Zacks Small-Cap Research

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Digital Power Corp. (DPW-NYSE MKT)

DPW: Spending on Acquisitions Ramps Losses…With Big Revenue Ramp Expected to Follow

Based on the expected 2017 revenue forecasts and an industry average of 1.6x EV/Sales, we believe DPW could be worth $1.02 in the next 12 months.

Current Price (08/25/17)	$0.57
Valuation	**$1.02**

OUTLOOK

A new manufacturing purchase order brought into the company by the new Chairman of the Board, and affiliated controlling shareholder, as well as the acquisition of two companies, could easily double or triple the size of the company. Starting in Q4 2017, investors should begin to see revenues ramp from both the acquisitions and the MTIX order. This growth should increase the company's current valuation, and with contained common share dilution, the company's share price. We expect management to continue to acquire companies and products to expand its businesses.

SUMMARY DATA

52-Week High	**$1.20**
52-Week Low	**$0.41**
One-Year Return (%)	**-31.9**
Beta	**1.5**
Average Daily Volume (sh)	**581,686**
Shares Outstanding (mil)	**13.5**
Market Capitalization ($mil)	**$8.0**
Short Interest Ratio (days)	**1.7**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**21**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-4.0**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2017 Estimate	**N/A**
P/E using 2018 Estimate	**N/A**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	1.9 A	2.1 A	1.4 A	2.3 A	7.8 A
2016	1.7 A	2.1 A	1.8 A	2.0 A	7.6 A
2017	1.6 A	1.8 A	3.2 E	4.8 E	11.5 E
2018					23.5 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$0.03 A	-$0.04 A	-$0.06 A	-$0.03 A	-$0.16 A
2016	-$0.03 A	-$0.01 A	-$0.01 A	-$0.14 A	-$0.16 A
2017	-$0.12 A	-$0.20 A	-$0.11 E	-$0.11 E	-$0.53 E
2018					-$0.57 E

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

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WHAT'S NEW

Losses Ramp in Q2 As Digital Power Acquires Companies and Invests

Digital Power reported Q2 revenues of $1.8 million versus $2.1 million last year, below our expectation. Q2 2017 included only $223,000 of revenues from Microphase, which was acquired on June 2, 2017. Had the company owned Microphase for the entire quarter, revenues would have been $2.7 million, (which means Microphase generated $1.1 million in revenues in Q2 2017, the same as in Q1 2017.) The shortfall was in part due to an order that was not fulfilled as Digital Power awaits certification and approval from a large customer on a new generation product. That order slipped out of the quarter and has still not shipped.

Gross margin on the $1.8 million increased to 40% from 37% due to a change in product mix to higher margin commercial sales, though this was down from the 43% in Q1 2017. We expect gross margins to vary greatly as sales from Microphase and Power Plus Technical Distributors, and to MTIX and PoW Digital Mining, kick in throughout future quarters.

Operating expenses were slightly higher than expected at $2.2 million rather than the $2 million we expected. Included in the number are significant one-time expenses from things such as legal and audit fees related to acquisitions and capital raises that the company has not quantified but could be as high as $500,000.

Interest expense was $407,000 versus income of $55,000 last year and up from the $207,000 in expense in Q1 2017. The company has borrowed to invest in new businesses and issued new notes and convertibles.

Pretax income was a loss of $1.9 million versus a profit of $66,000 last year and a loss of $994,000 in Q1 2017. There were no taxes paid. At the end of December the company's tax loss carry forward was $5.3 million for federal and $3.6 million for state. This number has no doubt increased.

Minority interest was an $112,000 reduction in losses from the 44% of Microphase that Digital Power does not own. We expect Microphase to reach profitability in Q3 as Digital Power has right sized the business, eliminated overhead redundancies, and begun to cross sell to customers. In addition, it has received meaningful new military orders now that it is under the auspices of Digital Power who has invested resources into the company and provided transparent financial stability.

Between May 24, 2017 and June 19, 2017 Digital Power raised $1.1 million by issuing 21 units that consisted of 21,667 shares of a Series C convertible preferred stock, and 86,667 warrants. The preferred is convertible at $0.60 per share. As the effective conversion price of the Series C Convertible Preferred Stock on a converted basis was below the market price of the common stock on the date of issuance, it was determined that these discounts represent beneficial conversion features. The discounts were valued at $371,000 and recognized as a deemed dividend, based on the difference between the effective conversion price, and the market price of the Digital Power's common stock on the date of issuance. Additionally, each share of Series C Preferred Stock has the right to receive dividends equal $0.24 per share year paid on a quarterly basis. That expense, plus $8,000 in preferred dividends, paid increased the company's loss to common shareholders to $2.1 million.

Loss per share to common shareholders was $0.20 versus a profit of $0.01 last year. More meaningful was the increase in share count. This year primary shares were 10.5 million versus 6.8 million, an increase of 54%. As of June 30, 2017 there were an additional 2.8 million stock options, 7.4 million warrants, 1.3 million shares from convertible notes and 4.6 million from the conversion of preferred stock, totaling 16.2 million shares that will contribute to a fully diluted share count. Last year this number totaled only 1.1 million. The primary share count as of August 17, 2017 was 13.5 million shares.

Since the Quarter Ended

On **August 10, 2017**, Digital Power's wholly owned subsidiary, Coolisys Technologies, entered into an agreement with PoW Digital Mining to develop an equipment and services portfolio targeting digital mining and crypto currency. Bitcoin, Ethereum, and other digital currencies have created a demand for efficient low-cost low-power hardware and the two companies will pool their talents to create hardware solutions for both individuals and large pool operators. PoW Digital Mining expects to begin testing and evaluating equipment at the beginning of Q4 2017.

Digital Power announced that its wholly owned subsidiary, Coolisys Technologies plans to purchase Power-Plus Technical Distributors of Sonora, CA by **September 1, 2017**, for $850,000 in cash. Power-Plus is a value-added power solutions company specializing in providing customized "plug-and-play" power supply systems to the electronics Industry. This acquisition brings six new salespeople to Digital Power as well as respected management in the power industry. Bringing on this staff was a key reason for the acquisition. Power-Plus had **revenues in 2016 of over $2M** and **$400K in EBITDA** (on a non-GAAP basis.) It distributes over 350 products nationwide including more than 85-lines of power supplies, and about 40 lines of power-related electronic components.

KEY POINTS

- Digital Power is restructuring its business into three areas of operation, electronics (Coolysys), MTIX production, and Digital Power Lending. The company is reorganizing and streamlining operations and staff to optimize production and sales efforts. Organized into three businesses, the company believes it will have the flexibility to take advantage of any opportunities down the road including M&A, financings, or spin-offs.

- On June 2, 2017, Digital Power completed the acquisition of 56.4% of Microphase. In calendar year 2016 Microphase generated $6.6 million in sales. We expect this purchase to contribute to earnings in Q3 2017 and going forward.

- Digital Power received a $50 million (over three years) purchase order from MITX to assemble its proprietary equipment for the textile industry. This purchase order was received from a MTIX Ltd., which is under contract by the company's controlling shareholder and was introduced to the Company by its new Chairman. This purchase order could double sales for the company in 2018 and revitalize growth. We expect the company to start generating revenues from this purchase order in Q4 2017.

- The company has an agreement to purchase Power-Plus Technical Distributors by **September 1, 2017**. In 2016, Power-Plus had **revenues of over $2M** and was profitable. It adds valuable staff to Digital Power's operation.

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

- Management is continuing to actively seek acquisitions, particularly for companies that sell or service the defense and aerospace sectors. There is particular opportunity to purchase foreign companies who wish to sell to countries that need to purchase product from US companies and pay with US State Department funds.

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

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

- It is difficult to value Digital Power on a per share basis as the share count keeps expanding. If we were to value the company on enterprise value versus its peers we expect that using and industry average multiple of 1.6 times enterprise value to sales that would make the company worth of $16.5 million (taking out the 44% of sales from the portion of Microphase that isn't owned.) With its current debt, that results in a market value calculated at $13.8 million. The question is, can the company grow to the projected $23.5 million in revenues in 2018 without even more dilution from the equity, warrants, options and convertible instruments already issued and needed to be issued in order to reach that goal?

OVERVIEW

Digital Power is a 48-year-old California corporation that was founded in 1969 and went public in 1996. It is headquartered in Fremont, CA with a manufacturing division in Salisbury, England. It produces: AC-DC power supplies, desktop adaptors, compact PCIs, LED drivers, distributed power front-end power supplies, capacitor chargers, solar systems, and isolated power bricks. Its revenues peaked in 1997 and it has been in a downward trend since then as Digital Power minimally invested in new products and in its base product line. For 2016, $2.3 million (30%) of the $7.6 million in sales was to defense. On June 2, 2107, Digital Power purchased 56.4% of Microphase, a supplier of advanced electronic technology solutions serving applications from DC to 100 GHz across a diverse mix of markets.

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Recap of MTIX Order

On March 15, 2017, Digital Power announced it had received a purchase order for $50 million over three years. This purchase order from MTIX Ltd., a startup in the textile machinery business, is for equipment that delivers its proprietary MSLE™ processes which harnesses an innovative laser based technology to treat fabric and other materials. The purchase order requires Digital Power to build, install, and service a number of fabric treating and finishing machines worldwide. We believe that this is a conservative order number and actual orders could be significantly higher over time. The purchase order specifies that two machines be delivered to customers by December 31, 2017. While pricing for these units has not been revealed, we believe they could be priced as high as seven digits for just one.



Related Party Transactions

On March 3, 2017, Avalanche International Corp, a Nevada corporation (OTC: AVLP) entered an agreement with MTIX and the three current shareholders of MTIX. Avalanche subsequently acquired MTIX for: $9.5 million of 7% secured convertible promissory notes, $500,000 in cash, and 100,000 shares of the AVLP's newly designated shares of Class B Convertible Preferred Stock to Pravin Mistry, its founder, CEO and President. **The deal closed on August 22, 2017**. Avalanche plans to change its to MTIX and its ticker.

On March 31, 2017, Digital Power started to invest in Avalanche International Corp, which acquired MTIX s proprietary rights. Digital Power's investment is valued at $2.6 million and consist primary of a series of convertible loans.

Philou Ventures, LLC (which owns 20% of Digital Power) owns 214,000 shares of Avalanche common stock and 50,000 shares of Avalanche Class A preferred stock. Consequently, Philou is the owner of approximately 31.22% of the issued and outstanding Avalanche common stock and considered the controlling shareholder of Avalanche. Milton Todd Ault is the Chairman of the board of both Avalanche and Digital Power; William Horne is also on the board of both companies. Kristine Ault, the manager of Philou Ventures, LLC, is also on the Board of Directors of Digital Power and the wife of Mr. Ault.

FINANCIALS

FORECASTS

On August 25, 2017 Digital Power issued guidance for gross revenues. For Q3 2017 it expects revenues between $2.9 to $3.5 million, for Q4 2017, revenues between $4.2M to $4.9M resulting in full year revenues for 2017 of between $10.6 million, and $11.9 million. The midpoint of 2017 revenues of $11.2 would be year over year revenue growth of 47.4%. This number does not discount for the 44% of Microphase Digital Power does not own. These forecasts do not include any recognition of revenues from the $50 million MTIX purchase order since it is reviewing its revenue recognition policies and protocols before booking and sales despite progress on fulfilling the orders. Given that we now believe revenues will not be recognized for MTIX in Q3, we are reducing our Q3 revenue estimate to coincide with the mid-point of guidance at $3.2 million.

For the full year we are expecting **revenues of $11.5 million and a loss of $0.53** per share. Most of this revision is from interest expense and other charges from debt taken on by the company.

2018 Forecast

Investors should be more focused on 2018 revenues where more dramatic growth should appear. The biggest determinant on whether the stock price rises is whether the company can add revenues and eventually profits without diluting current common shareholders as much as it grows.

For 2018 year, the company has issued guidance of $23.5 million and 25.0 million in revenues. If we take the low end of revenue guidance of $23.5 million with the assumption that Digital Power's base business stays flat with 2016 at $7.6 million, $6.5 million is contributed by Microphase, another $2 million is contributed by Power-Plus Technical Distributors, this assumes $7.4 million is generated by MTIX. Keep in mind that when valuing DPW, 44% of the revenues from Microphase are still owned by Microphase.

We know gross margins from MTIX will be low as and that will bring down overall margins for the company but with no insight into its business model, it is difficult to forecast losses. It is also difficult to forecast the dilution the company stock will suffer as warrants and options are exercised and the company issues more equity to support losses and investment. For now we are expecting a loss to common shareholders of $11.8 million or a loss of $0.57 per share based on 20 million primary shares outstanding.

VALUATION

As Digital Power is spending money to grow we are valuing it on a basis of sales to enterprise value versus other companies in the electronics and manufacturing business. The companies shown below trade at an average of 1.6 times EV to forecasted 2017 sales. Based on these comparables, DPW could be worth $1.02 per share if it were profitable, which is 80% higher than its current price. The revenue used for DPW has been adjusted to take out the 44% of Microphase it does not own.

	Ticker	Revenue		TTM	Enterprise Value / Sales		EV/	Included	Enterprise
Company		2017E	LTM	EBITDA	2017E	LTM	EBITDA	Average?	Value
Boeing	BA	$91,920	$90,900	$10,730	1.5x	1.6x	13.2x	y	141,560
Emerson	EMR	$15,290	$14,760	$3,180	2.6x	2.7x	12.5x	y	39,630
Bel Fuse	BELFB	$512	$493	$46	0.7x	0.8x	8.1x	y	375
Vicor	VICR	NA	$213	$6	NA	3.0x	103.1x	y	646
Delta Electronics	DELTA.BK	NA	$48,840	$6,570	NA	1.9x	14.2x	y	93,220
Average					**1.6x**	**2.0x**	**30.2x**		**$55,086**

		Revenue		TTM	Enterprise Value / Sales		Valuation Range	
		2017E	LTM	EBITDA	2017E	LTM	Low	High
Digital Power	*	**$11**	**$7**	**-1.7**	**1.6x**	**2.0x**	**$14**	**$18**

* adjusted for minority interest

Conclusion of Enterprise Value	**$16,419,203**
Market Value	**$13,756,203**
Primary Shares Outstanding	13,470,000
Price per Share	**$1.02**

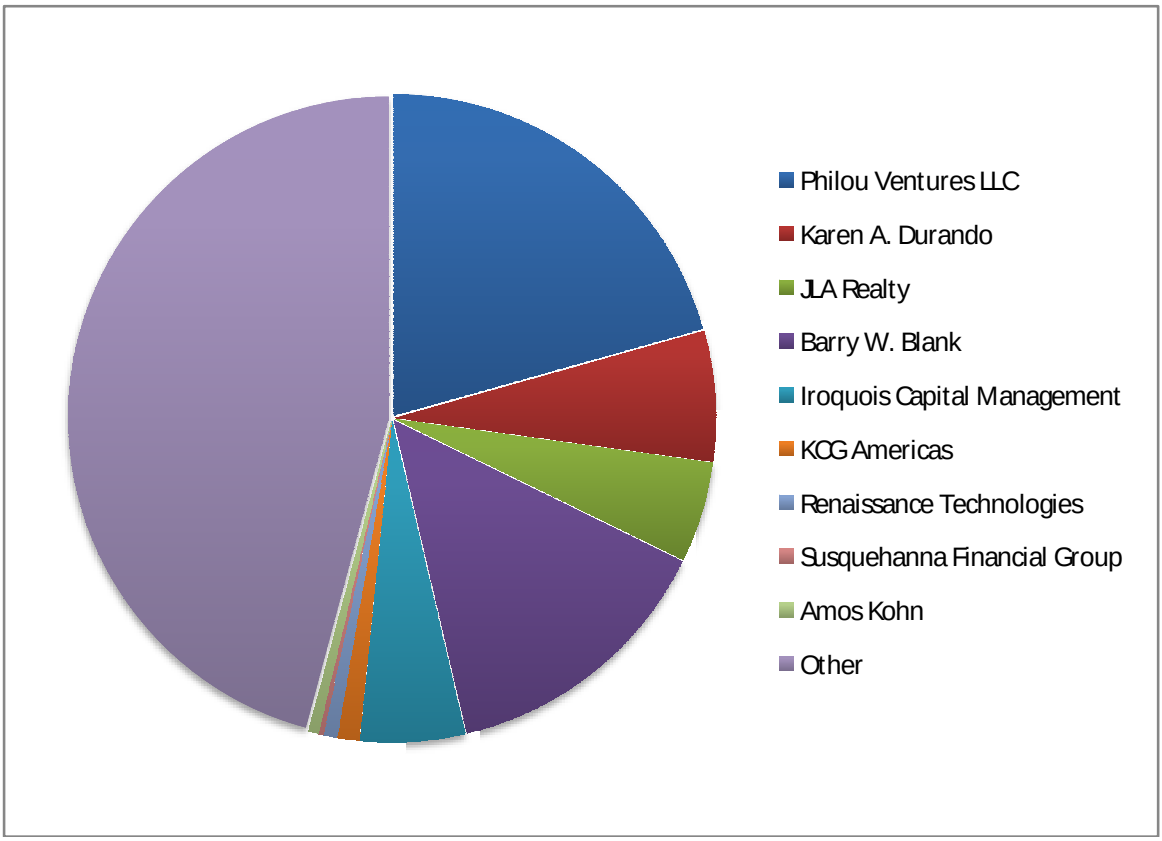
RISKS

- Building textile machinery is a new venture for the company and it may not be able to garner the expertise to fulfill orders in a timely manor.
- The company may have trouble raising cash to support its new businesses.
- By raising cash through equity sales, the company may dilute current shareholders.
- Many of the company's legacy products are not competitive with newer technologies and business from these products is expected to fall off.
- The company's new strategies to grow the company are untested and may not work.
- If the company pursues acquisitions, the company may overpay, or business will not proceed as expected and the acquisitions may be dilutive.
- Military spending is subject to risk as programs could be cut or restrictions put on foreign sales by a new administration.
- Most of Digital Power's competitors are much larger and have greater resources with which to compete. In the past the company has been passed by due to its small size and weak financials.

- MTIX, the company that placed the order for textile machines to be manufactured by Digital Power, is subject to acquisition by Avalanche, which is 31% owned by Philou Ventures. Philou also owns 33% of Digital Power. The two companies also have Milton C. Ault, III as their Executive Chairman of the Board and William Horne as a Board member. This could lead to a conflict of interest between the two companies, particularly in pricing and investment contribution.

OWNERSHIP

Philou Ventures, owned by the family of the Chairman of the board, now owns 20% of the 13.5 million primary shares outstanding.



INCOME STATEMENT

Digital Power	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17E	Q4 17E				
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	2015	2016	2017E	2018E
North America	948	1,212	1,248	1,134	1,000	1,329	2,500	2,800	3,833	4,542	7,629	13,100
Europe	765	852	578	859	628	493	700	2,000	3,933	3,054	3,821	10,400
Total revenue	**1,713**	**2,064**	**1,826**	**1,993**	**1,628**	**1,822**	**3,200**	**4,800**	**7,766**	**7,596**	**11,450**	**23,500**
Yr-to-yr Growth	-10%	-4%	29%	-13%	-5%	-12%	75%	141%	-14%	-2%	51%	105%
Total Cost of services	1093	1310	1,123	1,364	920	1,092	2,000	3471.0	5,053	4,890	7,483	20,500
Gross profit	620	754	703	629	708	730	1,200	1329.0	2,713	2,706	3,967	3,000
Gross Margin %	36%	37%	38%	32%	43%	40%	38%	28%	35%	36%	35%	13%
Operating expenses:												
Engineering and development	194	170	147	198	227	265	270	300	894	709	1,062	1,300
Selling and marketing	255	233	235	193	295	327	330	500	1,195	916	1,452	2,100
General and administrative	371	340	404	1,185	973	1,582	1,600	1,600	1,627	2,300	5,755	8,700
Total operating expenses	820	743	786	1,576	1,495	2,174	2,200	2,400	3,716	3,925	8,269	12,100
Operating income:	(200)	11	(83)	(947)	(787)	(1,444)	(1,000)	(1,071)	(1,003)	(1,219)	(4,302)	(9,100)
Operating margin	-11.7%	0.5%	-4.5%	-47.5%	-48.3%	-79.3%	-31.3%	-22.3%	-12.9%	-16.0%	-37.6%	-38.7%
Other income:												
Interest expense, net	7	55	23	(8)	(207)	(407)	(415)	(415)	16	77	(1,444)	(2,000)
Impairment of investment	-	-	-	-	-	-	-	-	(110)	0	-	-
Total other income	7	55	23	(8)	(207)	(407)	(415)	(415)	(94)	77	(1,444)	(2,000)
Income before income taxes	(193)	66	(60)	(955)	(994)	(1,851)	(1,415)	(1,486)	(1,097)	(1,142)	(5,746)	(11,100)
Pretax Margin	-11.3%	3.2%	-3.3%	-47.9%	-61.1%	NM	-44.2%	-31.0%	-14.1%	-15.0%	-50.2%	-47.2%
Income tax benefit	-	-	-	20	-	-	-	-	1	20	-	-
Tax rate	0%	0%	0%	-2%	0%	0%	0%	0%	-0.1%	-1.8%	12.0%	0.0%
Minority interest	-	-	-	-	-	(112)	(50)	100	-	-	(62)	300
Net income	(193)	66	(60)	(935)	(994)	(1,739)	(1,415)	(1,486)	(1,096)	(1,122)	(5,684)	(11,400)
Preferred deemed dividends	-	-	-	-	-	(319)	-	-	-	-	(319)	(265)
Preferred dividends	-	-	-	-	-	(8)	(24)	(24)	-	-	(56)	(96)
Net income to common	(193)	66	(60)	(935)	(994)	(2,066)	(1,439)	(1,510)			(6,059)	(11,761)
Stk based compensation	44	43	42	414	157	752	752	752	226	543	2,413	3,008
One-time expenses	-	-	-	-	-	-	-	-	110	-	-	-
Non-GAAP Income	(149)	109	(18)	(521)	(837)	(1,314)	(687)	(758)	(760)	(579)	(3,271)	(8,392)
Yr-to-yr Growth	39%	-187%	-95%	196%	462%	-1306%	NM	45%	-108%	-24%	465%	157%
Net income per share:												
EPS	**-$0.03**	**$0.01**	**-$0.01**	**-$0.14**	**-$0.12**	**-$0.20**	**-$0.11**	**-$0.11**	**-$0.16**	**-$0.16**	**-$0.53**	**-$0.57**
Non-GAAP Diluted	-$0.02	$0.02	$0.00	-$0.08	-$0.10	-$0.13	-$0.05	0.15	-$0.11	-$0.08	$0.01	-$0.42
	39.3%	NM	-94.9%	196.0%	354.1%	NM	NM	NM	-16%	-91%	-91%	1971%
Shares												
Basic	6,776	6,776	6,776	6,776	8,383	10,468	13,470	13,800	6,776	6,917	11,530	20,000
All in Shares	6,776	6,776	7,922	11,427	13,034	26,638	29,640	29,970	7,922	11,568	24,820	35,000
Yr-to-yr Growth	0%	0%	17%	69%	92%	293%	274%	162%	-12%	46%	115%	41%
Dep & Amor	$40	44	39	70	33	47	47	47	214	193	174	174
Adjusted EBITDA	(116)	98	(2)	(463)	(597)	(645)	(201)	(272)	(546)	(483)	(1,715)	(8,940)
Margin	-7%	5%	0%	-23%	0%	0%	0%	0%	-7%	-6%	-15%	-38%

BALANCE SHEET

	June 30, 2017	Mar. 31, 2017	Qtr-Qtr % Growth	Dec. 30, 2016	June-Dec % Growth
CURRENT ASSETS:					
Cash and cash equivalents	$ 443,000	$ 1,138,000	-61.1%	$ 996,000	-55.5%
Accounts receivable, net	1,253,000	1,030,000	21.7%	1,439,000	-12.9%
Prepaid expenses and other current assets	659,000	272,000	142.3%	285,000	131.2%
Inventories, net	1,609,000	937,000	71.7%	1,122,000	43.4%
Total current assets	3,964,000	3,377,000	17.4%	3,842,000	3.2%
Restricted cash	100,000	0	NM	0	NM
Intangible assets	93,000	0	NM	0	NM
Goodwill	6,002,000	0	NM	0	NM
Property and equipment, net	623,000	543,000	14.7%	570,000	9.3%
Investments - related party, net	2,582,000	1,653,000	56.2%	1,036,000	149.2%
Other investments	398,000	20,000	1890.0%	-	NM
Deposits and loans	219,000	112,000	95.5%	24,000	812.5%
Total Non- current assets	10,017,000	2,328,000	330.3%	1,630,000	514.5%
Total assets	13,981,000	5,705,000	145.1%	5,472,000	155.5%
CURRENT LIABILITIES:					
Accounts payable	2,835,000	896,000	216.4%	1,231,000	130.3%
Accounts payable - related parties	100,000	28,000	257.1%	0	NM
Revolving credit facility	**612,000**	0	NM	0	NM
Note payable - related party	**278,000**	**250,000**	11.2%	**250,000**	11.2%
Note payable	**1,247,000**	**220,000**	466.8%	**0**	NM
Convertible note payable	**250,000**	0	NM	0	NM
Other current liabilities	427,000	448,000	-4.7%	398,000	7.3%
Total current liabilities	5,749,000	1,842,000	212.1%	1,879,000	206.0%
Note payable	**569,000**	0	NM	0	NM
Note payable, related parties	**128,000**	0	NM	0	NM
Convertible notes - related party, net	**122,000**	**78,000**	56.4%	**34,000**	258.8%
Total Liabilities	6,568,000	1,920,000	242.1%	1,913,000	243.3%
SHAREHOLDERS' EQUITY:					
Common shares	0	0		0	
Additional paid-in capital	22,519,000	17,736,000	27.0%	16,537,000	36.2%
Accumulated deficit	(15,218,000)	(13,152,000)	15.7%	(12,158,000)	25.2%
Accumulated other comprehensive loss	(721,000)	(799,000)	-9.8%	(820,000)	-12.1%
Total Digital Power shareholders' equity	6,580,000	3,785,000	73.8%	3,559,000	84.9%
Non-controlling interest	833,000	0	NM	0	NM
Total Equity	7,413,000	3,785,000	95.9%	3,559,000	108.3%
Total liabilities and stockholders' equity	13,981,000	5,705,000	145.1%	$ 5,472,000	155.5%
Current Ratio	0.7	1.8	-62.4%	2.0	-66.3%
Quick Ratio	0.4	1.3	-69.1%	1.4	-71.7%
Working Capital	(1,785,000)	1,535,000	-216.3%	$1,963,000	-190.9%
Total Debt	3,206,000	548,000	485.0%	284,000	1028.9%
Debt/equity	43%	14%	198.7%	8%	442.0%

CASH FLOWS

	Mar. 31, 2016	Jun. 30, 2016	Sep. 30, 2016	Dec. 31, 2016	Year 2016	Mar. 31, 2017	Jun. 30, 2017
Cash flows from operating activities:							
Net loss	$ (193)	$ 66	$ (38)	$ (957)	$ (1,122)	$ (994)	$ (1,851)
Adjustments required to reconcile net income to net cash provided by operating activities:							
Depreciation	40	44	39	38	161	33	45
Interest expense - debt discount	0					195	392
Amortization of intangible asset	0	0	0	34	34	0	2
Accretion of discount on note receivable	0	0	0	(2)	(2)	(7)	(12)
Stock-based compensation	44	43	42	414	543	157	595
Interest expense on conversion of demand notes to common	0	0	0	0	0	13	0
Provision for bad debt	0	0	0	32	32	0	0
Impairment of investment in Telkoor	0	0	0	0	0	0	0
Write down of inventory	0	0	0	68	68	0	0
Decrease (Increase) in trade receivables, net	(32)	36	78	(393)	(311)	413	238
Account payable - related party	10					28	(28)
Accounts receivable - related party	0	0	0	77	77	0	0
Decrease (Increase) in prepaid expenses & other accts payable	13	40	(113)	(59)	(119)	15	(243)
Other assets	0	0	0	(11)	(11)	(29)	(53)
Inventories	87	169	(13)	(34)	209	193	23
Decrease in accts payable and related parties- trade payables	66	(91)	(76)	423	322	(338)	347
Increase (decrease) in deferred revs and other current liabilities	(93)	(105)	85	(68)	(181)	0	0
Other current liabilities	66	0	0	(58)	(58)	49	(356)
Net cash provided by operating activities	(68)	202	4	(496)	(358)	(272)	(901)
Cash flows from investing activities:							
Purchase of property and equipment	(72)	(2)	(4)	(7)	(85)	(3)	(18)
Sale of investment	0	0	90	0	90	0	0
Investments - related party	0	0	0	(1,034)	(1,034)	(610)	(917)
Investments other companies	0					(20)	(75)
Loan to third party	0					(59)	(430)
Net cash from(used) n investing activities	(72)	(2)	86	(1,041)	(1,029)	(692)	(1,440)
Cash flows from financing activities:							
Proceeds from sales of common stock and warrants	0	0	0	541	541	300	0
Proceeds from issuance of preferred stock						0	1,540
Financing cost for sale of common and warrants	0					(73)	(202)
Proceeds from convertible notes payable						0	354
Proceeds from notes payable- related party	0					350	0
Proceeds from notes payable	0					520	190
Payments on revolving credit facility						0	(268)
Net proceeds from issuance of convert - related parties	0	0	0	488	488	0	0
Proceeds frm short term loan - related party	0	0	0	250	250	0	0
Net cash provided by financing actvities	0	0	0	1,279	1,279	1,097	1,614
Effect of exchange rate changes on cash and cash equivalents	(19)	(70)	(10)	79	(137)	9	32
Increase (Decrease) in cash and cash equivalents	(159)	130	80	(179)	(245)	142	(695)
Cash and cash equivalents at the beginning of the period	1,241	1,082	1,212	1,292	1,241	996	1,138
Cash and cash equivalents at the end of the period	$ 1,082	$ 1,212	$ 1,292	$ 1,113	$ 996	$ 1,138	$ 443
Cash flow	(109)	153	43	(373)	(286)	(603)	(829)
Free cash flow	(181)	151	39	(380)	(371)	(606)	(847)

HISTORICAL STOCK PRICE



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