 shares issued and outstanding at December 31, 2016 and 2015.	-	-
Preferred Stock, no par value – 1,500,000 shares authorized; 0 shares issued and outstanding at December 31, 2016 and 2015.	-	-
Common Stock, no par value – 30,000,000 shares authorized; 7,677,637 and 6,775,971 shares issued and outstanding at December 31, 2016 and 2015, respectively.	-	-
Additional paid-in-capital	16,537	14,965
Accumulated deficit	(12,158)	(11,036)
Accumulated other comprehensive loss	(820 )	(458 )
Total stockholder's equity	3,559	3,471
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$5,472</b>	<b>\$5,099</b>

The accompanying notes are an integral part of these consolidated financial statements.





**DIGITAL POWER CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS**

U.S. dollars in thousands (except per share data)

	<b>For the Years Ended December 31, 2016      2015</b>	
Revenues	\$7,596	\$7,766
Cost of revenues	4,890	5,053
Gross profit	2,706	2,713
Operating expenses:		
Engineering and product development	709	894
Selling and marketing	916	1,195
General and administrative	2,300	1,627
Total operating expenses	3,925	3,716
Operating loss	(1,219)	(1,003)
Other income and expenses:		
Impairment of investment – related party	-	(110 )
Other income, net	77	16
Total other income and (expenses)	77	(94 )
Loss before income tax benefits	(1,142)	(1,097)
Benefit for income taxes	20	1
Net loss	\$(1,122)	\$(1,096)
Net loss per common share – Basic and diluted	\$(0.16 )	\$(0.16 )
Weighted average shares of common stock – Basic and diluted	6,917	6,776

The accompanying notes are an integral part of these consolidated financial statements.

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**DIGITAL POWER CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**U.S. dollars in thousands**

	<b>For the Years Ended December 31, 2016    2015</b>	
Net Loss	\$ (1,122)	\$ (1,096)
Other comprehensive loss:		
Change in foreign currency translation adjustment	(362 )	(100 )
Comprehensive loss	\$ (1,484)	\$ (1,196)

The accompanying notes are an integral part of these consolidated financial statements.

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**DIGITAL POWER CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****For the Years Ended December 31, 2016 and 2015****U.S. dollars in thousands (except share data)**

	<b>Common stock</b>	<b>Additional paid-in- capital</b>	<b>Accumulated Deficit</b>	<b>Other Accumulated comprehensive loss</b>	<b>Total stockholders' equity</b>
<b>Balance at January 1, 2015</b>	6,775,971	\$ 14,739	\$ (9,940 )	\$ (358 )	\$ 4,441
Stock-based compensation – options	-	226	-	-	226
Comprehensive loss:					
Net loss	-	-	(1,096 )	-	(1,096 )
Foreign currency translation loss	-	-	-	(100 )	(100 )
<b>Balance at December 31, 2015</b>	6,775,971	14,965	(11,036 )	(458 )	3,471
Stock-based compensation – options	-	520	-	-	520
Stock-based compensation - warrants	-	23	-	-	23
Issuance of common stock and warrants for cash	901,666	541	-	-	541
Beneficial conversion feature in connection with convertible notes	-	329	-	-	329
Fair value warrants issued in connection with convertible notes	-	159	-	-	159
Comprehensive loss:					
Net loss	-	-	(1,122 )	-	(1,122 )
Foreign currency translation loss	-	-	-	(362 )	(362 )
<b>Balance at December 31, 2016</b>	7,677,637	\$ 16,537	\$ (12,158 )	\$ (820 )	\$ 3,559

The accompanying notes are an integral part of these consolidated financial statements.

**DIGITAL POWER CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	<b>For the Years Ended December 31, 2016    2015</b>	
<b><u>Cash flows from operating activities:</u></b>		
Net loss	\$(1,122)	\$(1,096)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	161	214
Amortization of debt discount	34	-
Accretion of discount on note receivable	(2 )	-
Provision for bad debts	32	-
Reserve for inventory	68	9
Impairment of investment – related party	-	110
Stock-based compensation	543	226
Changes in operating assets and liabilities:		
Accounts receivable	(311 )	288
Accounts receivable – related party	77	-
Inventories	209	57
Prepaid expenses and other current assets	(119 )	(14 )
Other assets	(11 )	-
Accounts payable	322	(258 )
Advances from customers and deferred revenues	(181 )	-
Other current liabilities	(58 )	(65 )
Net cash used in operating activities	(358 )	(529 )
<b><u>Cash flows from investing activities:</u></b>		
Purchase of property and equipment	(85 )	(306 )
Proceeds from sale of investment – related party	90	-
Investments – related party	(1,034)	-
Net cash used in investing activities	(1,029)	(306 )
<b><u>Cash flows from financing activities:</u></b>		
Proceeds from sales of common stock and warrants	541	-
Net proceeds from issuances of convertible notes – related party	488	-
Proceeds from short term loan – related party	250	-

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Net cash provided by financing activities	1,279	-
Effect of exchange rate on cash and cash equivalents	(137 )	(34 )
Decrease in cash and cash equivalents	(245 )	(869 )
Cash and cash equivalents - Beginning of the year	1,241	2,110
Cash and cash equivalents - End of the year	\$996	\$1,241

The accompanying notes are an integral part of these consolidated financial statements.

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**DIGITAL POWER CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2016 and 2015**

**U.S. dollars in thousands (except share and per share data)**

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**NOTE 1: GENERAL**

Digital Power Corporation ("**DPC**") was incorporated in 1969, under the General Corporation Law of the State of California. DPC and Digital Power Limited ("**DPL**"), a wholly owned subsidiary, located in the United Kingdom (DPC and DPL collectively the "Company"), are currently engaged in the design, manufacture and sale of switching power supplies and converters. The Company has two reportable geographic segments - North America (sales through DPC) and Europe (sales through DPL).

**NOTE 2: LIQUIDITY, FINANCIAL CONDITION AND MANAGEMENT'S PLANS**

The Company incurred a net loss of \$1,122 for the year ended December 31, 2016 and had an accumulated deficit of \$12,158 at December 31, 2016 from having incurred losses since its inception. The Company had \$1,963 of working capital at December 31, 2016 and used approximately \$358 of cash in its operating activities during the year ended December 31, 2016. The Company has financed its operations principally through issuances of convertible debt, a promissory note and equity securities.

On September 5, 2016, the Company entered into a rescission agreement with Telkooor Telecom Ltd., a related party entity, pursuant to which the Company sold back its investment of 1,136,666 shares of common stock of Telkooor at its carrying value of \$90. (See Note 7).

On October 21, 2016, the Company issued a 12% convertible secured note in the principal amount of \$530 to an existing stockholder of the Company for a net proceeds of \$488 (See Note 10).



On November 15, 2016, the Company sold 901,666 units for aggregate proceeds of \$541, each unit consisted of a share of common stock and a warrant to purchase one share of common stock (See Note 10).

On December 29, 2016, the Company entered into an agreement with MCKEA Holdings, LLC (“MCKEA”), a related party, for a demand promissory note in the amount of \$250 bearing interest at the rate of 6% per annum (See Note 9).

During the fourth quarter of 2016, the Company invested \$950 in Avalanche International Corporation (“AVLP”), a related party entity, through convertible notes with an aggregate face value of \$997, additionally, the Company acquired shares of common stock of AVLP for approximately \$84 (see Note 7).

In February 2017, the Company issued demand promissory notes and warrants to purchase 333,333 shares of common stock at \$ 0.70 per share for aggregate proceeds of \$400. Further in February 2017, the holders of \$400 in demand promissory notes agreed to extinguish their \$400 of debt by purchasing 666,667 shares of common stock of the Company at \$0.60 per share (See Note 16).

On March 9, 2017, the Company entered into a preferred stock purchase agreement with Philou Ventures LLC (“Philou”), a related party entity, pursuant to which Philou agreed to invest up to \$5,000,000 in the Company through the purchase of Series B Preferred Stock over a term of 36 months (See Note 13). On March 24, 2017, Philou purchased 25,000 shares of Series B Preferred Stock pursuant to the preferred stock purchase agreement in consideration of cancellation of Company debt of \$250 due to MCKEA.

On March 15, 2017, Company entered into a subscription agreement with one investor for the sale of 500,000 shares of common stock at \$0.60 per share for the aggregate purchase price of \$300.

In March 2017, the Company was awarded a 3-year, \$50 million purchase order by MTIX Ltd. ("MTIX") to manufacture, install and service the Multiplex Laser Surface Enhancement ('MLSE) plasma-laser system (See Note 14).

On March 28, 2017, the Company issued \$270 in demand promissory notes to several investors, then on April 5, 2017, the Company canceled these promissory notes by issuing 360,000 shares of common stock at \$0.75 per share, in addition, the Company also issued warrants to purchase 180,000 shares of common stock at \$0.90 per share to these investors (See Note 16).

The Company expects to continue to incur losses for the foreseeable future and needs raise additional capital to continue its business development initiatives and to support its working capital requirements. Management believes that the MLSE purchase order of \$50 million will be a source of revenue and generating cash flows. Management believes that the Company has access to capital resources through potential public or private issuance of debt or equity securities. If the Company is unable to raise additional capital, it may be required to curtail operations and take additional measures to reduce costs, including reducing its workforce, eliminating outside consultants and reducing legal fees in order to conserve its cash in amounts sufficient to sustain operations and meet its obligations.

Based on the above, management believes that the Company has sufficient capital resources to sustain operations through at least April 10, 2018.

### **NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Basis of Presentation***

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("**U.S. GAAP**").

#### ***Principles of Consolidation***

The consolidated financial statements include the accounts of DPC and its wholly-owned subsidiary, DPL. All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, DPC and DPL share certain employees and various costs. Such expenses are principally paid by DPC. Due to the nature of the parent and subsidiary relationship, the individual financial position and operating results of DPC and DPL may be different from those that would have been obtained had they been autonomous.

*Use of Estimates*

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Key estimates include fair value of certain financial instruments, reserve for trade receivables and inventories, carrying amounts of investments, accruals of certain liabilities, and deferred income taxes and related valuation allowance.

*Foreign Currency Translation*

A substantial portion of the Company's revenues are generated in U.S. dollars ("*U.S. dollar*"). In addition, a substantial portion of the Company's costs are incurred in U.S. dollars. Company management has determined that the U.S. dollar is the currency of the primary economic environment in which it operates.

Accordingly, monetary accounts maintained in currencies other than the U.S. dollar are re-measured into U.S. dollars in accordance with Financial Accounting Standards Board ("*FASB*") issued Accounting Standards Codification ("*ASC*") No. 830, *Foreign Currency Matters* ("*ASC No. 830*"). All transaction gains and losses from the re-measurement of monetary balance sheet items are reflected in the statements of operations as financial income or expenses as appropriate.

The financial statements of the DPL, whose functional currency has been determined to be its local currency, British Pound (“**GBP**”), have been translated into U.S. dollars in accordance with ASC No. 830. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate in effect for the reporting period. The resulting translation adjustments are reported as other comprehensive income (loss) in the consolidated statement of comprehensive income (loss) and accumulated comprehensive income (loss) in statement of changes in stockholders' equity.

### ***Cash and Cash Equivalents***

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents. The Company’s cash is maintained in checking accounts, money market funds and certificates of deposits with reputable financial institutions. These balances may, at times, exceed the U.S. Federal Deposit Insurance Corporation insurance limits. The Company has cash and cash equivalents of \$736 and \$868 at December 31, 2016 and 2015, respectively, in the United Kingdom (“**U.K**”). The Company has not experienced any losses on deposits of cash and cash equivalents.

### ***Marketable Securities***

The Company classifies its investments in shares of common stock of Telkooor and AVL P in accordance with ASC No. 320, *Investment in Debt and Equity Securities* (“**ASC No. 320**”) and ASC No. 325, *Investment – Other* (“**ASC No. 325**”). Marketable securities classified as “available-for-sale securities” and carried at fair value, based on quoted market prices. Unrealized gains and losses are reported in a separate component of stockholder’s equity in “accumulated other comprehensive loss” in equity. When evaluating the investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and the Company’s intent to sell, or whether it is more likely than not that it will be required to sell, the investment before recovery of the investment’s amortized cost basis.

Equity securities that do not have readily determinable fair values (i.e., non-marketable equity securities) and are not required to be accounted for under the equity method are typically carried at cost (i.e., cost method investments), as described in ASC No. 325-20.

The Company classifies its investment in debt securities of AVL P in accordance with ASC No. 320 and ASC No. 825. Investment in convertible promissory notes in AVL P is classified as available-for-sale securities and is carried at fair value based on quoted market prices. Unrealized gains and losses are reported in a separate component of stockholder’s equity in “accumulated other comprehensive loss” in equity. When evaluating the investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and the Company’s intent to sell, or whether it is more likely than not that it will be required to sell, the investment before recovery of the investment’s amortized cost basis. Additionally, the investment in debt securities of AVL P qualifies for application of fair value option in

accordance with ASC No. 825.

***Accounts Receivable and Allowance for Doubtful Accounts***

The Company's receivables are recorded when billed and represent claims against third parties that will be settled in cash. The carrying amount of the Company's receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The Company individually reviews all accounts receivable balances and based upon an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. The Company estimates the allowance for doubtful accounts based on historical collection trends, age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that a specific receivable balance may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. A customer's receivable balance is considered past-due based on its contractual terms. Past-due receivable balances are written-off when the Company's internal collection efforts have been unsuccessful in collecting the amount due. Based on an assessment as of December 31, 2016 and 2015, of the collectability of invoices, accounts receivable are presented net of an allowance for doubtful accounts of \$32 and nil, respectively

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***Inventories***

Inventories are stated at the lower of cost or market value. Inventory write-offs are provided to cover risks arising from slow-moving items or technological obsolescence.

Cost of inventories is determined as follows:

Raw materials, parts and supplies - using the "first-in, first-out" method.

Work-in-progress and finished products - on the basis of direct manufacturing costs with the addition of indirect manufacturing costs.

The Company periodically assesses its inventories valuation in respect of obsolete and slow moving items by reviewing revenue forecasts and technological obsolescence. When inventories on hand exceed the foreseeable demand or become obsolete, the value of excess inventory, which at the time of the review was not expected to be sold, is written off.

During the years ended December 31, 2016 and 2015, the Company recorded inventory write-offs of \$84 and \$9, respectively, within the cost of revenue.

***Property and Equipment, Net***

Property and equipment as well as an intangible asset are stated at cost, net of accumulated depreciation and amortization. Repairs and maintenance costs are expensed as incurred. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	<b>Useful lives (in years)</b>
Computer, software and related equipment	3 - 5
Office furniture and equipment	5 - 10
Leasehold improvements	Over the term of the lease of the life of the asset,

whichever  
is shorter

***Long-Lived Assets***

The long-lived assets of the Company are reviewed for impairment in accordance with ASC No. 360, *Property, Plant, and Equipment*, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As of December 31, 2016 and 2015, no impairment charges were necessary.

***Revenue Recognition***

The Company generates revenues from the sale of its products through a direct and indirect sales force.

Revenues from products are recognized in accordance with ASC No. 605, *Revenue Recognition*, when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller's price to the buyer is fixed or determinable, no further obligation exists and collectability is reasonably assured.

Generally, the Company does not grant a right of return. However, certain distributors are allowed, in the six months after the initial stock purchase, to rotate stock that has not been sold for other products. Revenues subject to stock rotation rights are deferred until the products are sold to the end customer or until the rotation rights expire.

Service revenues are deferred and recognized on a straight-line basis over the term of the service agreement. Service revenues are immaterial in proportion to the Company's revenues.

### ***Warranty***

The Company offers a warranty period for all of its products. Warranty periods range from one to two years depending on the product. The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of units sold, historical rates of warranty claims and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary.

As of December 31, 2016 and 2015, the Company has accrued warranty liability of \$86 and \$94, respectively.

### ***Income Taxes***

The Company determines its income taxes under the asset and liability method in accordance with FASB ASC No. 740, *Income Taxes*, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the fiscal year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal 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 the Statements of Income and Comprehensive Income in the period that includes the enactment date.

The Company accounts for uncertain tax positions in accordance with ASC No. 740-10-25. ASC No. 740-10-25 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC No. 740-10-25, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. To the extent that the final tax outcome of these matters is different than the amount recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. ASC No. 740-10-25 also requires management to evaluate tax positions taken by the Company and recognize a liability if the Company has taken uncertain tax positions that more likely than not would not be sustained upon examination by applicable taxing authorities. Management of the Company has evaluated tax positions taken by the Company and has concluded that as of December 31, 2016 and 2015, there are no uncertain tax positions taken, or expected to be taken, that would require recognition of a liability that would require disclosure in the financial statements.



***Common Stock Purchase Warrants and Other Derivative Financial Instruments***

The Company classifies Common Stock purchase warrants and other free standing derivative financial instruments as equity if the contracts (i) require physical settlement or net-share settlement or (ii) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company), (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement), or (iii) contain reset provisions as either an asset or a liability. The Company assesses classification of its freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required. The Company determined that certain freestanding derivatives, which principally consist of issuance of warrants to purchase shares of common in connection with convertible notes, units and to employers of the Company, satisfy the criteria for classification as equity instruments as these warrants do not contain cash settlement features or variable settlement provision that cause them to not be indexed to the Company's own stock.

***Stock-Based Compensation***

The Company accounts for stock-based compensation in accordance with ASC 718 "Compensation – Stock Compensation" ("ASC 718").

ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statements of operations.

The Company estimates the fair value of stock options granted under ASC 718 using the Black-Scholes option-pricing model that uses the following assumptions.

Expected volatility is based on historical volatility that is representative of future volatility over the expected term of the options. The expected term of options granted was determined based on the simplified method, which is calculated as the midpoint between the vesting date and the end of the contractual term of the option. The Company uses the simplified method as it has determined that sufficient data is not available to develop an estimate of the expected option term based upon historical participant behavior. The risk free interest rate is based on the yield of U.S. Treasury bonds with equivalent terms. The dividend yield is based on the Company's historical and future expectation of dividends payouts. The Company has not paid cash dividends historically and has no plans to pay cash dividends in the foreseeable future.

The Company recognizes share-based compensation expenses for the value of its awards based on the straight line method over the requisite service period of each of the awards.

During the years 2016 and 2015, the Company estimated the fair value of stock options granted using the Black-Scholes option pricing model with the following weighted average assumptions

	<b>2016</b>		<b>2015</b>	
Weighted average fair value	\$0.46		\$0.44	
Dividend yield	0%		0%	
Expected volatility	97.7% -	98.2%	87.6% -	88.3%
Risk-free interest rate	1.26% -	1.77%	1.60% -	1.91%
Expected life (years)	5		5.5 - 7	

***Convertible Instruments***

The Company accounts for hybrid contracts that feature conversion options in accordance with applicable GAAP. ASC No. 815 *Derivatives and Hedging Activities*, (“ASC 815”) requires companies to bifurcate conversion options from their host instruments and account for them as freestanding derivative financial instruments according to certain criteria. The criteria includes circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

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Conversion options that contain variable settlement features such as provisions to adjust the conversion price upon subsequent issuances of equity or equity linked securities at exercise prices more favorable than that featured in the hybrid contract generally result in their bifurcation from the host instrument.

The Company accounts for convertible instruments, when the Company has determined that the embedded conversion options should not be bifurcated from their host instruments, in accordance with ASC 470-20 "Debt with Conversion and Other Options" ("ASC 470-20"). Under ASC 470-20 the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. The Company accounts for convertible instruments (when the Company has determined that the embedded conversion options should be bifurcated from their host instruments) in accordance with ASC 815.

### ***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, long term deposits and trade receivables.

Cash and cash equivalents are invested in banks in the U.S. and in the UK. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions.

Trade receivables of the Company and its subsidiary are mainly derived from sales to customers located primarily in the U.S. and in Europe. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the Company and its subsidiary have determined to be doubtful of collection

### ***Comprehensive Loss***

The Company reports comprehensive loss in accordance with ASC 220, "Comprehensive Income". This Statement establishes standards for the reporting and presentation of comprehensive loss and its components in a full set of general purpose financial statements. Comprehensive loss generally represents all changes in equity during the period except those resulting from investments by, or distributions to, stockholders. The Company determined that its items of other comprehensive loss relates to changes in foreign currency translation adjustments.

### ***Fair value of Financial Instruments***

In accordance with ASC 820, “Fair Value Measurements and Disclosures”, fair value is defined as the exit price, or the amount that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the factors that market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: 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 3: Unobservable inputs reflecting the reporting entity’s own assumptions.

The carrying amounts of financial instruments carried at cost, including cash and cash equivalents, trade receivables and trade receivable – related party, investments, notes receivable, trade payables and trade payables – related party approximate their fair value due to the short-term maturities of such instruments.

As of December 31, 2016, the fair value of the Company's investments was \$1,036 (\$90 as of December 31, 2015). Investments as of December 31, 2016 were concentrated in AVLP. The Company's investment in AVLP is comprised of convertible promissory notes of \$952, net of unamortized discount and marketable equity securities of \$84 which are classified as available-for-sale investments. For investments in marketable equity securities, the Company took into consideration general market conditions, the duration and extent to which the fair value is below cost, and the Company's ability and intent to hold the investment for a sufficient period of time to allow for recovery of value in the foreseeable future. As a result of this analysis, the Company has determined that its cost basis in Avalanche equitable securities approximates the current fair value

Consistent with the guidance at ASC 835, the Company's presumption is that the fair value of its convertible promissory notes in Avalanche have a present value equivalent to the cash proceeds exchanged. Further, the discount shall be reported in the balance sheet as a direct deduction from the face amount of the convertible promissory notes. Thus, the Company has determined that the amortized cost of its convertible promissory notes approximates fair value and are subject to a periodic impairment review. The interest income, including amortization of the discount arising at acquisition, for the convertible promissory notes are included in earnings. In the future, if the Company does not expect to recover the entire amortized cost basis, the Company shall recognize other-than-temporary impairments in other comprehensive income (loss).

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis by level within the fair value hierarchy:

	<b>Fair Value Measurement at December 31, 2016</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments – AVLP – a related party controlled by Philou, a majority shareholder of the Company	\$1,036	\$ 84	\$ 952	\$ -

	<b>Fair Value Measurement at December 31, 2015</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investment – Telkooor – a related party, the Company's majority shareholder until September 22, 2016	\$90	\$ -	\$ -	\$ 90

As of December 31, 2015, the Company valued the investment in Telkooor for \$90.

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial instruments for the years ended December 31, 2016 and 2015, which are treated as investments, as follows:

	<b>2016</b>	<b>2015</b>
Balance at the beginning of year	\$90	\$207
Impairment	-	(110)
Effect of exchange rate	-	(7 )
Disposition of investments	(90)	-
Balance at the end of year	\$-	\$90

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**Debt Discounts**

The Company accounts for debt discount according to ASC No. 470-20, *Debt with Conversion and Other Options*. Debt discounts are amortized through periodic charges to interest expense over the term of the related financial instrument using the effective interest method. During the years ended December 31, 2016 and 2015, the Company recorded amortization of debt discounts of \$2 and nil, respectively

***Net Loss per Share***

Net loss per share is computed by dividing the net loss to common stockholders by the weighted average number of common shares outstanding. The calculation of the basic and diluted earnings per share is the same for all periods presented, as the effect of the potential common stock equivalents is anti-dilutive due to the Company's net loss position for all periods presented. The Company has included 317,460 warrants, with an exercise price of \$.01, in its earnings per share calculation for the year ended December 31, 2016. Anti-dilutive securities consisted of the following at December 31:

	<b>2016</b>	<b>2015</b>
Stock options	2,256,000	1,146,000
Warrants	1,431,666	-
Convertible notes	963,636	-
Total	4,651,302	1,146,000

***Recently Issued and Adopted Accounting Standards***

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, (FASB), or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact on the Company's consolidated financial position or results of operations upon adoption.

In October 2016, the FASB issued updated guidance related to the recognition of income tax consequences of an intra-entity transfer of an asset other than inventory. This guidance will be effective for the first quarter of tax year 2018; however, early adoption is permitted. The Company is evaluating the impact that this guidance will have its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230)*" ("ASU 2016-15"), which seeks to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. For public entities, Update 2016-15 becomes effective for fiscal years



beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the provisions of Update 2016-15 and assessing the impact, if any, it may have on its consolidated financial position, results of operations, cash flows or financial statement disclosures.

In March 2016, the FASB issued ASU 2016-09, “*Compensation - Stock Compensation (Topic 718)*” (“ASU 2016-09”), which seeks to simplify accounting for share-based payment transactions including income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. For public entities, Update 2016-09 becomes effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. The Company has not yet determined the effect that ASU 2016-09 will have on its consolidated financial position, results of operations or financial statement disclosures.

In March 2016, the FASB issued guidance that involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance will be effective for the first quarter of tax year 2017; however, early adoption is permitted. The Company is evaluating the impact that this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases*". The new standard provides guidance intended to improve financial reporting about leasing transaction. The ASU affects all companies that lease assets such as real estate, airplanes and manufacturing equipment. The ASU will require companies that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new standard will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company has not determined the potential effects of this ASU on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "*Recognition and Measurement of Financial Assets and Liabilities*" ("ASU 2016-01"). ASU 2016-01 requires equity investments (excluding equity method investments and investments that are consolidated) to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have a readily determinable fair value may be measured at cost, adjusted for impairment and observable price changes. The ASU also simplifies the impairment assessment of equity investments, eliminates the disclosure of the assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at cost on the balance sheet and requires the exit price to be used when measuring fair value of financial instruments for disclosure purposes. Under ASU 2016-01, changes in fair value (resulting from instrument-specific credit risk) will be presented separately in other comprehensive income for liabilities measured using the fair value option and financial assets and liabilities will be presented separately by measurement category and type either on the balance sheet or in the financial statement disclosures. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has not yet determined the effect that ASU 2016-01 will have on its consolidated financial position, results of operations, or financial statement disclosures.

In August 2014, the FASB issued ASU 2014-15, "*Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.*" The amendments in this ASU are intended to provide guidance on the responsibility of reporting entity management. Specifically, this ASU provides guidance to management related to evaluating whether there is substantial doubt about the reporting entity's ability to continue as a going concern and about related financial statement note disclosures. Although the presumption that a reporting entity will continue to operate as a going concern is fundamental to the preparation of financial statements, prior to the issuance of this ASU, there was no guidance in U.S. generally accepted accounting principles (U.S. GAAP) related to the concept. Due to the lack of guidance in U.S. GAAP, practitioners and their clients often faced challenges in determining whether, when, and how a reporting entity should disclose the relevant information in its financial statements. As a result, the FASB issued this guidance to require management evaluation and potential financial statement disclosures. This ASU will be effective for financial statements with periods ending after December 15, 2016. The Company adopted the ASU during the fiscal year and corrected in this report.

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*" ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, "*Revenue Recognition*" and some cost guidance included in ASC Subtopic 605-35, "*Revenue Recognition - Construction-Type and Production-Type Contracts.*" The core principle of ASU 2014-09 is that revenue is recognized when the transfer of goods or services to customers occurs in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. ASU 2014-09 requires the disclosure of sufficient information to

enable readers of the Company's financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 also requires disclosure of information regarding significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 provides two methods of retrospective application. The first method would require the Company to apply ASU 2014-09 to each prior reporting period presented. The second method would require the Company to retrospectively apply ASU 2014-09 with the cumulative effect recognized at the date of initial application. ASU 2014-09 will be effective for the Company beginning in fiscal 2019 as a result of ASU 2015-14, *"Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,"* which was issued by the FASB in August 2015 and extended the original effective date by one year. The Company is currently evaluating the impact of adopting the available methodologies of ASU 2014-09 and 2015-14 upon its financial statements in future reporting periods. The Company has not yet selected a transition method. The Company is in the process of evaluating the new standard against its existing accounting policies, including the timing of revenue recognition, and its contracts with customers to determine the effect the guidance will have on its financial statements and what changes to systems and controls may be warranted.

There have been four new ASUs issued amending certain aspects of ASU 2014-09, ASU 2016-08, "*Principal versus Agent Considerations (Reporting Revenue Gross Versus Net)*," was issued in March, 2016 to clarify certain aspects of the principal versus agent guidance in ASU 2014-09. In addition, ASU 2016-10, "*Identifying Performance Obligations and Licensing*," issued in April 2016, amends other sections of ASU 2014-09 including clarifying guidance related to identifying performance obligations and licensing implementation. ASU 2016-12, "*Revenue from Contracts with Customers - Narrow Scope Improvements and Practical Expedients*" provides amendments and practical expedients to the guidance in ASU 2014-09 in the areas of assessing collectability, presentation of sales taxes received from customers, noncash consideration, contract modification and clarification of using the full retrospective approach to adopt ASU 2014-09. Finally, ASU 2016-20, "*Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*," was issued in December 2016, and provides elections regarding the disclosures required for remaining performance obligations in certain cases and also makes other technical corrections and improvements to the standard. With its evaluation of the impact of ASU 2014-09, the Company will also consider the impact on its financial statements related to the updated guidance provided by these four new ASUs.

The Company has considered all other recently issued accounting standards and does not believe the adoption of such standards will have a material impact on its consolidated financial statements.

#### **NOTE 4: INVENTORIES**

At December 31, 2016 and 2015, inventories consist of:

	<b>2016</b>	<b>2015</b>
Raw materials, parts and supplies	\$271	\$336
Work-in-progress	238	191
Finished products	613	1,015
Total inventories	\$1,122	\$1,542

#### **NOTE 5: PROPERTY AND EQUIPMENT, NET**

At December 31, 2016 and 2015, property and equipment consist of:

	<b>2016</b>	<b>2015</b>
Computer, software and related equipment	\$1,652	\$1,726

Office furniture and equipment	240	257
Leasehold improvements	699	771
	2,591	2,754
Accumulated depreciation and amortization	(2,021)	(2,045)
Property and equipment, net	\$570	\$709

For the years ended December 31, 2016 and 2015, depreciation and amortization expense amounted to \$161 and \$214, respectively.

#### **NOTE 6: INTANGIBLE ASSET, NET**

On August 25, 2010, the Company entered into an agreement with Telkoo Power Supplies Ltd. ("TPS"), a subsidiary of Telkoo, pursuant to which, (i) TPS sold, assigned and conveyed to the Company all of its rights, title and interest in and to the intellectual property associated with the Compact Peripheral Component Interface 600 W AC/DC power supply series (the "Assets" or "IP") and (ii) the Company granted to TPS an irrevocable license to sell the Assets in Israel on an exclusive basis. The IP was purchased in order to decrease lead time and costs of the production process. In consideration for the purchase of the IP, the Company paid TPS an amount of \$480. The consideration for the right to sell the Assets in Israel will be paid to the Company as a yearly royalty fee of 15% of TPS's direct production costs of sales.

TPS will provide the Company training and technical support, if necessary, for a period of 60 months in order to enable the Company to properly and effectively use the IP to manufacture the Assets. In accordance with the agreement, the consideration for the IP may be reduced over a four-year period in the event that annual sales for each year between 2011 and 2014 are less than a fixed threshold of units on an annual basis based on an offset value per unit as described in the agreement. If there is a shortfall in sale of units in one annual period and in the subsequent period the Company sells more than the fixed unit threshold, this difference will be offset from any reduced consideration in any annual periods between 2011 and 2014. As a result of lower than anticipated sales by the Company of the Compact Peripheral Component Interface 600 W AC/DC power supply series (CPCI 600W) through 2013, the Company amended its agreement with Telkooor (effective January 1, 2014 for the duration of the original agreement or until the shortfall of CPCI 600W product sales will be offset) to include additional products in addition to the original CPCI 600W product. The Company will not be required to make any royalty payments to Telkooor under the manufacturing agreement with Telkooor until the shortfall of CPCI 600W product sales will be offset. As of December 31 2015 the remaining shortfall balance was \$86. During the year 2016, the Company paid royalties to Advice, Telkooor refunded \$40 from this amount by services to the Company and the balance cancelled with the recession agreement. (See Note 7)

The useful life of the IP has been determined to be five years and the amortization method is the straight-line method, as management considers this method as the most appropriate.

	<b>December 31, 2016    2015</b>	
Beginning balance of IP	\$480	\$480
Accumulated amortization	(480)	(480)
Ending balance of IP	\$-	\$-

Amortization expense was \$0 and \$66 for the years ended December 31, 2016 and December 31, 2015, respectively.

#### **NOTE 7: INVESTMENTS – RELATED PARTIES**

##### **Avalanche International Corporation (AVLP)**

Investments in AVLP at December 31, 2016 consist of:

Balance at January 1, 2016	\$-
Investment in convertible promissory notes of AVL P - Gross	997
Original issue discount	(47 )
Accretion of discount	2
Investment in convertible promissory note of AVL P - Net	952
Investment in common stock of AVL P	84
Balance at December 31, 2016	\$1,036

During the last quarter of 2016, the Company made certain strategic investments in AVL P, a related party controlled by Philou, an existing majority stockholder. The Company's investments in AVL P consist of convertible promissory notes bearing interest of 12% per annum purchased at a 5% discount and shares of common stock of AVL P.

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On October 5, 2016 and November 30, 2016, the Company entered into two 12% Convertible Promissory Note agreements ("Notes Receivable") in the principal amount of \$525 each, net of a 5% original issue discount (\$25 each) with interest payable at 12% per annum. All principal and accrued interest shall be due for payment on or before two years from the origination dates of each note. At any time after six months, the Company has the right, at its option, to convert all or any portion of the principal and accrued interest into shares of common stock of AVLP at \$0.74536 per share, subject to adjustment. The principal amount of each note is convertible into 704,357 shares common stock of AVLP.

During the last quarter of 2016, the Company invested \$950 pursuant to Notes Receivable and remaining balance of \$50 was invested on February 17, 2017.

The original issue discount of \$50 on the Notes Receivable is being amortized as interest income through the maturity date using the interest rate method. The original issue discount on the Note Receivable is amortized as interest income through the maturity date using the interest method, the Company recorded \$2 interest income for the discount accretion.

As of December 31, 2016 the Company recorded contractual interest receivables of \$13.

On February 22, 2017, subsequent to year-end, AVLP issued the Company a third \$525 12% Convertible Promissory Note (the "Third Note") with original issue discount of 5%. During the period from February 22, 2017 to April 5, 2017, the Company funded \$457 pursuant to this Third Note.

The Company has classified the all the above noted Notes, it holds in AVLP, as Available-for-Sale securities, subject to the guidance in ASC 320. The Convertible Promissory Notes qualify for application of the Fair Value Option Subsections of Subtopic 320-10 and 825-10.

At December 31, 2016, the closing market price of AVLP's common Stock was \$0.45. Subsequent to year-end, the closing market price of AVLP's common stock was in the range of \$0.25 and \$0.45 and due to the illiquidity and significant volatility of AVLP's common stock, the Company has determined that its cost basis in AVLP common stock approximates the current fair value.

The Company has concluded that indicators of impairment, including those described in ASC 320-10-35-27, do not currently exist for the Company's investment in AVLP's Notes.



In addition the Company purchased at the market 250,900 shares of Avalanche at total cost of \$84. The investment is accounted under the fair value -method in accordance with ASC 320-10.

Based upon the closing market price at December 31, 2016, and most recently at March 30, 2017 (\$0.30), the Company has concluded that its investment in shares of AVL P common stock is not impaired.

**Telkoo r Telecom Ltd. (Telkoo r)**

Investment in Telkoo r at December 31, 2016 and 2015 consists of:

	<b>2016</b>	<b>2015</b>
Balance at January 1, 2016	\$90	\$207
Impaired	-	(110)
Exchange rate	-	(7 )
Disposed/(sold)	(90)	-
Balance at December 31, 2016	\$-	\$90

On June 16, 2011, the Company acquired 1,136,666 shares of Telkoo r, the Company's major shareholder at the time, and an Israeli company listed in the Tel Aviv stock exchange (at such time) for \$1,000, which represented 8.8% of the outstanding shares of Telkoo r. As a result of this transaction, an existing manufacturing agreement between the Company and Telkoo r was updated and extended.

The Company recorded an impairment of its investment in Telkooor of \$0 and \$110 for the years ended December 31 2016 and 2015, respectively. On September 5, 2016, the Company entered into a Securities Purchase Agreement (the "Agreement") with Philou, and Telkooor pursuant to which the Philou purchased all of the Telkooor 2,714,610 shares of the common stock invested in the Company, constituting approximately 40.06% of the Company's then outstanding shares of common stock for a consideration of \$1.5 million to Telkooor.

Pursuant to the Agreement, the Company entered into a Rescission Agreement with the Telkooor in order to resolve all financial issues between the parties, including the repurchase by the Seller of 1,136,666 shares of common stock in Seller beneficially owned by the Company for their book value.

The closing of the transactions under the Agreement and the Rescission Agreement occurred on September 22, 2016.

Equity securities that do not have readily determinable fair values (i.e. non-marketable equity securities) and are not required to be accounted for under the equity method are typically carried at cost (i.e., cost method investments), as described in ASC 325-20. The Company carried its investment in Telkooor's shares at historical cost, net of impairment charges in accordance with ASC 325-20 "Investments in Other".

**NOTE 8: OTHER CURRENT LIABILITIES**

Other current liabilities at December 31, 2016 and 2015 consist of:

	<b>2016</b>	<b>2015</b>
Accrued payroll and payroll taxes	\$ 128	\$ 105
Warranty liability	86	95
Other accrued expenses	184	280
Total	\$ 398	\$ 480

**NOTE 9: DEMAND NOTE PAYABLE – RELATED PARTY**

On December 29, 2016, the Company entered into an agreement with MCKEA, an entity of which a Board member is the managing member and of which it is the member of the Company's largest shareholder, for a demand promissory

note (“Note”) in the amount of \$250 bearing interest at the rate of 6% per annum on unpaid principal and shall be due and payable upon demand of payment by MCKEA. Note may be prepaid, in whole or in part, without penalty, at the option of the Company and without the consent of MCKEA. As of December 31, 2016, no interest was accrued on the Note. Subsequent to December 31, 2016, Note was converted in the Company’s preferred stock (See Note 16).

**NOTE 10: CONVERTIBLE NOTE – RELATED PARTY**

Balance at January 1, 2016	\$-
Proceeds from convertible note	530
Unamortized debt discounts	(484)
Unamortized financing cost	(12 )
Balance at December 31, 2016	\$34

On October 21, 2016, the Company, entered into a 12% Convertible Secured Note (“Convertible Note) in the principal amount of \$530 and was sold to an existing stockholder of the Company for \$500, bearing interest at 12% simple interest on the principal amount, is secured by all the assets of the Company, and is due on October 20, 2019. Interest only payments are due on a quarterly basis and the principal may be converted into shares of the Company’s common stock at \$0.55 per share. Subject to certain beneficial ownership limitations, the noteholder may convert the principal amount of the Convertible Note at any time into common stock. The conversion price of the Convertible Note is subject to adjustment for customary stock splits, stock dividends, combinations or other standard anti-dilution events.

The Convertible Note contains standard and customary events of default including, but not limited to failure to make payments when due under the Convertible Note agreement and bankruptcy or insolvency of the Company.

Upon 30 days' notice, the Company has the right to prepay the Convertible Note. In addition, provided that the closing price for a share of the Company's common stock exceeds \$3.00 per share for 30 consecutive trading days, the Company has the right to compel the noteholder to convert the principal amount into shares of common stock at the contractual conversion price.

As additional consideration, the investor received a three-year warrant to purchase 265,000 shares of common stock each at an exercise price of \$0.80 and a three-year warrant to purchase 265,000 shares of common stock each at an exercise price of \$0.90 (collectively "Warrants"). Warrants are exercisable commencing six months after the issuance date and are subject to certain beneficial ownership limitations. The exercise price of the Warrants is subject to adjustment for customary stock splits, stock dividends, combinations and other standard anti-dilution events. The Warrants may be exercised for cash or on a cashless basis. The Warrants has a call feature that permits the Company to force redemption at \$0.001 per share in the event the closing price for a share of the Company's common stock exceeds \$3.00 for 30 consecutive trading days.

The Company computed the fair value of these warrants using the Black-Scholes option pricing model and allocated \$159 of the proceeds to additional paid-in capital.

The beneficiary conversion feature (BCF) embedded in the Debenture is accounted for under ASC Topic 470 – *Debt*. At issuance, the estimated fair value of the BCF totaled \$332. The BCF was allocated from the net proceeds of the Debenture after allocating relative fair value of warrants and limited to remaining net proceeds available for BCF. The BCF is recorded as additional debt discount is being amortized to interest expense over the term of the Debenture using the effective interest method. The valuation of the BCF was calculated based on effective conversion price compared with the market price of common stock on the date of issuance of Convertible Note.

The Company recorded total debt discount in the amount of \$518 based on the relative fair values of the Warrants of \$159, BCF of \$329 and original issue discount (OID) of \$30. The debt discount is being amortized as non-cash interest expense over the term of the debt. In addition, the Company incurred \$13 of debt issuance costs which is also being amortized as non-cash interest expense over the term of the debt. During the year ended December 31, 2016, non-cash interest expense of \$34 was recorded as amortization of debt discount and debt financing cost.

As of December 31, 2016, the Company has recorded accrued interest of \$12 on Convertible Note obligation.

**NOTE 11: COMMITMENTS****Lease commitments**

In November 2012, the Company signed an operating lease agreement for the US headquarters for a period of 7 years with an option to extend for additional 5 years. In September 2009, the Company's subsidiary signed a new agreement for a lease in respect of the UK facility for a period of 15 years with an option to cancel the lease after 10 years on September 2019.

Future non-cancellable rental commitments under operating leases are as follows:

Year Ended December 31,	
2017	\$291
2018	295
2019	219
2020	139
2021	139
2022 to 2024	383
Total	\$1,466

Total rent expense for the years ended December 31, 2016 and 2015 was approximately \$294 and \$299, respectively.

## NOTE 12: STOCKHOLDERS' EQUITY

### Preferred Stock

There are authorized Preferred stock in the amount of 500,000 shares of Series A cumulative Redeemable Convertible Preferred shares ("Series A"), and an additional 1,500,000 Preferred shares that have been authorized, but the rights, preferences, privileges and restrictions on these shares have not been determined. The Company's Board of Directors is authorized to create a new series of preferred shares and determine the number of shares, as well as the rights, preferences, privileges and restrictions granted to or imposed upon any series of preferred shares. As of December 31, 2016, there were no preferred shares issued or outstanding.

### Common Stock

Common stock confer upon the holders the rights to receive notice to participate and vote in the general meeting of shareholders of the Company, to receive dividends, if and when declared, and to participate in a distribution of surplus of assets upon liquidation of the Company.

On November 15, 2016, the Company entered into subscription agreements (the "Subscription Agreements") with nine accredited investors. Pursuant to the terms of the Subscription Agreements, the Company sold 901,666 units ("Units") at \$0.60 for an aggregate purchase price of approximately \$541,000. Each unit consists of one share of common stock and one warrant to purchase one share of common stock (the "Warrant Shares") at an exercise price of \$0.80.

According to the agreement, the Company registered all of the shares of common stock then issued as part of the Units and Warrant Shares then issued and issuable upon exercise of the Warrant Shares. The Subscription Agreement provides that, until November 15, 2017, Investors who purchased at least \$100,000 have the right to participate in the purchase of up to 50% of the securities offered by the Company in any future financing transactions, with limited exceptions.

The Warrants entitle the holders to purchase, in the aggregate, up to 901,666 shares of Common Stock at an exercise price of \$0.80 per share for a period of three years. The Warrant Shares are exercisable upon the six month anniversary of the issuance date. The exercise price of the Warrant Shares is subject to adjustment for stock splits, stock dividends, combinations and other standard anti-dilution events. The Warrant Shares may be exercised for cash or, upon the failure to maintain an effective registration statement, on a cashless basis.

The Warrant Shares do not require a net cash-settlement or provide the holder with a choice of net-cash settlement. The Warrant Shares also do not contain a variable settlement provision. Accordingly, the Company classified the

Warrant Shares as equity instruments.

**Stock Option Plans**

Under the Company's Digital Power 2016 and 2012 (As Amended) ("Incentive Share Option Plan"), options may be granted to employees, officers, consultants, service providers and directors of the Company.

As of December 31, 2016, the Company authorized according to the Incentive Share Option Plan the grant of options to officers, management, other key employees and others of up to 5,372,630 options for the Company's common stock. The maximum term of the options is ten years from the date of grant. As of December 31, 2016, an aggregate of 3,322,630 of the Company's options are still available for future grant.

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The options granted generally become fully vested after four years. Any options that are forfeited or cancelled before expiration become available for future grants.

The options outstanding as of December 31, 2016 have been classified by exercise price, as follows:

<i>Exercise Price</i>	<i>Options Outstanding as of December 31, 2016</i>	<i>Weighted Average Remaining Contractual Term (Years)</i>	<i>Weighted Average Exercise Price</i>	<i>Option Exercisable as of December 31, 2016</i>	<i>Weighted Average Exercise Price of Options Exercisable</i>
\$0.65- \$0.70	1,865,000	9.76	\$ 0.67	996,667	\$ 0.66
\$1.10- \$1.32	25,000	6.84	\$ 1.28	15,000	\$ 1.25
\$1.51- \$1.69	366,000	5.57	\$ 1.60	316,000	\$ 1.59
	2,256,000	9.05	\$ 0.83	1,327,667	\$ 0.89

The total stock-based compensation expense related to all of the Company's equity based awards, including non-employee options recognized for the years ended December 31, 2016 and 2015 is comprised as follows:

	<b>2016</b>	<b>2015</b>
Cost of revenues	\$6	\$7
Engineering and product development	17	20
Selling and marketing	5	6
General and administrative	492	193
Total stock-based compensation	\$520	\$226

A summary of option activity under the Company's stock option plans as of December 31, 2016 and 2015 and changes during the years then ended are as follows:

<b>Amount of</b>	<b>Weighted</b>	<b>Weighted</b>	<b>Aggregate</b>
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	<b>Options</b>	<b>Average</b>	<b>Average</b>	<b>Intrinsic</b>
		<b>Exercise</b>	<b>remaining</b>	<b>Value</b>
		<b>Price</b>	<b>Contractual</b>	
			<b>Term</b>	
			<b>(Years)</b>	
Balance at January 1, 2015	1,262,763	\$ 1.57	7.65	
Granted	155,000	0.67		
Forfeited	(261,000 )	1.29		
Expired	(10,763 )	0.70		
Balance at December 31, 2015	1,146,000	1.52	6.74	
Granted	1,800,000	0.67		
Forfeited	(650,000 )	1.59		
Expired	(40,000 )	1.16		
Balance outstanding at December 31, 2016	2,256,000	\$ 0.83	9.08	\$ -
Exercisable at December 31, 2016	1,327,667	\$ 0.89	8.64	\$ -

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on December 31, 2016, \$0.65 and the exercise price, multiplied by the number of in-the-money-options).

As of December 31, 2016, there was \$492 of unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Company's stock option plans. That cost is expected to be recognized over a weighted average period of 1.81 years.

### Options Issued to Non-Employees

As of December 31, 2015, the Company's had options outstanding to purchase 142,500 shares of common stock to non-employees. During the year ended December 31, 2016, options to purchase 102,500 shares of common stock were forfeited and 40,000 options were expired.

### Warrants

#### *Warrants Issued to Executive Officer*

In connection with executive employment agreement, on November 3, 2016, the Company issued to its Chief Executive Officer a ten-year warrant to purchase 317,460 shares of the Company's common stock (the "Warrant"), at an exercise price of \$0.01 per share subject to vesting. The Warrant shall be subject to vesting of which warrants to purchase 39,682 shares shall vest beginning on January 1, 2017, and on the first date of each quarter thereafter through July 1, 2018, with warrants to purchase 39,686 shares to vest on October 1, 2018. The fair value of the Warrant using the Black-Scholes option pricing model was \$188, which was amortized ratably over a period of two years out of which \$23 was recorded as stock-based compensation in general and administrative expenses during the year ended December 31, 2016.

	<b>Amount of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Balance at January 1, 2016	-	-	-	-
Granted	317,460	\$ 0.01		
Forfeited	-			
Expired				
Balance outstanding at December 31, 2016	317,460	\$ 0.01	9.8	\$ 203
Exercisable at December 31, 2016	-	-		-

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on December 31, 2016, \$0.65 and the exercise price, multiplied by the number of in-the-money warrants).

### NOTE 13: INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	December 31,	
	2016	2015
Deferred tax asset:		
Net operating loss	\$2,206	\$2,233
Reserves and allowances	295	225
Tax Credit carryforward	153	153
Property and equipment	194	142
Total deferred tax asset	2,848	2,753
Valuation allowance	(2,848)	(2,753)
Deferred tax asset, net	\$—	\$—

The Company had Federal and state net operating loss carryforwards of approximately \$5,334 and \$3,622, respectively, available to offset future taxable income, expiring at various times from December 31 through December 31, 2036. In accordance with Section 382 of the Internal Revenue Code, the future utilization of the Company's net operating loss to offset future taxable income may be subject to an annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future. The Company has not yet determined whether such an ownership change has occurred; however, the Company will be completing a Section 382 analysis regarding the limitation of the net operating loss.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. Management considers the scheduled reversal of deferred tax assets, projected future taxable income and tax planning strategies in making this assessment. After consideration of all of the information available and due to the last five years significant losses there is substantial doubt related to the Company's ability to utilize its deferred tax assets, the Company recorded a full valuation allowance of the deferred tax asset. For the year ended December 31, 2016, the valuation allowance has increased by \$95.

The 2013 through 2016 tax years remain open to examination by the Internal Revenue Service ("**IRS**") and the 2012 through 2016 tax years remain open to examination by the California Franchise Tax Board ("**FTB**"). The IRS and FTB have the authority to examine those tax years until the applicable statute of limitations expires.

As of December 31, 2016, the Company's foreign subsidiary had accumulated losses for income tax purposes in the amount of approximately \$906. All of the Company's international accumulated losses were generated in the United Kingdom, which has a statutory tax rate of 20%. These net operating losses may be carried forward and offset against taxable income in the future for an indefinite period. The Company has not recognized a U.S. deferred income tax asset on non-U.S. losses because the Company plans to indefinitely reinvest such earnings outside the U.S. Remittances of non-U.S. earnings, if any, are based on estimates and judgments of projected cash flow needs, as well as the working capital and investment requirements of the Company's non-U.S. and U.S. operations. Material changes in the Company's estimates of cash, working capital, and investment needs could require repatriation of indefinitely reinvested non-U.S. earnings, which would be subject to U.S. income taxes and applicable non-U.S. income and withholding taxes.

The net income tax benefit consists of the following:

	December	
	31,	
	2016	2015
Current		

Foreign	\$ (20)	\$ (1 )
Federal	—	—
State	—	—
Income tax (benefit)	\$ (20)	\$ (1 )

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The Company's effective tax rates were (1.7%) and (0.1%) for the years ended December 31, 2016 and 2015, respectively. During the year ended December 31, 2016, the effective tax rate differed from the U.S. federal statutory rate primarily due to the change in the valuation allowance and the issuance of incentive stock options to the Company's employees. The reconciliation of income tax attributable to operations computed at the U.S. Federal statutory income tax rate of 34% to income tax expense is as follows:

	Year Ended		December 31,	
	2016	2015	2016	2015
Tax benefit at U.S. Federal statutory tax rate	(34.0%)	(34.0%)		
Increase (decrease) in tax rate resulting from:				
Stock compensation expense	12.1	%	—	
Taxes in respect of prior years	9.1	%	0.2	%
Increase in valuation allowance	8.3	%	28.0	%
Nondeductible meals & entertainment expense and other	4.4	%	7.2	%
State taxes, net of federal benefit	0.3	%	—	
Foreign rate differential	(0.2%)	)	(1.5%)	)
Foreign R&D credit	(1.7%)	)	—	
Effective tax rate	(1.7%)	)	(0.1%)	)

The Company accounts for uncertain tax positions in accordance with ASC No. 740-10-25. ASC No. 740-10-25 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC No. 740-10-25, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. To the extent that the final tax outcome of these matters is different than the amount recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. ASC No. 740-10-25 also requires management to evaluate tax positions taken by the Company and recognize a liability if the Company has taken uncertain tax positions that more likely than not would not be sustained upon examination by applicable taxing authorities. Management of the Company has evaluated tax positions taken by the Company and has concluded that as of December 31, 2016 and 2015, there are no uncertain tax positions taken, or expected to be taken, that would require recognition of a liability that would require disclosure in the financial statements.

#### NOTE 14: RELATED PARTY TRANSACTIONS

- a. On September 5, 2016, the Company entered into a Securities Purchase Agreement with Philou, and Telkooor pursuant to which the Philou purchased all of the Telkooor's 2,714,610 shares of the common stock in the Company,

constituting approximately 40.06% of the Company's then outstanding shares of common stock. In consideration for such shares, the Philou paid Telkooor \$1.5 million.

Pursuant to the Securities Purchase Agreement, the Company entered into a Rescission Agreement with the Telkooor in order to resolve all financial issues between the parties, including the repurchase by the Telkooor of 1,136,666 shares of common stock in Telkooor owned by the Company for \$90, which was equal to the carrying amount of the investment.

The closing of the transactions under the Securities Purchase Agreement and the Rescission Agreement occurred on September 22, 2016.

Philou is the Company's largest stockholder. Kristine Ault, a director of the Company, is managing member of MCKEA, which in turn, is the member of Philou. Kristine Ault's spouse is Milton Ault who is Executive Chairman of the Board of the Directors of the Company.

In addition, on March 9, 2017, the Company entered into a Preferred Stock Purchase Agreement with Philou. Pursuant to the terms of the Preferred Stock Purchase Agreement, Philou may invest up to \$5,000 in the Company through the purchase of Series B Preferred Stock over a specified term.

In anticipation of the acquisition of MTIX by AVLP and the expectation of future business generated by the Company from a strategic investment into AVLP, the Company entered into three 12% Convertible Promissory Note agreements with AVLP in the principal amount of \$525 each, including a 5% original issue discount. After six months, the Company has a right, at its option, to convert all or any portion of the principal and accrued interest into shares of common stock of AVLP at \$0.74536 per share

During the last quarter of 2016, the Company invested \$950 pursuant to 12% Convertible Promissory Notes and another \$507 was invested on the first quarter of 2017. (The remaining balance to invest is \$43).

Further, the Company has acquired 250,900 shares of AVLP Common Stock in the open market for \$85.

AVLP, a Nevada corporation, is a holding company currently engaged in acquiring and/or developing businesses in which AVLP maintains a controlling interest. AVLP anticipates that its subsidiaries will be engaged in a number of diverse business activities. AVLP currently has two subsidiaries, Smith and Ramsay Brands, LLC (“SRB”) and Restaurant Capital Group, LLC (“RCG”). SRB was formed on May 19, 2014, and RCG was formed on October 22, 2015. AVLP is quoted under the symbol “AVLP” on the OTC Pink sheets operated by OTC Markets Group, Inc.

Philou is AVLP’s controlling shareholder. Mr. Ault is Chairman of AVLP’s Board of Directors and Mr. William B. Horne is the Chief Financial Officer of AVLP. Mr. Horne is also the audit committee chairman of the Company.

On October 24, 2016, AVLP entered into a letter of intent to acquire MTIX, an advanced materials and processing Technology Company located in Huddersfield, West Yorkshire, UK. On October 26, 2016, pursuant to the term of the letter of intent, AVLP made an initial payment of \$50 towards the purchase of MTIX.

On March 3, 2017, AVLP entered into a Share Exchange Agreement with MTIX and the three current shareholders of MTIX. Upon the terms and subject to the conditions set forth in the Share Exchange Agreement, AVLP will acquire MTIX from the MTIX shareholders through the transfer of all issued and outstanding ordinary shares of MTIX (the “MTIX Shares”) by the MTIX shareholders to AVLP in exchange for the issuance by AVLP of: (a) 7% secured convertible promissory notes in the aggregate principal face amount of \$9,500 to the MTIX shareholders in pro rata amounts commensurate with their current respective ownership percentages of MTIX’s ordinary shares, (b) (i) \$500 in cash, \$50 of which was paid on October 26, 2016, and (ii) 100,000 shares of AVLP’s newly designated shares of Class B Convertible Preferred Stock to the principal shareholder of MTIX.

On the closing date, the fully-diluted AVLP shares shall be 52,128,325 shares of common stock, assuming that (i) the MTIX promissory notes are convertible into shares of AVLP Common Stock at a conversion price of \$0.50 per share, (ii) the shares of AVLP Class B Convertible Preferred Stock are convertible into shares of AVLP Common Stock at a conversion rate of \$0.50 per share and (iii) the issuance of stock options to purchase an aggregate of 531,919 shares of



AVLP Common Stock to the members of the MTIX management group.

During March 2017, the Company was awarded a 3-year, \$50 million purchase order by MTIX to manufacture, install and service the MLSE plasma-laser system.

On December 29, 2016, the Company received a \$250 short term loan from MCKEA, the member of Philou. Ms. c. Ault, a director of the Company, is the managing member of MCKEA. On March 24, 2017, the \$250 loan was cancelled in consideration for the issuance of 25,000 shares of Series B preferred stock of the Company to Philou.

On September 22, 2016, the Company entered into consulting agreement with Mr. Ault to assist the Company in developing a business strategy, identifying new business opportunities, developing a capital raising program and d. implementing of a capital deployment program. For his services Mr. Ault will be paid a monthly fee of \$15 from November 1, 2016 through June 30, 2017 and may be renewed.

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On October 21, 2016, the Company entered into a 12% convertible secured note in the principal amount of \$530 with Mr. Barry Blank, an existing stockholder of the Company, for \$500 due on October 20, 2019. The principal amount of 12% convertible secured note may be convertible into shares of the Company's common stock at \$0.55 per share, subject to certain beneficial ownership limitations Mr. Blank may convert the principal amount of the convertible note at any time into common stock.

Mr. Blank owns 419,900 shares of the common stock of the Company, constituting approximately 5.02% of the Company's outstanding shares of common stock. The 12% convertible secured note will convert into 963,636 shares of common stock which represent 20.5% of the Company's outstanding shares of common stock without regard to an beneficial ownership limitation.

As additional consideration, Mr. Blank received a three-year warrant to purchase 265,000 shares of common stock each at an exercise price of \$0.80 and a three-year warrant to purchase 265,000 shares of common stock each at an exercise price of \$0.90.

On March 9, 2017, the Company entered into a Preferred Stock Purchase Agreement with Philou. Pursuant to the terms of the Preferred Stock Purchase Agreement, Philou may invest up to \$5,000,000 in the Company through the purchase of Series B Preferred Stock over the 36 months.

g. On March 24, 2017, Philou purchased 25,000 shares of Series B Preferred Stock (Note 16).

#### **NOTE 15: SEGMENT CUSTOMERS AND GEOGRAPHICAL INFORMATION**

The Company has two reportable geographic segments; see Note 1 for a brief description of the Company's business.

The following data presents the revenues, expenditures and other operating data of the Company's geographic operating segments and presented in accordance with ASC 280.

	<b>Year Ended December 31, 2016</b>			
	<b>DPC</b>	<b>DPL</b>	<b>Eliminations</b>	<b>Total</b>
Revenues	\$4,552	\$3,044	\$ -	\$7,596
Inter-segment revenues	145	-	(145 )	-

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Total revenues	\$4,697	\$3,044	\$ (145 )	\$7,596
Depreciation and amortization expenses	\$75	\$86	\$ -	\$161
Operating income (loss)	\$(1,110)	\$(109 )	\$ -	\$(1,219)
Other income, net				77
Income taxes				20
Net loss				\$(1,122)
Capital expenditures for segment assets for the year ended December 31, 2016	\$32	\$53	\$ -	\$85
Identifiable assets as of December 31, 2016	\$3,152	\$2,320	\$ -	\$5,472

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	<b>Year Ended December 31, 2015</b>			
	<b>DPC</b>	<b>DPL</b>	<b>Eliminations</b>	<b>Total</b>
Revenues	\$3,833	\$3,933	\$ -	\$7,766
Inter-segment revenues	371	-	(371 )	-
Total revenues	\$4,204	\$3,933	\$ (371 )	\$7,766
Depreciation and amortization expenses	\$74	\$139	\$ -	\$213
Operating income (loss)	\$(1,086)	\$83	\$ -	\$(1,003)
Impairment of investment				(110 )
Other income, net				16
Income taxes				1