

DIGITAL POWER CORP

FORM SB-2

(Securities Registration: Small Business)

Filed 10/16/1996

Address	41920 CHRISTY ST FREMONT, California 94538
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CIK	0000896493
Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	12/31

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549 **FORM SB-2**

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

DIGITAL POWER CORPORATION

(Name of small business issuer in its charter)

CALIFORNIA	3679	94-1721931
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code)	(I.R.S. Employer Identification No.)

41920 Christy Street, Fremont, California 94538-3158; 510-657-2635
(Address and telephone number of principal executive offices)

41920 Christy Street, Fremont, California 94538-3158
(Address of principal place of business or intended principal place of business)

Robert O. Smith, Chief Executive Officer
Digital Power Corporation
41920 Christy Street
Fremont, California 94538-3158
510-657-2635
(Name, address and telephone number of agent for service)

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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following blocks and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price(1)	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock	1,150,000	\$4.00	\$4,600,000	\$1,393.94
Common Stock Purchase Warrants	775,000	\$.125	\$96,875	29.36
Common Stock Underlying Warrants	775,000	\$5.00	\$3,875,000	\$1,174.24
Total				\$2,597.54

(1) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457 of the Securities Act of 1933.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

**DIGITAL POWER CORPORATION
CROSS-REFERENCE SHEET
PURSUANT TO ITEM 501 OF REGULATION S-B**

Registration Statement

ITEM NUMBER AND CAPTION PROSPECTUS CAPTION

1. Front of Registration Statement and Outside Front Cover Page of Prospectus	Outside Front Cover
2. Inside Front and Outside Back Cover Pages of Prospectus	Inside Front and Outside Back Cover Pages
3. Summary Information and Risk Factors	Prospectus Summary; Risk Factors
4. Use of Proceeds	Use of Proceeds
5. Determination of Offering Price	Underwriting
6. Dilution	Dilution
7. Selling Security Holders	Principal and Selling Stockholders and Warrantholders
8. Plan of Distribution	The Offering; Underwriting; Terms of Offering
9. Legal Proceedings	Legal Proceedings
10. Directors, Executive Officers, Promoters and Control Persons	Management; Principal and Selling Shareholders
11. Security Ownership of Certain Beneficial Owners and Management	Principal and Selling Stockholders and Warrantholders
12. Description of Securities	Description of Securities
13. Interest of Named Experts and Counsel	Experts; Legal Matters
14. Disclosure of Commission Position on Indemnification for Securities Act Liabilities	Underwriting
15. Organization Within Last Five Years	Summary; Business
16. Description of Business	Summary; Business
17. Management's Discussion and Analysis or Plan of Operation	Management's Discussion and Analysis
18. Description of Property	Business
19. Certain Relationships and Related Transactions	Certain Transactions
20. Market for Common Equity and Related Stockholder Matters	Summary
21. Executive Compensation	Management
22. Financial Statements	Consolidated Financial Statements
23. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	Change in Accountants

Prospectus Subject to Completion October 16, 1996

DIGITAL POWER CORPORATION

**1,000,000 SHARES OF COMMON STOCK
NO PAR VALUE**

700,000 REDEEMABLE COMMON STOCK PURCHASE WARRANTS

Of the 1,000,000 shares of common stock, no par value ("Common Stock") offered, 750,000 shares are being sold by Digital Power Corporation ("Digital Power" or the "Company") and 250,000 shares are being sold by certain selling stockholders of the Company (the "Selling Stockholders"). In addition, the Company is selling 500,000 redeemable common stock purchase warrants ("Warrants"), and certain warrant holders may sell up to 200,000 Warrants, entitling the holders thereof to purchase, during a three-year period from the date of this Prospectus ("Exercise Period"), one share of Common Stock at an exercise price of \$5.00 per share, subject to adjustment. See "Principal and Selling Stockholders and Warrantholders." The Company will not receive any proceeds from the sale of shares by the Selling Stockholders or from the sale of Warrants by certain warrant holders. Under certain conditions, the Company shall have the right upon 30 days notice to call each Warrant for redemption at \$.125 per Warrant. See "Description of Securities." Further, the Company is registering 700,000 shares of Common Stock that will be issued upon the exercise of the Warrants. See "Management," "Certain Transactions," and "Description Of Securities." Prior to this offering, there has been no public market for the Common Stock or Warrants of the Company. It is currently estimated that the initial public offering price per share of Common Stock will be \$4.00, and that the initial public offering price per Warrant will be \$.125. See "Underwriting" for the factors to be considered in determining the initial public offering price.

SEE "RISK FACTORS" COMMENCING ON PAGE 7 FOR CERTAIN CONSIDERATIONS

RELEVANT TO AN INVESTMENT IN THE COMMON STOCK AND WARRANTS.

Application has been made for the listing of the Company's Common Stock under the symbol "DPWR" and Warrants under the symbol "DPWRW" on the NASDAQ SmallCap Market.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)	Proceeds to Selling Stockholders(3)
Per Share	\$4.00	\$0.40	\$3.60	\$3.60
Per Warrant	\$0.125	\$0.0125	\$0.1125	\$0.1125
Total{(4)}	\$4,087,500	\$408,750	\$2,756,250	\$922,500

(1) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."

(2) Before deducting estimated expenses of \$230,000 payable by the Company, and additional compensation to be received by the Underwriters in the form of a non-accountable expense allowance equal to three percent (3%) of the proceeds from the offering of the Common Stock and Warrants, or a total of \$122,625 (\$140,906 if the Underwriters' over-allotment is exercised in full).

(3) Before expenses related to the Offering attributed to the Selling Stockholder on a prorata basis.

(4) The Company has granted the Underwriters an option for 45 days to purchase up to an additional 150,000 shares at the initial public offering price per share, and up to additional 75,000 Warrants at \$.125 per Warrant solely to cover over-allotments, if any. If such option is exercised in full, the total initial public offering price, underwriting discount, and proceeds to Company will be \$4,696,875, \$469,688, and \$3,304,687, respectively.

The shares and Warrants offered hereby are offered by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that certificates for the shares of Common Stock and Warrants will be ready for delivery in Boca Raton, Florida on or about _____, 1996, against payment therefor immediately available funds.

WERBEL-ROTH SECURITIES, INC.

The date of this Prospectus is _____, 1996.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OR WARRANTS OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ SMALLCAP STOCK MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Company intends to furnish its stockholders annual reports containing consolidated financial statements audited by its independent auditors and quarterly reports containing unaudited consolidated financial information for the first three quarters of each fiscal year.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

[Pictures of Power Supplies]

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO, APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, ALL INFORMATION IN THIS PROSPECTUS ASSUMES THAT THE UNDERWRITERS' OVER-ALLOTMENT OPTION, REPRESENTATIVES' WARRANTS, AND OUTSTANDING OPTIONS AND WARRANTS WILL NOT BE EXERCISED. SEE "DESCRIPTION OF SECURITIES" AND "UNDERWRITING."

THE COMPANY

Digital Power Corporation designs, develops, manufactures, and markets switching power supplies for sale to manufacturers of computers and other electronic equipment. Switching power supplies are critical components of all computers and other electronic equipment. The electronic circuitry in computers and other electronic equipment requires a steady and isolated supply of direct current (DC) electrical power. In addition, the various components and subassemblies within computers and other electronic equipment often require different voltage levels of electrical power. The power supply products of the Company satisfy these two requirements by converting the alternating current (AC) electricity from a primary source, such as a wall outlet, into the direct current required for the proper functioning of electronic circuits, and by dividing the single electrical current into as many as four discrete output voltages. The Company's power supply products also monitor and regulate the DC output voltages being delivered to protect the electronic equipment from harmful surges and drops in voltage levels. Because the Company's products have a high "power- density" (measured in watts per cubic inch), the power supply products of the Company are generally smaller than those of competitors. Furthermore, the Company's power supply products are extremely "flexible" in design. This "flexibility" approach allows the Company to modify quickly and inexpensively its base-design products to satisfy an OEM's specific power supply needs, thereby enabling the Company to keep to a minimum its expenses for non-recurring engineering ("NRE") of its base-design products. As a result of the Company's "flexibility" approach, it has provided samples of modified power supplies to OEM customers in as quickly as a few days, an important capability given the increasing emphasis placed by OEMs on "time-to-market". Digital Power's strategic objective is to exploit this combination of power density, flexibility, and short time-to-market to win an increasing share of the growing power supply market. Unless the context otherwise indicates, the reference to "Digital Power" or the "Company" herein shall mean Digital Power Corporation and its wholly owned subsidiary Poder Digital, S.A. de C.V.

Micro-Tech Consultants of Santa Rosa, California reports that the worldwide market for power supplies was about \$15 billion in 1995, with average projected sales growth of approximately 8.5% over the next five years. This market is highly fragmented among power supply manufacturers. The Company believes that there are over 400 different manufacturers competing in the various market segments. The major segments of the switching power supply market are typically characterized as either the "captive market" or the "merchant market". The captive market represents those original equipment manufacturers (OEMs) who design and manufacture their own power supplies for use as a component in their own electronic products, whereas the merchant market represents those OEMs who purchase their power supplies from third-party manufacturers who specialize in the development and production of power supplies. The Company believes the merchant market is growing faster than any other segment of the entire power supply market as OEMs increasingly buy their power supplies from companies such as Digital Power rather than manufacturing their own power supplies "in-house".

For the years ended December 31, 1994 and 1995, the Company had revenues and income before income taxes of \$6,249,333 and \$144,976, and \$10,037,502 and \$826,484, respectively. For the six months ended June 30, 1996, the Company had revenues and income before income taxes of \$6,553,376 and \$637,208.

RISK FACTORS

For a discussion of considerations relevant to an investment in the Common Stock and Warrants, see "Risk Factors."

THE OFFERING

Common Stock Offered:

Offering(1).....	750,000 shares
Selling Stockholders.....	250,000 shares
Total.....	1,000,000 shares
Common Stock to be outstanding after the Offering.....	2,353,275 shares

Warrants(1) Exercisable until December , 1999, with each Warrant exercisable for one share of Common Stock at a price of \$5.00, subject to adjustment.

See "Description of Securities."

Use of Proceeds Repayment of approximately \$1 million of indebtedness
and general corporate purposes, including product
development, advertising, and working capital.

See "Use of Proceeds."

Proposed NASDAQ SmallCap Market Symbol - Common Stock.....DPWR Proposed NASDAQ SmallCap Market Symbol -
WarrantsDPWRW

(1) Assumes that the Underwriters have not exercised an over-allotment option to purchase up to an additional 150,000 shares and up to 75,000 Warrants.

SUMMARY CONSOLIDATED FINANCIAL DATA

The unaudited summary consolidated financial data presented below should be read in conjunction with the more detailed financial statements of the Company and notes thereto along with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	1994	Years Ended DECEMBER 31 1995	Six Months Ended JUNE 30 1995	1996
Statement of Operations Data:				
Revenues	\$6,249,333	\$10,037,502	\$4,947,952	\$6,553,376
Income from operations	257,935	1,027,772	332,928	689,612
Income before Income Taxes	144,976	826,484	270,511	637,208
Provision (Benefit) for Income Taxes	23,253	(277,400)	28,000	294,000
Net Income	121,723	1,103,884	242,511	343,208
Net Income per share	0.02	0.80	0.16	0.24
Primary	\$ 0.02	\$ 0.66	\$ 0.15	\$ 0.20
Fully Diluted	1,226,208	1,258,858	1,242,395	1,276,778
Shares used in per share calculation				

	As at JUNE 30, 1996	
Balance Sheet Data:	ACTUAL	AS ADJUSTED(1)
Working Capital	\$2,426,022	\$4,003,494
Total Assets	5,443,277	6,877,652
Long-term debt	1,471,361	614,458
Stockholders' equity	\$1,533,759	\$3,968,134

(1) Adjusted to give effect to the estimated net proceeds of this offering to be received by the Company based upon an assumed public offering price of \$4.00 per share and \$.125 per Warrant.

THE COMPANY

Digital Power provides switching power supplies to original equipment manufacturers (OEMs). The Company designs, develops, manufactures, and markets 50 watt to 750 watt power supplies. Power supplies are complex subassemblies or modules integral to virtually every electronic product. They can have numerous different features, but the most important functions of a power supply are to receive alternating current (AC) electricity from a primary source, such as a wall electrical outlet, convert that AC current into direct current (DC), reduce the voltage of an output to the desired level, and regulate and filter the DC output voltages required for the operation of the various electronic circuits. The Company believes that its power supply products are superior to those of its competitors because the Company's products combine high power- density (measured in watts per cubic inch) with a high degree of design flexibility, allowing the Company to modify its power supplies in order to satisfy the specific and unique needs of its OEM customers. The Company has increased its revenues and income before income taxes from \$6,249,333 and \$144,976 in fiscal year 1994, to \$10,037,502 and \$826,484 in fiscal year 1995. For the six months ended June 30, 1996, revenues and net income before income taxes were \$6,553,376 and \$637,208.

According to independent market surveys conducted by Micro- Tech, the total world market for electronic power supplies is in excess of \$15 billion, with approximately 50% of this market being the "captive market" and the balance being the "merchant market". Growing at an average annual rate of 13%, the merchant market is the fastest growing segment of the power supply market, as OEMs continue to outsource their power supply requirements. This merchant market is highly fragmented according to the power level, technology, packaging, and application of a particular power supply. One segment of the merchant market involves industrial and office automation, industrial and portable computing, and networking applications. This is the market targeted and served by Digital Power. The Company believes that its focus on high-efficiency, high-density, design-flexible power supplies is ideally suited to the rapid growth opportunities existing in this market segment.

Digital Power's products are sold domestically and in Canada through a network of 13 manufacturers' representatives. Digital Power also has 28 stocking distributors in the United States and Europe. In addition, the Company has formed strategic relationships with three of its customers to private label its products. Digital Power's customers can generally be grouped into three broad industries, consisting of the computer, telecommunication, and instrument industries. The Company has a current base of over 150 active customers, including companies such as Ascend Communications, AT&T, Westinghouse, Telex, Storage Dimensions, Motorola, Retix, Stanford Telecommunications, 3Com, and Centillion Business Unit, a wholly-owned subsidiary of Bay Networks. See "Business-Breakdown of Product Market".

The Company's strategy is to continue the trend of its sales and profit growth by making increased sales to existing customers, while simultaneously targeting sales to new customers. The Company believes that its "flexibility" concept allows customers a unique choice between its products and products offered by other power supply competitors. OEMs have typically had to settle for a standard power supply product with output voltages and other features predetermined by the manufacturer. Alternatively, if the OEM's product required a different set of power supply parameters, the OEM was forced to design this modification in-house, or pay a power supply manufacturer for a custom

product. Since custom- designed power supplies are development-intensive and require a great deal of time to design, develop, and manufacture, only OEMs with significant volume requirements can economically justify the expense and delay associated with their production. Furthermore, since virtually every power conversion product intended for use in commercial application requires certain independent safety agency testing, (e.g. by Underwriters Laboratories) at considerable expense, an additional barrier is presented to the smaller OEM. By offering the OEM customer a new choice with the Digital Power "flexibility" series, the Company believes it has gained a competitive advantage. The Company's "flexibility" series is designed around a standardized power platform, but allows the customer to specify output voltages tailored to its exact requirements within specific parameters. Furthermore, OEMs are seeking power supplies with greater power density (measured in watts per cubic inch). Digital Power's strategy in responding to this demand has been to offer increasingly smaller power supply units or packages. For example, the Company believes that its US100 series of products, mounted on a 3" x 5" printed circuit board, is the industry's smallest 100 watt off-line (A/C input) power supply.

In addition to the line of proprietary products offered, and in response to requests from OEMs, the Company has recently begun providing "value-added services" along with its products. The term "value-added services" refers to the Company's incorporation of an OEM's selected electronic components, enclosures, and cable assemblies with the Company's power supply products to produce a power subassembly that is compatible with the OEM's own equipment and is specifically tailored to meet the OEM's needs. The Company purchases the parts and components that the OEM itself would otherwise attach to or integrate with the Company's power supply, and the Company provides the OEM with that integration and installation service thus saving the OEM time and money. The Company believes that this value-added service is well-suited to those OEMs who wish to reduce their vendor base and minimize their investment in fixed costs since the OEMs are not required to manufacture their own power subassemblies and thus are not required to purchase individual parts from many vendors or build assembly facilities.

Currently, almost all of the Company's manufacturing, including its value-added services, is done at a 16,000 square foot facility operated by the Company's wholly-owned subsidiary, Poder Digital, S.A. de C.V., located in Guadalajara, Mexico. However, the Company has recently entered into an agreement with a manufacturer in China to manufacture the Company's products. In its initial phase, the Company believes that the facility in China will complement its manufacturing facility in Guadalajara, Mexico since the facility in China will allow the Company to produce power supplies with sufficient lead time at lower costs, while the Guadalajara facility will continue to manufacture power supplies that need a quick turnaround or modification.

Through its predecessor, Digital Power was originally formed in 1969. The Company's executive offices are located at 41920 Christy Street, Fremont, California 94538-3158, and the Company's telephone number is 510-657-2635.

RISK FACTORS

In addition to the other information presented in this Prospectus, the following risk factors should be considered carefully in evaluating the Company and its business before purchasing the Common Stock and Warrants offered hereby. This Prospectus contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors" and elsewhere in this Prospectus.

CUSTOMER CONCENTRATION

For the six months ended June 30, 1996, one OEM accounted for 26.4% of the Company's total revenues, and for the fiscal year ended December 31, 1995, three OEMs accounted for 18% in the aggregate of total revenues. The one OEM account which accounted for 26.4% of the Company's total revenues for the six months ended June 30, 1996 substantially contributed to the Company's increase in revenues for such period. Recently, due to a decrease in market demand for its products, this OEM has decreased the number of power supplies it has purchased from the Company. In light of such decrease in demand, it is unlikely that this OEM will continue to purchase power supplies from the Company at the same rate that it had done during the first six months of 1996. In addition during 1995, two distributors accounted for 37% of revenues, and during 1994, one distributor accounted for 16% of revenues. See "Risk Factors - Dependence on Computer and Other Electronic Equipment Industries; Customers' Product Obsolescence." The loss of any one of these OEM customers would have an adverse effect on the Company's revenues. See "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

DEPENDENCE ON COMPUTER AND OTHER ELECTRONIC EQUIPMENT INDUSTRIES; CUSTOMERS' PRODUCT OBSOLESCENCE

Substantially all of the Company's existing customers are in the computer and other electronic equipment industries and produce products which are subject to rapid technological change, obsolescence, and large fluctuations in product demand. These industries are characterized by intense competition and a demand on OEMs serving these markets for increased product performance and lower product prices. Given this industry environment in which they operate, OEMs make similar demands on their suppliers, such as the Company, for increased product performance and lower product prices. Thus, in order to be successful, the Company must properly assess developments in the computer and other electronic equipment industries and identify product groups and customers with the potential for continued and future growth. Factors affecting the computer and other electronic equipment industries, in general, or any of the Company's major customers or their products, in particular, could have a material adverse effect on the Company's results of operations. In addition, the computer industry is inherently volatile. Recently, certain segments of the computer and other electronic industries have experienced a softening in demand for their products. Although this has not materially affected the Company's customers, in the event that it affects all segments of the computer and other electronic industries, the growth of the Company could be adversely affected.

COMPETITION

The design, manufacture, and sale of power supplies is a highly competitive industry. The Company's competition includes approximately 400 companies located throughout the world, some of whom have advantages over the Company in terms of labor and component costs, and some of whom may offer products comparable in quality to those of the Company. Certain of the Company's competitors, including Computer Products, Inc., ASTEC America, Zytec Corporation and Lambda Electronics, have substantially greater fiscal and marketing resources and geographic presence than does the Company. In addition, in light of the Company's limited revenues in comparison to the total power supply market, many competitors may be unaware or indifferent to the Company and its products. If the Company continues to be successful in increasing its revenues, other competitors may notice and increase competition for the Company's customers. The Company also faces competition from current and prospective customers who may decide to design and manufacture internally the power supplies needed for their products. To remain competitive, management believes that the Company must continue to compete favorably on the basis of value by providing advanced manufacturing technology, offering superior customer service and design engineering services, continuously improving quality and reliability levels, and offering flexible and reliable delivery schedules. There can be no assurance that the Company will continue to compete successfully in this market.

DILUTION

The initial public offering price is greater than the book value per outstanding share of Common Stock. Accordingly, purchasers in the offering will suffer an immediate and substantial dilution of \$2.31 in the net tangible book value per share of the Common Stock from the initial public offering price. Additional dilution will occur upon exercise of outstanding options granted by the Company. See "Dilution."

DEPENDENCE ON GUADALAJARA, MEXICO FACILITY; FOREIGN CURRENCY FLUCTUATIONS

The Company produces substantially all of its products at its facility located in Guadalajara, Mexico. The products are then delivered to Fremont, California for testing and distribution. The Company believes that it has a good working relationship with its employees in Guadalajara, Mexico and has recently signed a five-year contract with the union representing the employees. Recently, the Company has entered into a "turnkey" manufacturing contract with a manufacturer located in China to produce its products in an attempt to reduce its dependence on its Mexican facility. At this time the purchase of products from the manufacturer located in China is minimal and requires advance scheduling which affects the Company's ability to produce products quickly. However, if the Company's revenues grow as anticipated, the Company intends to manufacture more of its products utilizing the Chinese manufacturer. In the event that there is an unforeseen disruption at the Guadalajara production plant or with the Chinese manufacturer, such disruption may have an adverse effect on the Company's ability to deliver its products and may adversely affect the Company's financial operations.

Further, the Guadalajara, Mexico, facility conducts its financial operations using the Mexican peso. Therefore, due to financial conditions beyond the control of the Company, the Company is subject to monetary fluctuations between the U.S. dollar and Mexican peso. During fiscal 1995, the Mexican peso was devalued against the U.S. dollar resulting in an approximate \$85,000 loss to the Company. See "Management's Discussion and Analysis and Results of Operations."

SECURITY INTEREST IN THE COMPANY'S ASSETS

The Company has entered into a \$1.5 million revolving credit facility. As of June 30, 1996, the amount outstanding under the credit facility and other loans was \$1,614,458. Although the Company intends to use part of the proceeds raised hereby to reduce the credit facility, the credit facility is secured by substantially all of the Company's assets. Therefore, in the event the Company is unable to repay the credit facility, the bank will hold a first- priority security interest in the Company's assets upon default. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

NECESSITY TO MAINTAIN CURRENT PROSPECTUS; STATE BLUE SKY REGISTRATION REQUIRED TO EXERCISE WARRANTS

The shares of Common Stock issuable on exercise of the Warrants (except the Warrants issuable upon exercise of the Representatives' Warrants) have been registered with the Commission. The Company will be required, from time to time, to file post-effective amendments to its registration statement in order to maintain a current prospectus covering the issuance of such shares upon exercise of the Warrants. The Company has undertaken to make such filings and use its best efforts to cause such post-effective amendments to become effective. If for any reason a required post- effective amendment is not filed, it does not become effective or is not maintained, the holders of the Warrants may be prevented from exercising their Warrants. Holders of the Warrants have the right to exercise the Warrants only if the underlying Shares of Common Stock are qualified, registered or exempt from registration under applicable securities laws of the state in which the various holders of the Warrants reside. The Company cannot issue shares of Common Stock to holders of the Warrants in states where such shares are not qualified, registered or exempt. See "Description of Securities."

DEPENDENCE UPON KEY PERSONNEL; NEED TO ATTRACT AND RETAIN ADDITIONAL PERSONNEL

The Company's performance is substantially dependent on the performance of its executive officers and key personnel, and on its ability to retain and motivate such personnel. The loss of any of the Company's key personnel, particularly Robert O. Smith or Claude Adkins, could have a material adverse effect on the Company's business, financial condition, and operating results. The Company has "key person" life

insurance policies on Mr. Smith in the aggregate amount of \$2 million. The Company also has an employment agreement with Mr. Smith.

The Company's future success also depends on its continuing ability to identify, hire, train, and retain other highly-qualified creative, technical, and managerial personnel. Competition for highly qualified personnel is intense. There can be no assurance that the Company will be successful in attracting, assimilating, and retaining such personnel, and the failure to do so could have a material adverse effect on the Company's business, financial condition, and operating results. Moreover, in the event of the loss of any such personnel, there can be no assurance that the Company would be able to prevent the unauthorized disclosure or use of its proprietary technology, practices, procedures, or customer lists.

CONCENTRATION OF STOCK OWNERSHIP

Upon the completion of the offering, the present directors, executive officers, and stockholders owning more than 5% of the outstanding Common Stock and their respective affiliates will beneficially own approximately 28.49% of the outstanding Common Stock of the Company (27.02% of the outstanding Common Stock if the Underwriters' over-allotment option is exercised in full). As a result of their ownership, the directors, executive officers, and more than 5% stockholders and their respective affiliates collectively will have substantial control of all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Under California law, however, shareholders are entitled to cumulative voting. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company. See "Principal Stockholders" and "Description of Securities."

NO PRIOR PUBLIC MARKET; POSSIBLE VOLATILITY OF SECURITIES PRICES

Prior to the offering, there has been no public market for the Company's Common Stock or Warrants, and there can be no assurance that an active public market for the Company's Common Stock or Warrants will develop or be sustained after the offering. The initial offering price will be determined by negotiations between the Company and the representative of the Underwriters based upon several factors. The trading price of the Company's Common Stock or Warrants could be subject to wide fluctuations in response to quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to the Company, and other events or factors. Moreover, in some future quarter the Company's operating results may fall below the expectations of securities analysts and investors. In such event, the market price of the Company's Common Stock or Warrants would likely be materially and adversely affected. In addition, the stock market in general, and the market prices for high-tech related companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the trading price of the Company's Common Stock or Warrants, regardless of the Company's operating performance. See "Underwriting."

SHARES ELIGIBLE FOR FUTURE SALES; NO PRIOR TRADING MARKET; REGISTRATION RIGHTS

Sales of a substantial number of shares of the Company's Common Stock in the public market could have the effect of depressing the prevailing market price of its Common Stock. Upon the completion of the offering, the Company will have outstanding 2,353,275 shares of Common Stock (assuming no exercise of outstanding options and Warrants of 1,459,900). Of these shares, the 1,000,000 shares sold in the offering will be freely transferable without restriction or further registration under the Securities Act of 1933 (the "Securities Act") unless purchased by "affiliates" of the Company as that term is defined in Rule 144 of the Securities Act ("Affiliates"), which shares will be subject to the resale limitations of Rule 144 adopted under the Securities Act. The remaining 1,353,275 shares will be "restricted securities" as that term is defined under Rule 144 ("Restricted Shares"). Restricted Shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 promulgated under the Securities Act, which rule is summarized below. As a result of the contractual restrictions described below and the provisions of Rule 144, additional shares will be available for sale in the public market as follows: (i) 1,272,458 currently outstanding shares will be eligible for sale upon expiration of lock-up agreements 12 months after the date of this Prospectus; (ii) 1,459,900 additional shares will be issuable upon the exercise of stock options and Warrants, to the extent exercisable as of such date; and (iii) 80,817 currently outstanding shares will be eligible for sale from time to time thereafter pursuant to Rule 144. See "Shares Eligible for Future Sale."

Certain stockholders of the Company have entered into lock-up agreements with Werbel-Roth Securities, Inc. providing that, with certain limited exceptions, such stockholders will not offer, sell, contract to sell, grant an option to purchase, make a short sale, or otherwise dispose of or engage in any hedging or other transaction that is designed or reasonably expected to lead to a disposition of any shares of Common Stock for a period of 12 months after the date of this Prospectus without the prior written consent of the Underwriters. Other than the (i) 1,000,000 shares being offered hereby, (ii) 1,459,900 shares subject to options and Warrants, and (iii) 80,817 shares subject to Rule 144, as of the date of this Prospectus, no shares of Common Stock of the Company will be eligible for immediate sale in the public market until the expiration of the 12 month lock-up agreements with the representative of the Underwriters. The Underwriters may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements.

Prior to the offerings, there has been no public market for the Common Stock of the Company, and no predictions can be made as to the effect, if any, that the sale or availability for sale of shares of additional Common Stock will have on the trading price of the Common Stock. Nevertheless, sales of substantial amounts of such shares in the public market, or the perception that such sales could occur, could adversely affect the trading price of the Common Stock and could impair the Company's future ability to raise capital through an offering of its equity securities. See "Description of Securities."

DEPENDENCE ON SUPPLIERS

In order to reduce dependence on any one supplier, the Company attempts to obtain two suppliers for each component of its products. However, for two line transformers in three of its products, the Company is dependent on single suppliers. Currently, these products account for approximately 10% of the Company's total sales. Although the Company will seek to find other manufacturers of transformers for these three products, unanticipated shortages or delays in these parts may have an adverse effect on the Company's results of operations.

NO PATENTS

The Company's products are not subject to any U.S. or foreign patents. The Company believes that because its products are being continually updated and revised, obtaining patents would not be beneficial. Therefore, there can be no assurance that other competitors or former employees will not obtain the Company's proprietary information and develop it.

POSSIBLE DILUTION FROM WARRANTS AND OPTIONS

On completion of this Offering, options and Warrants to purchase an aggregate of 1,459,900 shares of common stock will be outstanding, including 700,000 shares underlying the Warrants, 150,000 shares underlying the Representatives' Warrants and 609,900 shares underlying the options issued to employees of the Company. Holders of such options and Warrants will be able to purchase shares of Common Stock at a price less than the offering price of the Common Stock with a resulting dilution of the interests to the other stockholders. Because of this potential dilutive effect, the options and Warrants may have a detrimental impact on the terms under which the Company may obtain financing through a sale of its Common Stock in the future. For these reasons, any evaluation of the favorability of market conditions for a subsequent stock offering by the Company must take into account any outstanding options or Warrants. See "Dilution," "Management-Stock Plans" and "Description of Securities."

REDEEMABLE WARRANTS AND IMPACT ON INVESTORS

Provided that the closing bid price of the Common Stock has been at least \$6.00 per share for thirty (30) consecutive trading days, the Warrants are subject to redemption by the Company. The Company's exercise of this right would force the holder of the Warrants to exercise the Warrants and pay the exercise price at a time when it may be disadvantageous for the holder to do so, to sell the Warrants at the then current market price when the holder might otherwise wish to hold the Warrants for possible additional appreciation, or to accept the redemption price. Holders who do not exercise their Warrants prior to redemption by the Company will forfeit their right to purchase the Shares of Common Stock underlying the Warrants. See "Description of Securities."

NO DIVIDENDS

The Company has not paid cash dividends on its Common Stock since its inception and does not anticipate any cash dividends on the Common Stock in the foreseeable future. For the foreseeable future, the Company intends to reinvest earnings of the Company, if any, on the development and expansion of its business. See "Dividend Policy."

AUTHORIZATION OF PREFERRED STOCK; POSSIBLE ANTI-TAKEOVER EFFECTS

The Board of Directors is authorized to issue shares of preferred stock and to determine the dividend, liquidation, conversion, redemption and other rights, preferences, and limitation of such shares without further vote or action of the stockholders. Accordingly, the Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, or other rights which could adversely effect the voting power or the rights of the holders of the Common Stock. In the event of such issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging and delaying or preventing a change in control of the Company. The Company has no present intention to issue any shares of its preferred stock, although there can be no assurance that the Company will not do so in the future. See "Description of Securities."

SUBSTANTIAL FLEXIBILITY IN USE OF PROCEEDS

The Company has not designated any specific use for the net proceeds from the sale by the Company of the Common Stock offered hereby, except for the application of approximately \$1.0 million of such net proceeds for the repayment of the Company's line of credit. Rather, the Company intends to use the remaining net proceeds primarily for general corporate purposes, including product development, advertising and working capital. Accordingly, management will have significant flexibility in applying the net proceeds of the offering. See "Use of Proceeds."

PENNY STOCK REGULATION

The Commission has adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny

stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from such rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. While the shares of Common Stock offered hereunder will not initially be subject to penny stock regulation rules by virtue of the fact that such registered securities will be quoted on the NASDAQ SmallCap Market, there can be no assurance that the Company will be able to continuously meet the NASDAQ SmallCap Market maintenance criteria. See "Risk Factor-Maintenance Criteria for NASDAQ Securities."

MAINTENANCE CRITERIA FOR NASDAQ SECURITIES

The National Association of Securities Dealers, Inc. (the "NASD"), which administers the NASDAQ SmallCap Market, maintains criteria for continued eligibility on the NASDAQ SmallCap Market. In order to be included in the NASDAQ SmallCap Market, a company must maintain \$2,000,000 in total assets, a \$200,000 market value of the public float and \$1,000,000 in total capital and surplus. In addition, continued inclusion requires two market-makers and a minimum bid price of \$1.00 per share, provided however, that if a company falls below such minimum bid price, it will remain eligible for continued inclusion on the NASDAQ SmallCap Market if the market value of the public float is at least \$1,000,000 and the company has \$2,000,000 in capital and surplus. The failure to meet these maintenance criteria in the future may result in the discontinuance of the inclusion of the Company's securities on the NASDAQ SmallCap Market. In such event, the Company's securities will be subject to being delisted, and trading, if any, in the Common Stock of the Company would thereafter be conducted in the over-the-counter market in the so-called "pink sheets," or the NASD's OTC Bulletin Board. Consequently, an investor may find it more difficult to dispose of, or to obtain accurate quotations as to the price of, the Company's securities.

If the Company's securities were subject to the regulations on penny stocks, the market liquidity for the Company's securities could be severely and adversely affected by limiting the ability of broker-dealers to sell the Company's securities and the ability of purchasers in this offering to sell their securities in the secondary market at a time and price acceptable to them.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 750,000 shares of Common Stock and 500,000 Warrants offered by the Company hereby are estimated to be approximately \$2,434,375 (\$2,983,469 if the Underwriters' over-allotment option is exercised in full) at an assumed initial public offering price of \$4.00 per share and \$.125 per Warrant and after deducting the estimated underwriting discount and offering expenses.

The Company intends to use approximately \$1 million of such net proceeds for the repayment of the Company's revolving credit facility with San Jose National Bank, which bears interest at prime plus 1% and is due in October, 1997. Proceeds from the revolving credit facility were used for working capital. In addition, the Company will use the net proceeds for general corporate purposes including product development, product advertising, and working capital. The amounts and timing of the Company's actual expenditures will depend upon numerous factors, including the status of the Company's product development efforts, competition, and marketing and sales activities. Pending use of the net proceeds of the sale of the shares of Common Stock and Warrants offered hereby, the Company intends to invest such funds in short term, interest bearing, investment grade obligations. Any additional proceeds received upon the exercise of the Warrants, the Underwriters' over-allotment option or the Representatives' Warrants, as well as income from investments, if any, will be added to working capital.

As a forward looking statement based on its current operations, the Company believes that the proceeds raised hereby will be sufficient to meet the Company's financial needs for at least twelve months following the date of the offering, and that no additional financing will be required in the near future.

The Company will not receive any proceeds from the sale of shares by the Selling Shareholders or the Warrants by certain Warrantholders.

DIVIDEND POLICY

The Company has not declared or paid any cash dividends since its inception. The Company currently intends to retain future earnings for use in the operation and expansion of the business. The Company does not intend to pay any cash dividends in the foreseeable future. The declaration of dividends in the future will be at the discretion of the Board of Directors and will depend upon the earnings, capital requirements, and financial position of the Company.

On May 31, 1996, the Company issued a stock dividend in the form of Common Stock valued at \$1.80 per share on the cumulative accrued but unpaid dividends on the Series A Preferred Stock. Since such stock dividend, all of the Series A Preferred Stock has been converted into Common Stock.

CAPITALIZATION

The following table sets forth the capitalization of the Company at June 30, 1996, as adjusted to give effect to the sale of 750,000 shares of Common Stock and 500,000 Warrants offered by the Company hereby assuming an initial public offering price per share of \$4.00 and per Warrant price of \$.125 and net proceeds of approximately \$2,434,375, and the application of the net proceeds therefrom.

	June 30, 1996	
	ACTUAL	AS ADJUSTED
Current portion of long-term debt	\$ 143,097	\$ -0-
Long-term debt, less current portion	1,471,361	614,458

Stockholders' Equity

Series A Preferred stock, no par value;

500,000 shares authorized; no shares issued and outstanding	----	----
Common stock, no par value 5,000,000 shares authorized; 1,603,275 shares issued and outstanding; 2,353,275 shares issued and outstanding as adjusted(1)	\$5,539,115	\$7,973,490
Accumulated deficit	(3,505,356)	(3,505,356)
Unearned ESOP plan shares	(500,000)	(500,000)
Total stockholders' equity	1,533,759	3,968,134
Total capitalization	\$3,148,217	\$4,582,592

(1) The above calculations do not include 609,900 shares of Common Stock issuable upon the exercise of stock options. Of such 609,900 options, (i) 96,900 are immediately exercisable at an exercise price of \$0.50, (ii) 178,125 are immediately exercisable at an exercise price of \$1.80, (iii) 59,375 are exercisable in May 1997 at an exercise price of \$1.80, and (iv) 275,500 are exercisable in May 1998 at an exercise price of \$1.80.

DILUTION

At June 30, 1996, the net tangible book value of the Company was \$1,533,759, or \$0.96 per share. Net tangible book value per share is determined by dividing the net tangible book value (tangible assets less liabilities) of the Company at June 30, 1996, by the number of shares of Common Stock outstanding. Without taking into account any changes in net tangible book value after June 30, 1996, other than to give effect to the sale of the Company of 750,000 shares of Common Stock offered hereby at an assumed initial public offering price of \$4.00 per share and 500,000 Warrants at an assumed initial public offering price of \$0.125 per Warrant, and after deducting underwriting discounts and commissions and estimated offering expenses payable to the Company, the pro forma net tangible book value at June 30, 1996 would have been approximately \$3,968,134, or \$1.69 per share. This amount represents an immediate dilution to new investors of \$2.31 per share and an immediate increase in net tangible book value per share to existing stockholders of \$0.73 per share. The following table illustrates this dilution per share:

Assumed public offering price per share	\$4.00
Net tangible book value per share at June 30, 1996	\$0.96
Increase per share attributable to new investors	.73
Pro forma net tangible book value per share after the offering	1.69
Net tangible book value dilution per share to new investors	\$2.31

The foregoing information assumes no exercise of outstanding stock options. At June 30, 1996, there were outstanding options to purchase 96,900 shares of Common Stock at an exercise price of \$.50 per share, and outstanding options to purchase 513,000 shares of Common Stock at an exercise price of \$1.80 per share (of which options 178,125 are immediately exercisable and 334,875 are subject to vesting). To the extent outstanding options are exercised, there will be further dilution to new investors.

The following table sets forth, as of the date of this Prospectus, the number of shares of Common Stock purchased, the percentage of shares of Common Stock purchased, the total gross consideration paid, the percentage of total consideration paid, and the average price per share paid by the existing shareholders and by the investors purchasing shares of Common Stock in this offering:

	SHARES PURCHASED		TOTAL CONSIDERATION		Average Price PER SHARE
	NUMBER	PERCENT	NUMBER	PERCENT	
Existing shareholders	1,603,275	68.13%	\$5,539,115	64.87%	\$ 3.45
New investors	750,000	31.87%	\$3,000,000	35.13%	\$ 4.00
Total	2,353,275	100.00%	\$8,539,115	100.00%	\$ 3.63

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated statement of operations data presented below for the years ended December 31, 1995 and 1994, are derived from and should be read in conjunction with the more detailed financial statements of the Company and the notes thereto, which have been audited by Hein + Associates LLP, independent auditors, whose report is included elsewhere in this Prospectus. The selected consolidated statements of operations data for the six months ended June 30, 1996 and 1995 and consolidated balance sheet data as of June 30, 1996 are derived from the unaudited consolidated financial statements of the Company. In the opinion of the Company, such unaudited consolidated financial statements include all necessary adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of results for such periods. The selected consolidated financial data presented below should be read along with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" which follows this section.

	YEARS ENDED DECEMBER 31		SIX MONTHS ENDED JUNE 30	
	1994	1995	1995	1996
Statement of Operations Data:				
Revenues:	\$6,249,333	\$10,037,502	\$4,947,952	\$6,553,376
Cost and expenses:				
Cost of sales	4,663,124	7,494,427	3,885,875	4,975,557
Engineering and product development	408,966	481,475	243,048	314,659
Sales and marketing	500,338	452,654	234,066	240,621
General and administrative	418,970	581,174	252,035	332,927
Total operating expenses	1,328,274	1,515,303	729,149	888,207
Income from operations	257,935	1,027,772	332,928	689,612
Interest expense, net	102,509	116,030	55,566	52,198
Translation loss	(10,450)	(85,258)	(6,851)	(206)
Income before income taxes	144,976	826,484	270,511	637,208
Provision (Benefit) for income taxes	23,253	(277,400)	28,000	294,000
Net income	121,723	1,103,884	242,511	343,208
Net income per share:				
Primary	0.02	0.80	0.16	0.24
Fully diluted	\$0.02	\$0.66	\$0.15	\$0.20
Shares used in per share calculations	1,226,208	1,258,858	1,242,395	1,276,778

Balance Sheet Data:	
Working capital	\$2,426,022
Total assets	5,443,277
Long-term debt	1,471,361
Stockholders' equity	\$1,533,759

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATION

The following discussion and analysis should be read in connection with the Company's Consolidated Financial Statements and the notes thereto and other financial information included elsewhere in the Prospectus.

OVERVIEW

The Company designs, develops, manufactures, and markets electronic power supplies for use in converting electric power into a form suitable for the operation of electronic circuitry. Revenues are generated from the sale of the Company's power supplies to OEMs in the computer and other electronic equipment industries.

RESULTS OF OPERATIONS

The table below sets forth certain statements of operations data as a percentage of revenues for the six months ended June 30, 1996 and 1995 and the years ended December 31, 1995 and 1994.

	YEARS ENDED DECEMBER 31		SIX MONTHS ENDED JUNE 30	
	1994	1995	1995	1996
Revenues	100%	100%	100%	100%
Cost of goods sold	74.62	74.66	78.54	75.92
Gross margin	25.38	25.34	21.46	24.08
Selling, general and administrative	14.71	10.30	9.82	8.75
Engineering and product development	6.54	4.8	4.91	4.8
Total operating expense	21.25	15.1	14.73	13.55
Operating income	4.13	10.24	6.73	10.53
Net interest expense	1.64	1.16	1.12	.8
Translation loss	.17	.85	.14	.0
Income before income taxes	2.32	8.23	5.47	9.73
Provision (Benefit) for income taxes	.37	(2.76)	.57	4.49
Net Income	1.95%	10.99%	4.9%	5.24%

SIX MONTHS ENDED JUNE 30, 1996 COMPARED TO JUNE 30, 1995.

REVENUES

Revenues for the six months ended June 30, 1996 increased by \$1,605,424, or 32.45% over the six months ended June 30, 1995. This increase in revenues was due primarily to substantially increased sales to a single OEM and, to a lesser extent, to increased sales to the Company's 28 stocking distributors.

Due to market conditions, sales of the OEM's products have slowed which in turn has affected the sales of the Company's power supplies to the OEM. In light of such decrease in purchases, it will be unlikely that the OEM will purchase the same number of power supplies it purchased during the first six months of the year. See "Risk Factors - Customer Concentration."

GROSS MARGINS

Gross margins were 24.08% for the six months ended June 30, 1996 compared to 21.46% for the six months ended June 30, 1995. The improvement in gross margins can primarily be attributed to greater capacity utilization as fixed overhead costs declined on a per unit basis.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased by \$87,447, from \$486,101 for the six months ended June 30, 1995, to \$573,548 for the six months ended June 30, 1996. The increase primarily related to one-time bonuses to certain employees which increased employee

compensation expense. As a percentage of revenues, however, selling, general and administrative expenses decreased from 9.82% for the six months ended June 30, 1995 to 8.75% for the six months ended June 30, 1996 since the increase in revenues during this period was greater than the increase in selling, general and administrative expenses.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 4.80% of revenues for the six months ended June 30, 1996, and 4.91% of revenues for the six months ended June 30, 1995. This slight decrease as a percentage of revenues was due to a greater increase in revenues than the increase in engineering and product development expenses.

INTEREST EXPENSE

Interest expense was 0.8% of revenues for the six months ended June 30, 1996 and 1.12% of revenues for the six months ended June 30, 1995. This decrease was primarily due to a one percentage point reduction in interest rate of the line of credit loan which took place in September 1995.

TRANSLATION LOSS

The primary currency of the Company's subsidiary, Poder Digital, is the Mexican peso. During 1995, the Mexican peso was devalued against the United States dollar. As a result of such devaluation, the Company experienced a translation loss of \$6,851 for the six months ended June 30, 1995 related to Poder Digital's operations using Mexican pesos. The Company did not experience a similar loss for the six months ended June 30, 1996.

INCOME BEFORE INCOME TAXES

Income before income taxes for the six months ended June 30, 1996 was \$637,208 compared to \$270,511 for the same period during 1995. This increase of \$366,697 was primarily due to the substantial increase in revenues over expenses during the six months ended June 30, 1996.

INCOME TAX

The Company's income tax expense was 4.49% of revenues for the six months ended June 30, 1996 and 0.57% of revenues for the six months ended June 30, 1995. Through December 31, 1995, the Company had net operating loss tax carry-forwards (NOLs) which resulted in minimal federal tax liability for the Company in 1995. Through June 30, 1996, the Company began providing for year-end tax liability at an estimated average annual rate of approximately 40%.

NET INCOME

Net income was \$343,208 for the six months ended June 30, 1996 and \$242,511 for the six months ended June 30, 1995. The increase in net income was due to increased revenues and a decreased cost of goods sold as a percentage of sales. As previously discussed, during the fourth quarter of 1995, the Company recognized a one-time tax benefit of \$277,400 due to its prior net operating losses. Because of the tax benefit recognized during the fourth quarter of 1995, it is unlikely that the Company's net income for 1996 will exceed the Company's 1995 net income.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

REVENUES

Revenues in 1995 increased by \$3,788,169, or 60.62%. The majority of this increase, \$1,957,293 (51.67%) was due to increased sales through the Company's stocking distributors who resell the Company's products to OEMs. Direct sales by the Company to OEMs accounted for \$1,294,886 (34.18%) of the increase in sales and the balance of \$535,990 (14.15%) was generated by the Company's three private label customers.

GROSS MARGINS

Gross margins were 25.34% of revenues during 1995 and 25.38% of revenues during 1994. This slight decrease in gross margins was due to increased costs to the Company. These increased costs primarily resulted from increased sheet metal costs and increased costs associated with certain Japanese-sourced materials, such as capacitors. Japanese-sourced materials became more expensive because of the weakening of the Japanese yen against the dollar. In addition, the Company's administrative costs of its Mexican facility increased due to the appointment of a new plant manager and several other key management personnel to strengthen the operations of that facility. These increases in costs were offset by an approximate 5% increase in selling prices instituted during 1995.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were 10.30% of revenues in 1995 and 14.71% of revenues in 1994. Selling, general and administrative expenses declined during 1995 primarily due to the Company's decision to terminate its relationship with its manufacturer's representative in the Northern California territory and to manage sales directly, resulting in a decrease in commissions to 1.42% of revenues in 1995 from 3.87% of revenues in 1994.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 4.80% of revenues in 1995, and 6.54% of revenues in 1994. During 1994, the Company had entered into several custom product development contracts which were engineering-intensive but did not result in the expected revenues. In 1995, the Company directed its engineering resources to a greater degree on the development of modifiable standard products with a resulting decline in engineering expenses as a percentage of revenues.

INTEREST EXPENSE

Interest expense was 1.16% of revenues during 1995 and 1.64% of revenues during 1994. Interest expense relates primarily to a line of credit and two equipment term loans with San Jose National Bank. The two term loans in the aggregate principal amount of \$170,000, and the line of credit, are secured by the Company's accounts receivables and the Company's assets. Proceeds from the two term loans were used to acquire equipment, and proceeds from the line of credit were used for working capital. Because the Company's borrowings did not increase in 1995, interest expense, as a percentage of revenues, decreased in 1995. In addition, the interest rate on the line of credit loan decreased by one percentage point in September 1995.

TRANSLATION LOSS

The primary currency of the Company's subsidiary, Poder Digital, is the Mexican peso. During the fiscal year ended 1995, the Mexican peso was devalued against the United States dollar. As a result of the devaluation, the Company incurred a \$85,258 translation loss related to Poder Digital's operations. During 1994, the Company experienced a translation loss of \$10,450.

INCOME BEFORE INCOME TAXES

Income before income taxes increased by \$681,508 from \$144,976 during 1994 to \$826,484 in 1995. This substantial increase was primarily due to the increase in revenues from the sale of the Company's power supplies.

INCOME TAX

During the fourth quarter of 1995, the Company recognized an income tax benefit of \$277,400 as compared to a tax provision of \$23,253 during 1994. The recognition of the tax benefit during 1995 is due to the Company's utilization of its prior net operating loss carryforward.

NET INCOME

Net income was \$1,103,884 in 1995 and \$121,723 in 1994, an increase of \$982,161, or 807%. The increase in net income was due to a substantial increase in sales without a corresponding increase in expenses related to such sales, and due to a \$277,400 tax benefit.

The Company does not believe that its business is seasonal.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 1996 and December 31, 1995, the Company's working capital was \$2,426,022 and \$2,211,358, respectively. For the past two fiscal years and the six months ended June 30, 1996, the Company has relied on cash flows from operations supplemented by bank borrowings to finance working capital and capital improvements. The Company's bank borrowings consist of a \$120,000 promissory note bearing interest at 10% per annum and due December 8, 1998, a \$50,000 promissory note bearing interest at 10.5% per annum and due May, 1999, and a \$1.5 million line of credit bearing interest at prime plus 1% and due October 15, 1997. Proceeds from the promissory notes were used to acquire equipment, and the line of credit is used to supplement the Company's working capital. The promissory notes and line of credit are secured by substantially all of the Company's assets. The Company does not anticipate any material capital expenditures during 1997. As of June 30, 1996 and December 31, 1995, the Company's bank borrowings totalled \$1,614,458 and \$1,054,145, respectively. See Note 6 of Notes to Consolidated Financial Statements. Part of the proceeds raised hereby will be used to reduce the Company's borrowings by approximately \$1 million.

In addition, the Company is a guarantor of a \$500,000 term loan granted to the Company's employee stock ownership plan ("ESOP"). The \$500,000 term loan is included in the total amount of the Company's bank borrowings as of June 30, 1996 stated in the preceding paragraph. The \$500,000 is due in June 2001 and bears interest at 10.5% per annum. Proceeds from the loan were used to acquire the Company's Common Stock by the ESOP. Principal and interest on the loan will be paid by the ESOP through contributions made by the Company to the ESOP in the amount of approximately \$10,750 per month. This amount will be a monthly deduction against revenues through June 2001.

NEW FINANCIAL ACCOUNTING PRONOUNCEMENTS

The requirements of the Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets," issued in March 1995 ("FAS 121") and the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," issued in October 1995 ("FAS 123"), are effective for financial statements for years that begin after December 15, 1995. The Company adopted FAS 121 effective January 1, 1996. The adoption had no effect on the Company's financial position.

FAS 123 encourages, but does not require, companies to recognize compensation expense based on fair value for grants of stock, stock options, and other equity instruments granted to employees. Companies that do not adopt the fair value accounting rules must disclose the impact of adopting the new method in the notes to the financial statements. The Company currently does not intend to adopt the fair value accounting prescribed by FAS 123 and will be subject only to the disclosure requirements prescribed by FAS 123.

BUSINESS

OVERVIEW

Digital Power Corporation designs, develops, manufactures, and markets switching power supplies for sale to manufacturers of computers and other electronic equipment. Switching power supplies are critical components of all computers and other electronic equipment. The electronic circuitry in computers and other electronic equipment requires a steady and isolated supply of direct current (DC) electrical power. In addition, the various components and subassemblies within computers and other electronic equipment often require different voltage levels of electrical power. The power supply products of the Company satisfy these two requirements by converting the alternating current (AC) electricity from a primary source, such as a wall outlet, into the direct current required for the proper functioning of electronic circuits, and by dividing the single electrical current into as many as four discrete output voltages. The Company's power supply products also monitor and regulate the DC output voltages being delivered to protect the electronic equipment from harmful surges and drops in voltage levels. Because the Company's products have a high "power-density" (measured in watts per cubic inch), the power supply products of the Company are generally smaller than those of competitors. For example, the Company believes that its US100 series of power supplies, on a 3"x 5" printed circuit board, is the smallest 100 watt off-line (AC input) power supply available in the industry. Furthermore, the Company's power supply products are extremely "flexible" in design. This "flexibility" approach allows the Company to modify quickly and inexpensively its base-design products to satisfy an OEM's specific power supply needs, thereby enabling the Company to keep to a minimum its expenses for non-recurring engineering ("NRE") of its base-design products. Because of this reduced NRE expense related to the "flexibility" line of switching power supplies, the Company does not charge its customers for its NRE expenses incurred in tailoring a power supply to a customer's specific requirements. However, many competitors of the Company do charge their customers for NRE expenses. As a result of the Company's "flexibility" approach, it has provided samples of modified power supplies to OEM customers in as quickly as a few days, an important capability given the increasing emphasis placed by OEMs on "time-to-market". Digital Power's strategic objective is to exploit this combination of power density, flexibility, and short time-to-market to win an increasing share of the growing power supply market.

THE INDUSTRY

The market for power supplies is large, as all electronic systems require a steady supply of low voltage electrical power. Almost all of these systems require direct current (DC) voltages, not the alternating current (AC) voltages provided by utility companies. Furthermore, the voltage levels produced by standard power sources must be significantly lowered in order to allow proper functioning of an electronic component. For example, internal computer microprocessors, as well as memory and logic circuitry in telecommunications systems, generally operate on a voltage level of 5 volts DC or less. However, most electrical outlets produce at least 115 volts AC. Therefore, the incoming voltage of 115 volts AC must be both converted to DC and reduced to 5 volts. This is the function performed by a typical power supply. Those products which accept and convert alternating current from a primary power source into the direct current required by electronic systems are generally referred to as "power supplies". Those products which convert one level of DC voltage into a higher or lower level of DC voltage as required by a particular electronic device are generally referred to as "DC/DC converters".

Electronic systems are sensitive to variations in voltage, and therefore require protection from the surges and drops in the AC voltage which commonly occur over electrical lines. Power supplies perform this essential function by regulating or maintaining the output voltages within a narrow range of values.

Finally, power supplies divide a charge of electricity into multiple lower voltage outputs. Most electronic systems have a number of subsystems, each of which may require a different incoming operating voltage. Power supplies can provide multiple outputs of different voltage levels. Certain voltage levels are common in the electronics field. Increasingly, Digital Power has received requests from OEMs for "non-standard" voltage outputs. Digital Power believes that its "flexibility" series of power supplies are ideally suited for these non-standard voltage applications.

THE MARKET

According to Micro-Tech, the worldwide market for electronic power supplies was estimated to be \$15 billion in 1995. The power supply manufacturing industry is highly fragmented and Digital Power believes there are approximately 400 power supply competitors in the world. The electronic power supply market is typically split into captive and merchant segments. The captive segment of the market, that portion represented by OEMs who design and manufacture power supplies for use in their own products, is estimated to account for 50% of the total market according to Micro-Tech. The balance of the power supply market is served by merchant power supply manufacturers such as Digital Power that design and manufacture power supplies for sale to OEMs. Micro-Tech forecasts that the merchant segment of the market will experience the greatest rate of growth, increasing from 52.5% of the total market in 1996 to 62.8% of the total market in 2000. The Company believes that the increase is due, in part, to the fact that power supplies are becoming an increasingly complex component to the OEMs, with constantly changing requirements such as power factor correction (PFC) and filtering specifications to minimize electromagnetic interference (EMI).

POWER FACTOR CORRECTION. The alternating current electricity delivered by utility companies over power lines is delivered in smooth waves, known as harmonic waves, or sine waves. This smooth harmonic wave form of AC electricity that reaches a power supply is known as "apparent power", and it is measured in watts (watts equal volts multiplied by amperes). Although the electricity reaches a switching power supply in a smooth harmonic wave form, the switching power supply does not draw on the electricity in a smooth harmonic fashion. Rather, in the process of "rectifying" the alternating current into direct current form, a switching power supply will draw current off the AC harmonic wave form in short bursts, each of which is shorter in duration than the wave frequency. The amount of power drawn off the line by the

switching power supply in these short bursts is known as the "real input power". The real input power cannot be greater than the apparent power, and in fact is almost always less than the apparent power. Therefore, a percentage, or factor, can be arithmetically determined by dividing the real input power by the apparent power, giving a coefficient known as the "power factor" of the power supply. Ideally, a switching power supply would have a power factor of one, where all the apparent power is drawn off by the power supply, resulting in the real input power equaling the apparent power. In practice, however, this is not possible. In fact, most switching power supplies without the special feature known as "power factor correction" have an approximate power factor of only .60.

The reason why power factor of less than one can be a significant problem relates to the power that is not drawn off the power line, or the differential amount between one and the power factor ($1 - .60 = .40$ in the example given above). This differential of missing power is reflected back onto the power line in a harmonically distorted fashion, since the originally smooth harmonic wave form has now been disrupted by the power that has been drawn off by the power supply and exhibits a kind of "ripple" in the wave form. The harmonically distorted wave form circulates as wasted heat energy in the power line, as well as in wall sockets, electrical wiring in the building, and in distribution transformers along the power line. This problem of harmonic distortion and wasted heat energy grows as additional switching power supplies are connected to and draw power from a power line. A large enough number of switching power supplies drawing power from a line without power factor correction will result in: (i) a significant uncompensated loss of electrical power (in the form of heat) to the electrical utility company; (ii) potential damage to power lines and transformers caused by excessive heat; and (iii) "dirty" electrical power for "downstream" consumers of electricity. A low power factor is generally not a problem for the piece of electronic equipment itself served by the switching power supply.

In response to these problems, manufacturers of power supplies have developed certain circuitry within power supplies known as "power factor correction", or PFC. With PFC, most power supplies can be improved to perform at a power factor of approximately .99. Historically, PFC has only been installed in high wattage switching power supplies because of the comparatively greater amount of harmonic distortion reflected back onto the line by these power supplies. However, PFC is rapidly becoming critical at all power levels, not only because it allows equipment designers to power more circuits from a standard outlet, but also because of regulatory requirements established in the European Union, such as European Normatives EN61000-3-2 and EN61000-3-3. These two normative standards, known more fully as "Limits For Harmonic Current Emissions," and "Limitation Of Voltage Fluctuations And Flicker On Low Voltage Supply Systems For Equipment With Rated Current $<16A$ [less than 16 amperes]," respectively, upgrade the former generic standard IEC555.2 and place pressure on manufacturers of power supplies to develop products with PFC at lower and lower power levels.

ELECTROMAGNETIC INTERFERENCE (EMI). EMI is universally undesirable because it potentially interferes with the operation of other electronic equipment. In the United States, the Federal Communications Commission ("FCC") has mandated certain EMI limits which cannot be exceeded by OEM equipment. The European Union (EU) has issued an electromagnetic compatibility (EMC) directive that applies certain requirements to products sold in Europe beginning January 1, 1996. The EU created these directives to insure conformity with safety and quality standards and to assess product compliance throughout its jurisdiction. One of these requirements involves Conformity European ("CE") marking. OEMs may add the "CE" mark to their equipment if it meets the requirements for radiated and conducted noise emissions and for noise susceptibility. The power supply, if part of an OEM system, does not itself need CE certification. However, since it is one of the major noise generators within an OEM system, there is a growing demand for the power supply to have the CE mark. A pre-approved power supply provides added assurance that the OEM will meet the applicable standards with little trouble.

Digital Power plans to address the market demands discussed above for PFC and EMI features by developing and introducing a line of power supply products which incorporate PFC and provide filtering from EMI which meets or exceeds the requirements for "CE" marking.

The power supply market can be further segmented between custom and standard power supplies. Power supplies designed and manufactured by an OEM for use in its own equipment are an example of a custom design, as the product is not intended for resale. However, custom power supplies are also common in the merchant market, as certain OEMs contract with power supply manufacturers to design a product that meets the form, fit, and function requirements of their specific application. Standard, "off-the-shelf" power supplies are intended for sale to many customers whose electronic equipment can operate from "standard" output voltages, such as 5 volts, 12 volts or 24 volts DC. A subset of the standard segment of the market has evolved, commonly known as "modified", comprising power supply products which have the performance characteristics of a standard power supply, but need certain, usually minor, modifications. These modifications may include slight mechanical changes to the sheet metal chassis, but more typically involve an adjustment to the output voltages from one of the "standard" output voltages (e.g. 5 volts to 7 volts, or 15 volts to 18.5 volts).

Digital Power primarily serves the North American power electronics market with AC/DC power supplies and DC/DC converters ranging from 50 watts to 750 watts of total output power. AC/DC power supplies represent the largest part of the merchant power electronics market with sales in North America alone expected to grow from about \$4.9 billion in 1996 to \$6.7 billion in 2000. During the same period, DC/DC converter sales in North America are forecasted to grow from \$1.5 billion in 1996 to \$2.1 billion in 2000.

STRATEGY

Digital Power's strategy is to be the supplier of choice to OEMs requiring a high quality power solution where size, rapid modification, and time-to-market are critical to their business success. Target market segments would include telecommunications, networking, switching, mass storage, and industrial and office automation products. While many of these segments would be characterized as computer-related, the Company does not participate in the personal computer (PC) power supply market. The power supply market for PCs is very competitive with standard power supplies producing low margins.

PRODUCT STRATEGY

Digital Power has eight series of base designs from which thousands of individual models can be produced. Each series has its own printed circuit board (PCB) layout that is common to all models within the series regardless of the number of output voltages (typically one to four) or the rating of the individual output voltages. A broad range of output ratings, from 3.3 volts to 48 volts, can be produced by simply changing the power transformer construction and a small number of output components. Designers of electronic systems can determine their total power requirements only after they have designed the system's electronic circuitry and selected the components to be used in the system. Since the designer has a finite amount of space for the system and may be under competitive pressure to further reduce its size, a burden is placed on the power supply manufacturer to maximize the power density of the power supply. A typical power supply consists of a PCB, electronic components, a power transformer and other electromagnetic components, and a sheet metal chassis. The larger components are typically installed on the PCB by means of pin-through-hole assembly where the components are inserted into pre-drilled holes and soldered to electrical circuits on the PCB. Other components can be attached to the PCB by surface mount interconnection technology (SMT) which allows for a reduction in board size since the holes are eliminated and components can be placed on both sides of the board. The Company's US100 series is an example of a product using this manufacturing technology.

PRODUCTS

Digital Power's "flexibility" concept applies to all of the Company's US, UP/SP, and DP product series. A common printed circuit board is shared by each model in a particular family, resulting in a reduction in parts inventory while allowing for rapid modifiability into thousands of output combinations. The following is a description of the Company's products.

US50/DP50 SERIES

The US50 series of power supplies are compact, economical, high efficiency, open frame switchers that deliver up to 50 watts of continuous or 60 watts of peak power from one to four outputs. The 90-264 VAC universal input allows them to be used worldwide without jumper selection. Flexibility options include chassis and cover, power good signal, an isolated V4 output, and UL544 (medical) safety approval. All US50 series units are also available in 12VDC, 24VDC, or 48VDC inputs. This optional DC input unit (DP50 series) maintains the same pin-out, size, and mounting as the US50 series.

US70/DP70 SERIES

The US70 series of power supplies is similar to the US50 series, a compact, economical, highly efficient, open frame switcher that delivers up to 65 watts with a 70 watt peak. This unit is offered with one to four outputs, a universal input rated from 90 to 264 VAC, and is only slightly larger than the US50 series. The US70 series is differentiated from competitive offerings by virtue of its smaller size, providing up to four outputs while competitors typically are limited to three outputs. Flexibility options include cover, power good signal, an isolated V4 output, and UL544 (medical) safety approval. The DP70 is the same as the US70 except the input is 48 volts DC. The Company also offers 12 & 24 VDC DC input on this series where the model series changes to DN&DM. This type of product is ideal for low profile systems with the power supply measuring 3.2" x 5" x 1.5".

US100/DP100 SERIES

The US100/DP100 is the industry's smallest 100 watt switcher. Measuring only 5" x 3.3" x 1.5", this series delivers up to 100 watts of continuous or 120 watt peak power from one to four outputs. The 90-264VAC universal input allows them to be used worldwide. This product is ideal in applications where OEMs have upgraded their systems, requiring an additional 30-40 watts of output power but being unable to accommodate a larger unit. The US100 fits in the same form factor and does not require any tooling or mechanical changes by the OEM. Flexibility options include a cover and adjustable post regulators on V3 and/or V4 outputs. Fully custom models are also available. All US100 series units are also available with 12VDC, 24VDC, or 48 VDC inputs. This optional DC input unit (DP100) maintains the same pin-out, size, and mounting as the US100 series.

UP300 SERIES

The UP300 series are economical, high efficiency, open frame switchers that deliver up to 300 watts of continuous, 325 watt, peak power from one to two outputs. The 115/230VAC auto-selectable input allows them to be used worldwide. On-board EMI filtering is a standard feature. Flexibility options include a cover, power fail/power good signal, and an isolated 2nd output. The UP300 is also available as the SP300 series, which is jumper selectable between 115 and 230VAC and provides the OEM an even more economical solution. This product can be used in network switching systems or other electronic systems where a lot of single output current, such as 5, 12, 24, 48 volt current might be required.

US250/DP250 SERIES

The US250 series are economical, high efficiency, open frame switchers that deliver up to 250 watts of continuous or 300 watts of peak power from one to four outputs. The 115/230VAC auto-selectable input allows them to be used worldwide. Flexibility options include cover, power fail/power good signal, enable/inhibit, and an isolated V3 output. All US250 series units are also available with 12VDC, 24VDC, or 48VDC inputs. This optional DC input unit (DP250) maintains the same pin-out, size, and mounting as the US250 series.

US350 SERIES

The US350 series is a fully-featured unit that has active power factor correction and was designed to be field-configurable by the Company's international and domestic sales channels. This feature allows the stocking distributor to lower its inventory costs but still maintain the required stock to rapidly provide power supplies with the unique combination of output voltages required by an OEM. This unit delivers 350 watts from one to four outputs modules and meets the total harmonic distortion spec IEC 555.2. The US350 has an on-board EMI filter and operates from 90-264 VAC input. This unit measures 9" x 5" x 2.5" and can operate without any minimum loads and has an optional internal fan and power fail/power good signal.

US750 SERIES

The newest product under development by the Company is the US750 series. The US750 is a fully modular power supply measuring 3" x 10.25" x 5" and delivers 750 watts from one to four power outputs. This product can be configured to meet many different applications. It comes with optional N+1 parallelability, hot swapability, frequency synching, power good/power fail, and remote on/off. The Company anticipates that this product will be available for sale during the first quarter of 1997.

The Company also produces two products designated as the KD series in a 150 watt and 200 watt product. These designs were acquired in 1987 under a licensing agreement with KDK Electronics. They are still offered for sale but are expected to continue to decline as a percentage of Digital's revenues. The licensing agreement with KDK Electronics, as amended, provides that in the event total historical sales of KD products reaches \$20 million, then KDK Electronics will be granted a stock option to purchase 100,000 shares of Digital's Common Stock for \$3.50 per share with Digital paying the exercise price. Due to changing market conditions, the KD series is expected to be phased out prior to reaching the \$20 million sales level. Therefore, no common stock is anticipated to be granted to KDK Electronics under the licensing agreement. In addition, KDK Electronics will be paid a royalty equal to 5% on the first \$20 million total sales of the KD series products with the royalty decreasing on sales over that amount. KD products accounted for 23%, 14%, and 9% of revenues in 1994, 1995, and for the six months ended June 30, 1996, respectively. Total cumulative sales of KD products were \$14,211,423 as of June 30, 1996.

VALUE-ADDED SERVICE

Digital Power offers its customers various types of value-added services, which may include the following additions to its standard product offerings.

Electrical (power): Paralleled power supplies for (N+1) redundancy, hot swapability, output OR'ing diodes, AC input receptacle with fuse, external EMI filter, on/off switch, cabling and connectors, and battery backup with charger.

Electrical (control and monitoring): AC power fail detect signal, DC output(s) OK signal, inhibit, output voltage margining, and digital control interface.

Mechanical: Custom hot-plug chassis for (N+1) redundant operation, locking handle, cover, and fan.

These services incorporate one of the Company's base products along with additional enclosures, cable assemblies, and other electronic components to arrive at a power subassembly. This strategy matches perfectly with those OEMS wishing to reduce their vendor base, as the turnkey sub-assembly allows customers to eliminate other vendors.

QUALITY MANAGEMENT METHODS

Digital Power's emphasis on quality begins with the initial design stage and continues through the production processes to the end product. To execute this strategy, the Company utilizes sophisticated design techniques including computer modeling and computer aided design combined with advanced management methods such as just-in-time (JIT) manufacturing, statistical process control (SPC), and total quality commitment (TQC). The Company believes that these techniques lower production costs while simultaneously improving production efficiencies and the quality of the end-product.

SAFETY AND REGULATORY AGENCIES

All of the Company's power supplies meet or exceed established international safety standards including Underwriters Laboratory Incorporated (UL) in the United States; Canadian Standards Associations (CSA) in Canada, or the UL equivalent (cUL); and Technischer Überwachungs-Verein (TUV) or Verband Deutscher Elektrotechniker (VDE) in Germany. In addition the Company has been site-approved by the British Approval Board for Telecommunications (BABT) in the United Kingdom. The Company plans to achieve ISO 9001 certification, a European model for quality assurance, by the second quarter of 1997.

SUPPLIERS

Other than certain fabricated parts such as printed circuit boards and sheet metal chassis which are readily available from many suppliers, the Company uses no custom components. Typically, two suppliers are qualified for every component, with the exception being two line transformers, one manufactured by Tamura and the second one manufactured by Spitznagel. These transformers are designed into three of the Company's products, which products accounted for approximately 10% of the Company's sales in 1995.

MANUFACTURING STRATEGY

Consistent with its product flexibility strategy, the Company aims to maintain a high degree of flexibility in its manufacturing processes in order to respond to rapidly changing market conditions. With few exceptions, the competitive nature of the power supply industry has placed continual downward pressure on selling prices. In order to achieve low cost manufacturing with a labor-intensive product, manufacturers have the option of automating much of the labor out of their product, or producing their product in a low labor cost environment. Given the high fixed costs of automation and the resistance this places on making major product changes, Digital Power believes that its flexible manufacturing strategy is best achieved through a highly variable cost of operation. In 1986, the Company established a wholly-owned subsidiary in Guadalajara, Mexico to assemble its products. This manufacturing facility performs materials management, sub-assembly, final assembly, and test functions for the majority of the Company's power supply products. In addition, Digital has entered into an agreement with Fortron/Source Corp. to manufacture Digital's products at a facility located in China on a turnkey basis. Purchases from Fortron/Source will be made pursuant to purchase orders and the agreement may be terminated upon 120 days notice. Although the Company has just recently begun to manufacture its products through Fortron/Source, the Company believes that it will be able to produce high volume power supplies through Fortron/Source at a cost lower than at its Guadalajara, Mexico, facility.

SALES, MARKETING AND CUSTOMERS

Digital Power markets its products domestically through a network of 13 independent manufacturers representatives. Each representative organization is responsible for managing sales in a particular geographic territory. Generally, the representative has exclusive access to all potential customers in the assigned territory and is compensated by commissions at 5% of net sales after the product is shipped, received, and paid for by the customer. Typically, either the Company or the representative organization may terminate the agreement with 30 days written notice.

In certain territories, the Company has entered into agreements with 28 stocking distributors who buy and resell the Company's products. For the six months ended June 30, 1996, and for the years ended December 31, 1995 and 1994, distributor sales accounted for 38.9%, 39.7%, and 32.4%, respectively, of the Company's total sales. Over this same period, one distributor accounted for 23.1%, 27%, and 16%, respectively, of total sales. In addition, international sales through stocking distributors accounted for less than 5% of the Company's sales. In general, the agreements with stocking distributors are subject to annual renewal and may be terminated upon 90 day's written notice. Although these agreements may be terminated by either party in the event a stocking distributor decides to terminate its agreement with the Company, the Company believes that it would be able to continue the sale of its products through direct sales to the customers of the stocking distributor. Further, and in general, stocking distributors are eligible to return 25% of their previous six-month's sales for stock rotation. For the past three years, stock rotations have not exceeded one percent of total sales.

The Company has also entered into agreements with three private label customers who buy and resell the Company's products. Under these agreements, the Company sells its products to the private label company who then resells the products with its label to its customers. The Company believes that these private label agreements expand its market by offering the customer a second source for the Company's products. The private label agreements may be terminated by either party. Further, the private label agreement requires that any product subject to a private label be available for 5 years. For the six months ended June 30, 1996, and for the years ended December 31, 1995 and 1994, private label sales accounted for 8.4%, 10.2%, and 7.8%, respectively, of total sales.

The Company's promotional efforts to date have included product data sheets, feature articles in trade periodicals, and trade shows. Part of the proceeds raised hereby will be used for future promotional activities, including space advertising in industry-specific publications, a full line product catalog, application notes, and direct mail to an industry-specific mail list.

The Company's products are warranted to be free of defects for a period ranging from one to two years from date of shipment. No significant warranty returns have been experienced. As of June 30, 1996, the Company's warranty reserve was \$149,125.

BREAKDOWN OF PRODUCT MARKET

The table below sets forth the percentage of Digital Power's revenues generated by particular market segments served by Digital Power's customers, and indicates representative customers within those market segments.

PRODUCT OR MARKET SERVED BY CUSTOMER	PERCENTAGE OF REVENUES	REPRESENTATIVE CUSTOMERS
Communications	28%	Westinghouse STM Wireless Stanford Telecommunications Multipoint Networks ADC AT&T
Network Switches, Routers, Hubs	24%	Bay Networks Ascend Communications Digital Link Whitetree 3COM
Computer Peripheral/Mass Storage	12%	Storage Dimensions Motorola
Photography/Visual Equipment	9%	N View

Semiconductor Mfg. Equipment	7%	Photometrics Optivision Applied Materials Asyst Technologies
Enclosures	6%	Elma Sigma/Trimm
Broadcast Equipment	5%	Leitch Video
Office Automation	4%	Quartet Ovonics Patapsco
Medical Equipment	3%	OEC Diasonics
Test Equipment	2%	Analogic Orion Instruments

BACKLOG

Digital Power typically does not build finished goods for stock. Upon receipt of a purchase order from a customer, a work order is issued to the Company's production department to build a specified quantity of a model to be delivered on a specified shipment date. Backlog consists of purchase orders on-hand generally having a scheduled delivery date within the next six months. The Company's backlog was \$5,810,098 at June 30, 1996, and \$3,276,498 at December 31, 1995. Variations in the magnitude and duration of purchase orders received by the Company and customer delivery requirements may result in substantial fluctuations in backlog from period to period. Although the Company may have a binding purchase order, customers may cancel or reschedule deliveries and backlog may not be a meaningful indicator of future financial results.

COMPETITION

The merchant power supply manufacturing industry is highly fragmented and serviced by approximately 400 competitors worldwide. Many of the Company's competitors are located in low cost environments where they may have advantages in terms of labor and component costs. In addition, they may offer products comparable in quality to those of Digital Power and have significantly greater financial and marketing resources. Representative examples of the Company's competitors are Computer Products, Inc., ASTEC America, Zytec Corporation, and Lambda Electronics. The Company believes it has a competitive position with its targeted customers who need a high-quality, compact product which can be readily modified to meet the customer's unique requirements. To remain competitive, the Company must continue to offer innovative products at competitive prices while demonstrating flexibility in meeting the customer's requirements for rapid time-to-market.

RESEARCH AND DEVELOPMENT

The Company's research and development efforts are primarily directed toward the development of new standard power supply platforms which may be readily modified to provide a broad array of individual models. Improvements are constantly sought in power density, modifiability, and efficiency, while the Company attempts to anticipate changing market demands for increased functionality, such as PFC and improved EMI filtering. Internal research is supplemented through the utilization of consultants who specialize in various areas, including component and materials engineering, and electromagnetic design enhancements to improve efficiency, while reducing the cost and size of the Company's products. Product development is performed at Digital Power's headquarters in California by three engineers who are supported and assisted by five technicians. The Company's total expenditures for research and development were \$408,966, \$481,475, and \$314,659 for the years ended December 31, 1994, 1995, and the six month period ended June 30, 1996, respectively, and represented 6.54%, 4.8%, and 4.8% of the Company's total revenues for the corresponding periods.

EMPLOYEES

As of June 30, 1996, the Company had approximately 345 full-time employees with 300 of these employed at its wholly-owned subsidiary Poder Digital located in Guadalajara, Mexico. The employees of Digital Power's Mexican operation are members of a national labor union, as are most employees of Mexican companies. The Company has not experienced any work stoppages at either of its facilities and believes its employee relations are good.

FACILITIES

The Company's headquarters are located in approximately 9,500 square feet of leased office, research and development space in Fremont, California. The Company pays \$5,890 per month, subject to adjustment, and the lease expires on January 31, 2001. The Company's manufacturing facility is located in 16,000 square feet of leased space in Guadalajara, Mexico. The Company pays approximately \$3,500 per month, subject to adjustment, and the lease expires in February, 2001. The Company believes that its existing facilities are adequate for the foreseeable future and has no plans to expand them.

LEGAL PROCEEDINGS

The Company knows of no material litigation or claims pending, threatened, or contemplated to which the Company is or may become a party.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The names and ages of the Executive Officers and Directors of the Company as of September 30, 1996, and certain information about such persons, are set forth below. The Company's Bylaws provide for a Board of Directors of not less than five nor more than nine members, with the actual number to be set by resolution of the Board. Each of the Company's Directors is elected at the annual meeting of shareholders of the Company and serves until the next annual meeting until such person's successor is elected and qualified, or until such person's earlier death, resignation, or removal.

As part of the Underwriting Agreement, the Underwriters shall have the option to designate a member to the Board of Directors, or, at the Underwriters' option, designate an individual to attend the Board's meetings for a period of five years. At this time, the Underwriters have not indicated whether they intend to exercise such right. See "Underwriting."

Executive Officers are appointed by, and serve at the discretion of, the Board of Directors. Except as discussed below, the Company has no employment agreements with any of its Executive Officers or Directors. The Company has not paid any fees or other remuneration to the Directors for their services as Directors. The Directors do, however, receive stock options and Warrants from the Company for their services. In August of 1996, each Director received Warrants to purchase 20,000 shares of Common Stock at \$5.00 per share for services as a Director. See "Principal and Selling Stockholders and Warrantholders." The Company has agreed to register the Common Stock underlying such options and Warrants. No family relationship exists between any of the Officers or Directors.

Name	Age	Position
Edward L. Lammerding	66	Chairman of the Board
Philip M. Lee	72	Director
Thomas W. O'Neil, Jr.	67	Director
Robert O. Smith	52	Director, Chief Executive Officer, and President
Claude Adkins	54	Director, Executive Vice President, and Vice President-Engineering
Philip G. Swany	46	Chief Financial Officer and Vice President-Finance

BACKGROUND OF EXECUTIVE OFFICERS AND DIRECTORS.

EDWARD L. LAMMERDING. Mr. Lammerding is Chairman of the Board of the Company and has been a Director since 1989. Since November, 1995, Mr. Lammerding has also served as Chairman of the Board of 3Net Systems, and since 1983 he has served as Chairman of the Board of Sierra Resources Corporation, a venture capital investment firm. Currently, Mr. Lammerding is serving as a director or trustee of three other organizations, including Public Affairs Information, Inc., a legislative bill reporting service, Unicube U.S.A., Inc., a hospital curtain manufacturer, and Fulton Water Co., a domestic water supply company. Mr. Lammerding also serves on the board of the California State Lottery Commission, St. Mary's College, and the Marine Corps Historical Foundation. Mr. Lammerding received an A.B. in Economics from St. Mary's College.

PHILIP M. LEE. Mr. Lee has served as a Director of the Company since 1991. He has over 40 years experience in supermarket management and is a general partner of J & P Properties, a real estate management and investment company. Mr. Lee is also a director of Sierra Resources Corporation. He received a certificate in management from American River College.

THOMAS W. O'NEIL, JR. Mr. O'Neil has served as a Director of the Company since 1991. He is a certified public accountant and has been a partner of Schultze, Wallace and O'Neil, CPAs, since 1991. Mr. O'Neil is a retired partner of KPMG Peat Marwick. Mr. O'Neil is also a director of the California Exposition and State Fair, Chairman of the Board of the Regional Credit Association, and a director of 3Net Systems, Inc.

ROBERT O. SMITH. Mr. Smith joined the Company in November 1989 as its Chief Executive Officer and as a Director, and in May 1996 he was also made President of the Company. From 1980 through 1989, Mr. Smith held various executive positions with Computer Products, Inc., a manufacturer of power conversion products and industrial automation systems (including positions as Vice President/Group Controller of the Power Conversion Group, General Manager of the Compower Division, and President of the Boschert subsidiary). From 1978 to 1980, Mr. Smith was Cost Accounting Manager at Harris Computer Systems. Mr. Smith received a B.S. in Business Administration from the Ohio University and completed numerous courses in the M.B.A. program at Kent State University.

CLAUDE ADKINS. Mr. Adkins was the Company's President from September 1987 to May 1996, and Executive Vice President and Vice President of Engineering from May 1996 to the present. Mr. Adkins has been responsible for marketing power supplies and for new product development for the Company since the inception of the power supply line of products. From August 1975 to January 1978, Mr. Adkins was a technical sales representative for Richards Associates, a manufacturer's representative organization in San Jose, California. He received an A.A. degree from El Camino Junior College, and a B.S. degree in Industrial Technology and Electronics from California State University at Long Beach.

PHILIP G. SWANY. Mr. Swany joined the Company as its Controller in 1981. In February 1992, he left the Company to serve as the Controller for Crystal Graphics, Inc., a 3-D graphics software development company. In September 1995, Mr. Swany returned to the Company

where he was made Vice President-Finance. In May 1996, he was named Chief Financial Officer and Secretary of the Company. Mr. Swany received a B.S. degree in Business Administration - Accounting from Menlo College, and attended graduate courses in business administration at the University of Colorado.

COMMITTEES OF THE BOARD.

The Board has an Audit Committee and a Compensation Committee. The Audit Committee consists of Messrs. Lammerding and O'Neil, and the Compensation Committee consists of Messrs. O'Neil and Lee.

The primary functions of the Audit Committee are to review the scope and results of audits by the Company's independent auditors, the Company's internal accounting controls, the non-audit services performed by the independent accountants, and the cost of accounting services.

The Compensation Committee administers the Company's 1996 Stock Option Plan and approves compensation, remuneration, and incentive arrangements for officers and employees of the Company.

EXECUTIVE COMPENSATION.

The following table sets forth the Compensation of the Company's president and chief executive officer during the past three years. No other officer received annual compensation in excess of \$100,000.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Long Term Compensation					
		Annual Compensation		Restricted Stock Award(s) (\$)	Awards Securities Underlying Options (#)	Payouts LTIP Payouts (\$)	All Other Compensation
		Salary (\$)	Other Annual Compensation (\$)				
Robert O. Smith	1995	\$ 105,000	\$0	\$0	0	\$0	\$0
President and CEO	1994	\$ 100,000	\$0	\$0	0	\$0	\$0
	1993	\$ 100,000	\$0	\$0	104,922(1)	\$0	\$0

(1) During fiscal year 1993, Mr. Smith received a ten year option to acquire 104,922 shares of Common Stock at \$.50 per share. During fiscal year 1996, Mr. Smith exercised his option to acquire 8,022 shares of Common Stock.

The Company and Mr. Smith entered into an employment contract which terminates on December 31, 1999. Under the terms of Mr. Smith's employment contract, Mr. Smith shall serve as president and chief executive officer of the Company and his salary shall be \$150,000 per annum effective January 1, 1997, increasing in an amount to be determined by Mr. Smith and the Board such that Mr. Smith shall receive \$200,000 per annum by January 1, 1999. Mr. Smith's current salary for 1996 is \$110,000. In addition, pursuant to Mr. Smith's contract, he shall have the right to receive on the first business day of each January during the term of his contract options to acquire 100,000 shares of Common Stock at the market value as of such date. Finally, pursuant to Mr. Smith's employment contract, in the event there is a change in control, Mr. Smith shall be granted a five year consulting contract at \$200,000 per year.

LIMITATION OF LIABILITY AND INDEMNIFICATION MATTERS

Sections 204 and 317 of the California General Corporation Law permit indemnification of directors, officers, and employees of corporations under certain conditions subject to certain limitations. Article V of the Company's Amended and Restated Articles of Incorporation states that the Company may provide indemnification of its agents, including its officers and directors, for breach of duty to the Company in excess of the indemnification otherwise permitted by Section 317 of the Corporations Code, subject to the limits set forth in Section 204 of the Corporations Code. Article VI of the Bylaws provides that the Company shall, to the maximum extent and in the manner permitted in the Corporations Code, indemnify each of its agents, including its officers and directors, against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact that any such person is or was an agent of the Company.

Pursuant to Section 317 of the California Corporations Code, the Company is empowered to indemnify any person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the Company to procure a judgment in its favor) by reason of the fact that such person is or was an officer, director, employee, or other agent of the Company or its subsidiaries, against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with such proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Company and, in the case of a criminal proceeding, the Company has no reasonable cause to believe the conduct of such person was unlawful. In addition, the Company may indemnify, subject to certain exceptions, any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action by or in the right of the Company to procure a judgment in its favor by reason of the fact that such person is or was an officer, director, employee, or other agent of the Company or its subsidiaries, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action if such person acted in good faith and in a manner such person believed to be in the best interest of the Company and its shareholders. The Company may advance expenses incurred in defending any proceeding prior to final disposition upon receipt of an undertaking by the agent, officer, director, or employee to repay that amount if it shall be determined that the agent is not entitled to indemnification as authorized by Section 317. In addition, the Company is permitted to indemnify its agents in excess of Section 317.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

STOCK PLANS

EMPLOYEE STOCK PURCHASE PLAN. The Company adopted an Employee Stock Ownership Plan ("ESOP") in conformity with ERISA requirements. As of September 30, 1996, the ESOP owns, in the aggregate, 173,333 shares of the Company's Common Stock. In June 1996, the ESOP entered into a \$500,000 loan with San Jose National bank to finance the purchase of shares. The Company has guaranteed the repayment of the loan, and it is intended that Company contributions to the ESOP will be used to pay off the loan. See "Management's Discussion and Analysis." The Company intends to make a monthly contribution of approximately \$10,750 per month to the ESOP. All employees of the Company participate in the ESOP on the basis of level of compensation and length of service. Participation in the ESOP is subject to vesting over a six-year period. The shares of the Company's Common Stock owned by the ESOP are voted by the ESOP trustees. Mr. Smith, President and Chief Executive Officer of the Company, is one of two trustees of the ESOP.

1996 STOCK OPTION PLAN. The Company has established a 1996 Stock Option Plan (the "1996 Plan"). The purpose of the 1996 Plan is to encourage stock ownership by employees, officers, and directors of the Company to give them a greater personal interest in the success of the business and to provide an added incentive to continue to advance in their employment by or service to the Company. A total of 513,000 shares of Common Stock are authorized to be issued under the Plan, of which 275,500 shares have been issued pursuant to the 1996 Plan at an exercise price of \$1.80 per share. In connection with the issuance of the stock options, the Company obtained a letter from its investment banker that the value of the stock options do not exceed \$1.80 per share. The stock options to acquire 275,500 shares vest after two years. The 1996 Plan provides for the grant of incentive or non-statutory stock options. The exercise price of any incentive stock option granted under the 1996 Plan may not be less than 100% of the fair market value of the Common Stock of the Company on the date of grant. The fair market value for which an optionee may be granted incentive stock options in any calendar year may not exceed \$100,000. Shares subject to options under the 1996 Plan may be purchased for cash. Unless otherwise provided by the Board, an option granted under the 1996 Plan is exercisable for ten years. The 1996 Plan is administered by the Compensation Committee which has discretion to determine optionees, the number of shares to be covered by each option, the exercise schedule, and other terms of the options. The 1996 Plan may be amended, suspended, or terminated by the Board, but no such action may impair rights under a previously granted option. Each option is exercisable, during the lifetime of the optionee, only so long as the optionee remains employed by the Company. No option is transferrable by the optionee other than by will or the laws of descent and distribution. Pursuant to the 1996 Plan, Messrs. Smith, Adkins, and Swany received options to acquire 61,500, 29,500, and 24,250 shares of Common Stock, respectively.

401(K) PLAN

The Company has adopted a tax-qualified employee savings and retirement plan (the "401(k) Plan"), which generally covers all of the Company's full-time employees. Pursuant to the 401(k) Plan, employees may make voluntary contributions to the 401(k) Plan up to a maximum of six percent of eligible compensation. These deferred amounts are contributed to the 401(k) Plan. The 401(k) Plan permits, but does not require, additional matching and Company contributions on behalf of Plan participants. The Company matches contributions at the rate of \$.25 for each \$1.00 contributed. The Company can also 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 to 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.

CERTAIN TRANSACTIONS

SIERRA RESOURCES CORPORATION

Sierra Resources Corporation is a venture capital company registered as a business development company under the Securities Act of 1933. Edward L. Lammerding, Chairman of the Company, is the founder of Sierra Resources Corporation and, since 1983, has served as its chairman of the board. Sierra Resources Corporation is a principal shareholder of the Company. Previously, but not within the past two fiscal years, Sierra Resources has assisted the Company in financing through loans. In August 1996, Sierra Resources received Warrants to purchase 100,000 shares of common stock at \$5.00 per share for providing certain administrative and financial advice to the Company.

PRINCIPAL AND SELLING STOCKHOLDERS AND

WARRANTHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of the Company's Common Stock as of September 30, 1996, and as adjusted to reflect the sale of the Common Stock offered by the Company and the Selling Stockholders, for (i) each director, (ii) all directors and officers of the Company as a group, (iii) each person known to the Company to own beneficially five percent (5%) or more of the outstanding shares of the Company's Common Stock, and (iv) all other Selling Stockholders.

Name of Selling Shareholder	Shares Beneficially Owned Prior To Offering(1)		Shares To Be Sold	Shares Beneficially Owned After Offering(2)	
	Number	Percent		Number	Percent
Edward L. Lammerding 629 J Street Sacramento, CA 95814	422,131(3)	24.4	40,136	381,995	15.3
Philip M. Lee 41920 Christy Street Fremont, CA 94538	410,178(4)	23.7	6,000	404,178	15.0
Thomas W. O'Neil, Jr. 455 Capitol Mall Sacramento, CA 95814	63,100(5)	3.9	14,600	48,500	2.0
Robert O. Smith 41920 Christy Street Fremont, CA 94538	154,400(6)	8.8	10,000	144,400	5.8

Claude Adkins 41920 Christy Street Fremont, CA 94538	136,500(7)	5.7	15,000	121,500	5.0
Alaric Corporation	10,500	*	5,500	5,000	*
Callopy, Christine N.	2,000	*	600	1,400	*
Castillo, Joaquin	4,000	*	2,000	2,000	*
Davis, Devere J. & Lois M.	9,700	*	1,000	8,700	*
Flores, Louis	48,700	2.9	20,000	28,700	1.2
Gong, Sherman	3,000	*	1,000	2,000	*
Greenslate, Norman C. & Dolores	6,300	*	2,000	4,300	*
Harris, Patricia A.	2,000	*	500	1,500	*
Haug, Bruce	1,500	*	1,500	0	0
Kai, Jimmy T.	6,500	*	1,900	4,600	*
Lammerding Assoceights (A & S Part)	27,766(8)	1.6	9,366	18,400	*
Lammerding, Claire M.	2,000(8)	*	600	1,400	*
Lammerding, Jerome C.	2,000(8)	*	600	1,400	*
Lammerding, Joseph E.	2,000(8)	*	600	1,400	*
Lammerding, Mary C.	2,000(8)	*	600	1,400	*
Lee Family Trust	86,266	5.1	30,266	56,000	2.3
Lucas, David	8,000	*	3,000	5,000	*
Marquez, Jose	72,200	5.0	10,000	62,200	2.5
Moore, Elizabeth	63,366	3.7	20,366	43,000	1.8
Muir, Sharon	2,700	*	2,700	0	0
Mulhern, Iva Trust	17,933	1.0	6,933	11,000	*
Mulhern, James M.	17,933	1.0	6,933	11,000	*
Old Timers, Ltd.	18,700	1.1	6,000	12,700	*
Retzer, William K. & Mary J.	62,500	3.7	16,500	46,000	1.9
Rushford Hintz, Florence Catherine	750	*	750	0	0
Rushford, Daniel Lee	750	*	750	0	0
Rushford, James William	750	*	750	0	0
Rushford, Michael Dennis	750	*	750	0	0
Sierra Resources Corp.	180,412	10.6	1,800	178,612	7.3
Skinner, Marjorie V.	7,200	*	2,200	5,000	*
Takehara, Kenji	6,300	*	3,000	3,300	*
Takehara, Rusby F.	6,300	*	3,000	3,300	*
Taricco, Richard P. & Peggy L. T.	5,700	*	800	4,900	*
Officers and Directors as a group (6 persons)	904,897(9)	45.0	117,802	787,095	28.5

Footnotes to table:

* Less than 1%.

(1) The persons named in the table have sole voting and investment power with respect to all of the Common Stock shown as beneficially

owned by them, subject to community property laws where applicable and the information contained in the footnotes to the table.

(2) Assuming no exercise of the Underwriters' over-allotment option.

(3) Includes 27,500 shares subject to options and Warrants exercisable within 60 days. Also includes 180,412 shares and 100,000 shares subject to Warrants exercisable within 60 days owned by Sierra Resources Corporation of which Mr. Lammerding is president and chairman of the board and has dispositive and voting power.

(4) Includes 27,500 shares subject to options and Warrants exercisable within 60 days. Also includes 86,266 shares held by a family trust for which Mr. Lee serves as a trustee and 180,412 shares and 100,000 shares subject to Warrants exercisable within 60 days held by Sierra Resources Corporation for which Mr. Lee serves as a director and has dispositive and voting power.

(5) Includes 27,500 shares subject to options and Warrants exercisable within 60 days.

(6) Includes 154,400 shares subject to options and Warrants exercisable within 60 days.

(7) Includes 57,500 shares subject to options and Warrants exercisable within 60 days.

(8) Represents shares to Mr. Lammerding's adult children and shares of a family corporation to which Mr. Lammerding disclaims beneficial ownership.

(9) Includes a total of 409,400 shares subject to options and Warrants exercisable within 60 days.

The following table sets forth certain information with respect to the beneficial ownership of the Company's Warrants as of September 30, 1996, and as adjusted to reflect the sale of the Warrants offered by the Company and the Selling Stockholders, for each director and all other selling Warrantholders. The selling Warrantholders may sell all or none of their Warrants.

Warrants Beneficially Owned Warrants Beneficially Owned Prior to Offering(1) After Offering(2)

Name of Warrantholder	Number	Percent	Warrants to be Sold	Number	Percent
Edward L. Lammerding 629 J Street Sacramento, CA 95814	120,000(3)	60.0	20,000	100,000	0
Philip M. Lee 41920 Christy Street Fremont, CA 94538	120,000(3)	60.0	20,000	100,000	0
Thomas W. O'Neil 455 Capitol Mall Sacramento, CA 95814	20,000	10.0	20,000	0	0
Robert O. Smith 41920 Christy Street Fremont, CA 94538	20,000	10.0	20,000	0	0
Claude Adkins 41920 Christy Street Fremont, CA 94538	20,000	10.0	20,000	0	0
Sierra Resources Corp.	100,000	50.0	100,000	0	0

Footnotes to table:

(1) The persons named in the table have sole voting and investment power with respect to all of the Common Stock shown as beneficially owned by them, subject to community property laws where applicable and the information contained in the footnotes to the table.

(2) Assuming no exercise of the Underwriters' over-allotment option.

(3) Includes Warrants to acquire 100,000 shares of Common Stock owned by Sierra Resources Corporation for which Messrs. Lammerding and Lee are directors and may have dispositive and voting power.

DESCRIPTION OF SECURITIES

The Company's authorized capital stock consists of 10,000,000 shares of Common Stock, no par value, and 2,000,000 shares of Preferred Stock, no par value. As of June 30, 1996, there were outstanding 1,603,275 shares of Common Stock held of record by stockholders and no

shares of Preferred Stock outstanding.

COMMON STOCK

Each stockholder is entitled to one vote for each share of Common Stock held on all matters submitted to a vote of stockholders. Each holder of Common Stock has the right to cumulate his votes, which means each share shall have the number of votes equal to the number of directors to be elected and all of which votes may be cast for any one nominee. Subject to such preferences as may apply to any Preferred Stock outstanding at the time, the holders of outstanding shares of Common Stock are entitled to receive dividends out of assets legally available therefor at such times and in such amounts as the Board of Directors may from time to time determine. The Common Stock is not entitled to preemptive rights and is not subject to conversion or redemption. Upon the liquidation, dissolution, or winding up of the Company, the holders of Common Stock and any participating Preferred Stock outstanding at that time would be entitled to share ratably in all assets remaining after the payment of liabilities and the payment of any liquidation preferences with respect to any outstanding Preferred Stock. Each outstanding share of Common Stock now is, and all shares of Common Stock that will be outstanding after completion of the offering will be, fully paid and non-assessable.

PREFERRED STOCK

The Board of Directors is authorized, subject to any limitations prescribed by California law, to provide for the issuance of shares of Preferred Stock in one or more series, to establish from time to time the number of shares to be included in each such series, to fix the powers, designations, preferences, and rights of the shares of each wholly-unissued series and any qualifications, limitations, or restrictions thereon, and to increase or decrease the number of shares of any such series (but not below the number of shares of such series then outstanding) without any further vote or action by the stockholders. The Board of Directors may authorize the issuance of Preferred Stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of Common Stock. Thus, the issuance of Preferred Stock may have the effect of delaying, deterring, or preventing a change in control of the Company. The Company has no current plans to issue any shares of Preferred Stock.

WARRANTS

The Company is offering 500,000 Warrants at a price of \$.125 per Warrant entitling the holder of each Warrant to purchase, commencing during a three-year period from the effective date of this Prospectus, a share of Common Stock at an exercise price of \$5.00 per share. The Company shall have the right to call each Warrant for redemption upon not less than thirty (30) days written notice for a redemption price of \$.125 per Warrant provided that the closing bid price of the Common Stock has been at least \$6.00 per share for thirty (30) consecutive trading days ending within three (3) trading days of the date on which notice of redemption is given.

Further, the Company has issued Warrants to purchase 200,000 shares, in the aggregate, to its Directors and an affiliate of the Company. The Warrants have the same term, exercise price, and are subject to redemption, as the Warrants offered through this offering.

In addition, the Underwriters shall receive Warrants ("Representatives' Warrants") which shall entitle the holder to purchase an aggregate of 100,000 shares of Common Stock and 50,000 Warrants, similar but not identical to, the Warrants. The Representatives' Warrants are not exercisable for a one year period. See "Underwriting."

STOCK OPTIONS

In addition to the stock options to purchase 275,500 shares of Common Stock issued pursuant to the 1996 Plan, the Company issued options in 1993 to purchase 237,500 shares of Common Stock at \$1.80 per share. The options expire in 2003 and were issued to employees and directors of the Company. Of the options to purchase 237,500 shares, options to purchase 178,125 shares are immediately exercisable and the remaining options to purchase 59,375 vest in May 1997.

In addition, Mr. Smith was issued an option in 1993 that expires in 2003 to acquire 104,922 shares of Common Stock at \$0.50 per share of which 96,900 options are currently outstanding.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Company's Common Stock and Warrants is American Securities Transfer, Inc., located at 1825 Lawrence Street, Suite 444, Denver, Colorado, 80202-1817, phone number (303) 298- 5370.

SHARES ELIGIBLE FOR FUTURE SALE

Sales of a substantial number of shares of the Company's Common Stock in the public market could have the effect of depressing the prevailing market price of its Common Stock. Upon the completion of the offerings, the Company will have outstanding 2,353,275 shares of Common Stock. Of these shares, the 1,000,000 shares sold in the offering will be freely transferable without restriction or further registration under the Securities Act of 1933 (the "Securities Act") unless purchased by "affiliates" of the Company as that term is defined in Rule 144 of the Securities Act ("Affiliates"), which shares will be subject to the resale limitations of Rule 144 adopted under the Securities Act. Of the other

shares outstanding upon the completion of the offering, 1,353,275 shares will be "restricted securities" as that term is defined under Rule 144 ("Restricted Shares"). Restricted Shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 promulgated under the Securities Act, which rule is summarized below. As a result of the contractual restrictions described below, and the provisions of Rule 144, additional shares will be available and eligible for sale in the public market as follows: (i) 1,272,458 currently outstanding shares upon expiration of lock-up agreements 12 months after the date of this Prospectus, (ii) 1,459,900 additional shares issuable upon the exercise of stock options and Warrants, to the extent exercisable as of such date, and (iii) 80,817 currently outstanding shares from time to time thereafter pursuant to Rule 144.

Certain stockholders of the Company have entered into lock-up agreements with the representative of the Underwriters providing that, with certain limited exceptions, such stockholders will not offer, sell, contract to sell, grant an option to purchase, make a short sale, or otherwise dispose of or engage in any hedging or other transaction that is designed or reasonably expected to lead to a disposition of any shares of Common Stock for a period of 12 months after the date of this Prospectus without the prior written consent of Werbel-Roth Securities, Inc. Other than

(i) the 1,000,000 shares being offered hereby, (ii) 1,459,900 shares subject to stock options and Warrants, and (iii) 80,817 shares owned by holders owning 5,000 or less shares of Common Stock as of the date of this Prospectus, no shares of Common Stock of the Company will be eligible for immediate sale in the public market until the expiration of the 12 month lock-up agreement with the representative of the Underwriters. Werbel-Roth Securities, Inc., may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least two years will be entitled to sell in any three-month period a number of shares that does not exceed the greater of (i) 1% of the then outstanding shares of the Company's Common Stock (approximately 23,532 shares immediately after the offering), or (ii) the average weekly trading volume of the Company's Common Stock in the NASDAQ SmallCap Market during the four calendar weeks immediately preceding the date on which notice of the sale is filed with the Commission. Such sales pursuant to Rule 144 are subject to certain requirements relating to manner of sale, notice, and availability of current public information about the Company. The Commission has recently proposed to reduce the two year holding periods under Rule 144 to one year. If enacted, such modification will have a material effect on the timing of when certain shares of Common Stock become eligible for resale.

Prior to the offerings, there has been no public market for the Common Stock of the Company, and no predictions can be made of the effect, if any, that the sale or availability for sale of shares of additional Common Stock will have on the trading price of the Common Stock. Nevertheless, sales of substantial amounts of such shares in the public market, or the perception that such sales could occur, could adversely affect the trading price of the Common Stock, and could impair the Company's future ability to raise capital through an offering of its equity securities. See "Description of Securities."

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters named below (the "Underwriters"), through their representative, Werbel-Roth Securities, Inc., have severally agreed to purchase from the Company and the Selling Stockholders the following respective numbers of shares of Common Stock and Warrants at the initial public offering price less the underwriting discounts and commissions set forth on the

cover page of this Prospectus:

UNDERWRITERS	NUMBER OF SHARES	NUMBER OF WARRANTS
Werbel-Roth Securities, Inc.		
Total	1,000,000	500,000

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will purchase all shares of Common Stock and Warrants offered hereby if any of such shares or Warrants are purchased.

The Company and the Selling Stockholders have been advised by the representative of the Underwriters that the Underwriters propose to offer the shares of Common Stock and Warrants to the public at the initial public offering prices set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of \$_____ per share and \$_____ per Warrant. The Underwriters may allow, and such dealers may re-allow, a concession not in excess of \$_____ per share and \$_____ per Warrant to certain other dealers. After the initial public offering, the public offering price and other selling terms may be changed by the representative of the Underwriters. Further, the Company has agreed to reimburse the Underwriters on a non-accountable basis for their expenses in the amount of 3% of the gross proceeds from the offering.

At the closing of the sale of Shares being offered hereby, the Company will sell to the Underwriters Representatives' Warrants, for nominal consideration, entitling the Underwriters to purchase an aggregate of 100,000 shares of Common Stock and 50,000 Warrants, similar but not identical to, the Warrants. The Representatives' Warrants shall be non-exercisable and non-transferable (other than a transfer to affiliates of the Underwriters or members of the selling group) for a period of twelve months following the date of this Prospectus. The Representatives' Warrants and the underlying securities shall contain the usual anti-dilution provisions and shall not be redeemable. The Representatives' Warrants will be exercisable after twelve months from the effective date of this Prospectus and for a period of four years thereafter; and if the Representatives' Warrants are not exercised during this term, they shall, by their own terms, automatically expire. The exercise price of each of the Representatives' Warrants shall be 120% of the public offering price per Share and price per Warrant. In addition, the Company has granted to the Underwriters a single demand registration right and unlimited piggy back registration rights, related to the Common Stock and Warrants underlying the Representatives' Warrants.

The Underwriters may designate that the Representatives' Warrants be issued in varying amounts directly to their officers, directors, shareholders, employees, and other proper persons and not to the Underwriters; however, such designation will only be made by the Underwriters if they determine and represent to the Company that such issuance would not violate the interpretation of the Board of Governors of the NASD relating to the review of corporate financing arrangements and would not require registration of the Representatives' Warrants or underlying securities.

Upon written request of the then holder(s) of a majority of the total Representatives' Warrants and the underlying securities issued upon the exercise of the Representatives' Warrants, at any time within the period commencing on the date of the definitive Prospectus and ending five years thereafter, the Company will file, not more than once, a registration statement under the Act, registering or qualifying, as the case may be, the Representatives' Warrants and/or the underlying securities. The filing shall be made within sixty (60) days of such notice, and the Company agrees to use its best efforts to cause the above filing to become effective. All expenses of such registration or qualification, including, but not limited to, legal, accounting, printing, and mailing fees, will be borne by the Company.

In addition to the above, the Company understands and agrees that if, at any time during the term of the Representatives' Warrants and for a period of five years thereafter, it should file a registration statement with the SEC pursuant to the Securities Act for a public offering of securities, either for the account of the Company or for the account of any other person, the Company, at its own expense, will offer to said holder(s) the opportunity to register or qualify the Representatives' Warrants and the underlying securities for public offering. The Company shall give such holder(s) notice by registered mail at least thirty (30) days prior to filing any such registration statement with the Commission.

In addition, the Company has granted to the Underwriters an over-allotment option, exercisable not later than 45 days after the date of this Prospectus, to purchase up to 150,000 additional shares of Common Stock and 75,000 Warrants at the initial public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus. To the extent that the Underwriters exercise such option, each of the Underwriters shall have a firm commitment to purchase approximately the same percentage thereof that the number of shares of Common Stock and Warrants to be purchased by it shown in the above table bears to 1,000,000, and the Company will be obligated, pursuant to the option, to sell such shares to the Underwriters. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of Common Stock and Warrants hereby. If purchased, the Underwriters will offer such additional shares on the same terms as those on which the 1,000,000 shares are being offered.

The Company and the Selling Stockholder have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the

Securities Act.

Stockholder's of the Company owning more than 5,000 shares of Common Stock not being sold in the initial public offering have agreed not to offer, sell, or otherwise dispose of any of such Common Stock for a period of 12 months after the date of this Prospectus without the prior written consent of the representative of the Underwriters. See "Shares Eligible for Future Sale."

The representative of the Underwriters has advised the Company and the Selling Stockholders that the Underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

As part of the Underwriting Agreement, the Underwriters shall have the right to designate a member of the Board of Directors, or at the Underwriters' option, to designate one individual to attend the meetings of the Company's Board of Directors for a period of five years. Further, for a period of five years, the Underwriters shall have a right of first refusal to sell the Company's securities in a public or private offering.

The preceding is a brief summary of the Underwriting Agreement and is qualified in its entirety by the Underwriting Agreement itself which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part.

Prior to this offering, there has been no public market for the Common Stock or Warrants of the Company. Consequently, the initial public offering price for the Common Stock has been determined by negotiations between the Company, the Selling Stockholders, and the representative of the Underwriters. Among the factors considered in such negotiations were the prevailing market conditions, the results of operations of the Company in recent periods, the market capitalization, the stage of development of other companies which the Company and the representative of the Underwriters believes to be comparable to the Company, estimates of the business potential of the Company, the present state of the Company's development, and other factors deemed relevant.

LEGAL MATTERS

The validity of the shares of Common Stock and Warrants offered by the Company and Common Stock offered by the Selling Stockholders will be passed upon by Bartel Eng Linn & Schroder, Sacramento, California. Certain legal matters in connection with this offering will be passed upon for the Underwriters by Atlas, Pearlman, Trop, and Borkson, P.A., Fort Lauderdale, Florida.

EXPERTS

The audited consolidated financial statements of the Company as of December 31, 1995, and for each of the two years in the period ended December 31, 1995, have been included in this Prospectus and Registration Statement in reliance upon the report of Hein + Associates LLP, independent certified public accountants, appearing elsewhere herein and in the Registration Statement, and upon the authority of such firm as experts in accounting and auditing.

CHANGE IN ACCOUNTANTS

In June 1996, the Company decided to retain Hein + Associates LLP as the Company's independent accountants and dismissed Villanueva, Purcell & Co., the Company's former accountants. The decision to change independent accountants was ratified and approved by the Company's Board of Directors in June 1996. During the relationship between the Company and Villanueva, Purcell & Co., there were no disagreements regarding any matters with respect to accounting principles or practices, financial statement disclosure, or audit scope or procedure, which disagreements, if not resolved to the satisfaction of the former accountants, would have caused Villanueva, Purcell & Co. to make reference to the subject matter of the disagreement in connection with its report. The former accountants' reports for the years ended December 31, 1994 and 1993 are not a part of the financial statements of the Company included in this Prospectus. Such reports did not contain an adverse opinion or disclaimer of opinion or qualification of modifications as to uncertainty, audit scope or accounting principles. Prior to retaining Hein + Associates LLP, the Company had not consulted with Hein + Associates LLP regarding accounting principles.

ADDITIONAL INFORMATION

A Registration Statement on Form SB-2, including amendments thereto, relating to the shares of Common Stock and Warrants offered hereby, has been filed by the Company with the Commission under the Securities Act. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits thereto. Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. For further information with respect to the Company and the Common Stock and Warrants offered hereby, reference is made to such Registration Statement and exhibits. A copy of the Registration Statement may be inspected by anyone without charge at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549, and at the regional offices of the Commission located at Room 1228, 75 Park Place, New York 10007, and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of all or any part of the Registration Statement and the exhibits thereto may be obtained from those offices upon the payment of certain fees prescribed by the Commission. In addition, the Commission maintains a Web site (<http://www.sec.gov>) that contains reports proxy and information statements and other information regarding issuers that file electronically with the Commission.

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INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
Digital Power Corporation and Subsidiary Fremont, California

We have audited the accompanying consolidated balance sheet of Digital Power Corporation and Subsidiary as of December 31, 1995, and the related consolidated statements of income, stockholders' equity and cash flows for the years ended December 31, 1994 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Digital Power Corporation and Subsidiary as of December 31, 1995, and the results of their operations and their cash flows for the years ended December 31, 1994 and 1995 in conformity with generally accepted accounting principles.

HEIN + ASSOCIATES LLP
Certified Public Accountants

Orange, California
August 31, 1996

DIGITAL POWER CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31, 1995	June 30, 1996 (UNAUDITED)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 202,917	\$ 84,614
Temporary investment	100,000	107,173
Accounts receivable - trade, net of allowance for doubtful accounts of \$120,000 and \$120,000 (unaudited)	1,616,497	2,249,457
Other receivables	57,858	52,262
Inventory, net	1,557,226	2,142,454
Prepaid expenses and deposits	27,792	62,480
Deferred income taxes	240,856	139,000
Total current assets	3,803,146	4,837,440
PROPERTY AND EQUIPMENT, net	357,680	546,013
DEPOSITS	18,364	30,643
DEFERRED OFFERING COSTS	-	29,181
DEFERRED INCOME TAXES	139,000	-
TOTAL ASSETS	\$ 4,318,190	\$ 5,443,277
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 46,014	\$ 143,097
Current portion of capital lease obligations	11,925	12,474
Debenture payable	5,000	-
Accounts payable	1,131,586	1,486,381
Accrued liabilities	397,263	769,466
Total current liabilities	1,591,788	2,411,418
LONG-TERM DEBT, less current portion	1,008,131	1,471,361
OBLIGATIONS UNDER CAPITAL LEASE, less current portion	31,690	26,739
Total liabilities	2,631,609	3,909,518
COMMITMENTS AND CONTINGENCIES (Notes 6, 7 and 9)		
STOCKHOLDERS' EQUITY:		
Series A cumulative redeemable convertible preferred stock, no par value, 1,000,000 shares authorized, 415,302 and 0 (unaudited) shares issued and outstanding (Aggregate liquidation preference of \$1,100,000)	747,569	-
Common stock, no par value, 5,000,000 shares authorized, 963,722 and 1,603,275 (unaudited) shares issued and outstanding	4,398,322	5,539,115
Accumulated deficit	(3,459,310)	(3,505,356)
Unearned employee stock ownership plan shares	-	(500,000)
Total stockholders' equity	1,686,581	1,533,759
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,318,190	\$ 5,443,277

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

DIGITAL POWER CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	FOR THE YEARS ENDED DECEMBER 31,		FOR THE SIX MONTHS ENDED JUNE 30,	
	1994	1995	1995 (unaudited)	1996 (unaudited)
REVENUES	\$ 6,249,333	\$ 10,037,502	\$ 4,947,952	\$ 6,553,376
COST OF GOODS SOLD	4,663,124	7,494,427	3,885,875	4,975,557
Gross Margin	1,586,209	2,543,075	1,062,077	1,577,819
OPERATING EXPENSES:				
Engineering and product development	408,966	481,475	243,048	314,659
Marketing and selling	500,338	452,654	234,066	240,621
General and administrative	418,970	581,174	252,035	332,927
Total operating expenses	1,328,274	1,515,303	729,149	888,207
INCOME FROM OPERATIONS	257,935	1,027,772	332,928	689,612
OTHER INCOME (EXPENSE):				
Interest income	523	3,116	2,967	7,339
Interest expense	(103,032)	(119,146)	(58,533)	(59,537)
Translation loss	(10,450)	(85,258)	(6,851)	(206)
Other income (expense)	(112,959)	(201,288)	(62,417)	(52,404)
INCOME BEFORE INCOME TAXES	144,976	826,484	270,511	637,208
PROVISION (BENEFIT) FOR INCOME TAXES	23,253	(277,400)	28,000	294,000
NET INCOME	\$ 121,723	\$1,103,884	\$ 242,511	\$ 343,208
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	\$ 30,357	\$1,012,518	\$ 196,828	\$ 305,139
NET INCOME PER COMMON SHARE:				
Primary	\$ 0.02	\$ 0.80	\$ 0.16	\$ 0.24
Fully diluted	\$ 0.02	\$ 0.66	\$ 0.15	\$ 0.20
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	1,226,208	1,258,858	1,242,395	1,276,778

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

DIGITAL POWER CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK		COMMON STOCK		ACCUMULATED	UNEARNED EMPLOYEE STOCK OWNERSHIP PLAN	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	SHARES	AMOUNT	DEFICIT	SHARES	EQUITY
BALANCES, January 1, 1994	415,302	\$ 747,569	963,722	\$ 4,398,322	\$ (4,684,917)	\$ -	\$ 460,974
Net income	-	-	-	-	121,723	-	121,723
BALANCES, December 31, 1994	415,302	747,569	963,722	4,398,322	(4,563,194)	-	582,697
Net income	-	-	-	-	1,103,884	-	1,103,884
BALANCES, December 31, 1995	415,302	747,569	963,722	4,398,322	(3,459,310)	-	1,686,581
Net income (unaudited)	-	-	-	-	343,208	-	343,208
Dividend on preferred stock (unaudited)	-	-	216,229	389,213	(389,254)	-	(41)
Conversion of preferred stock (unaudited)	(415,302)	(747,569)	415,302	747,569	-	-	-
Exercise of stock options (unaudited)	-	-	8,022	4,011	-	-	4,011
ESOP loan and share purchases (unaudited)	-	-	-	-	-	(500,000)	(500,000)
BALANCES, June 30, 1996 (unaudited)	-	-	1,603,275	\$ 5,539,115	\$ (3,505,356)	\$ (500,000)	\$ 1,533,759

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

DIGITAL POWER CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,		FOR THE SIX MONTHS ENDED JUNE 30,	
	1994	1995	1995 (unaudited)	1996 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 121,723	\$ 1,103,884	\$ 242,511	\$ 343,208
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	60,334	70,140	5,077	44,238
Deferred income taxes	-	(374,689)	-	240,856
Warranty expense	15,000	30,000	-	89,125
Inventory reserve	140,000	195,000	260,000	240,496
Bad debt expense	17,521	55,000	15,000	-
Interest income	-	-	-	(7,173)
Foreign currency translation adjustment	10,450	85,258	6,851	206
Changes in operating assets and liabilities:				
Accounts receivable	(622,302)	(465,047)	(340,388)	(632,960)
Other receivables	(9,895)	(39,855)	(101,036)	5,596
Inventory	(475,396)	(594,983)	(242,599)	(825,724)
Prepaid expenses	6,620	(17,879)	(6,987)	(34,688)
Other assets	-	-	(1,316)	(12,279)
Accounts payable	344,826	266,721	241,826	354,795
Other accrued liabilities	6,452	5,485	12,562	283,078
Net adjustments	(506,390)	(784,849)	(151,010)	(254,434)
Net cash provided by (used in) operating activities	(384,667)	319,035	91,501	88,774
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(71,682)	(254,530)	(52,301)	(232,571)
Purchase of temporary investment	(100,000)	-	-	-
Net cash used in investing activities	(171,682)	(254,530)	(52,301)	(232,571)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Deferred offering costs	-	-	-	(29,181)
Proceeds from exercise of stock options	-	-	-	4,011
Payments of preferred stock dividend	-	-	-	(41)
Proceeds from notes payable	1,762,768	120,000	-	50,000
Principal payments on notes payable	(1,620,750)	(1,276)	(1,276)	(17,552)
Principal payments on capital lease obligations	(4,478)	(9,054)	(4,035)	(4,402)
Payment of debenture	-	-	-	(5,000)
Proceeds from line of credit	4,039,000	9,422,788	4,509,788	5,795,000
Principal payments on line of credit	(3,801,750)	(9,344,924)	(4,492,310)	(5,767,135)
Net cash provided by financing activities	374,790	187,534	12,167	25,700
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(10,450)	(85,258)	(6,851)	(206)
NET INCREASE (DECREASE) IN CASH	(192,009)	166,781	44,516	(118,303)
CASH AND CASH EQUIVALENTS, beginning of period	228,145	36,136	36,136	202,917
CASH AND CASH EQUIVALENTS, end of period	\$ 36,136	\$ 202,917	\$ 80,652	\$ 84,614
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash payments for:				
Interest	\$ 105,634	\$ 121,931	\$ 57,880	\$ 58,383
Income taxes	\$ 31,498	\$ 55,803	\$ 10,000	\$ 69,500
Non-cash investing and financing transactions:				
Property and equipment acquired with capital lease	\$ 46,368	\$ 10,779	\$ 2,814	\$ -
Conversion of preferred stock to common stock	\$ -	\$ -	\$ -	\$ 747,569

Preferred stock dividend of common stock	\$ -	\$ -	\$ -	\$ 389,213
Notes payable for unearned employee stock ownership plan shares	\$ -	\$ -	\$ -	\$ 500,000

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

1. NATURE OF OPERATIONS:

Digital Power Corporation ("DPC"), and its wholly owned subsidiary Poder Digital, S.A. de C.V. ("PD") which is located in Guadalajara, Mexico, (collectively referred to as the "Company") are engaged in the design, manufacture and sale of switching power supplies.

2. SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

STATEMENT OF CASH FLOWS - For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORY - Inventory is stated at the lower of cost (first-in, first-out) or market.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Depreciation of equipment and furniture is calculated using the straight-line method over the estimated useful lives (ranging from 5 to 10 years) of the respective assets. Leasehold improvements are amortized over the shorter of the estimated useful life or the term of the lease. The cost of normal maintenance and repairs is charged to operating expense as incurred. Material expenditures which increase the life of an asset are capitalized and depreciated over the estimated remaining useful life of the asset. The cost of fixed assets sold, or otherwise disposed of, and the related accumulated depreciation or amortization are removed from the accounts, and any gains or losses are reflected in current operations.

DEFERRED OFFERING COSTS - Direct costs incurred by the Company in connection with its proposed initial public offering of common stock have been deferred, and will be charged against the proceeds of the offering when completed. Should the offering not be completed such costs will be expensed.

INCOME TAXES - The Company accounts for income taxes under the liability method, 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 determined based on the difference between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

REVENUE RECOGNITION - Sales revenue is recognized when the products are shipped to customers, including distributors. Customers receive a one or two year product warranty and sales to distributors are subject to a right of return. The Company provides a reserve for estimated warranty costs and a reserve for estimated product returns.

FOREIGN CURRENCY TRANSLATION - Gains and losses from the effects of exchange rate fluctuations on transactions denominated in foreign currencies are included in results of operations. Assets and liabilities of the Company's foreign subsidiary are translated into U.S. dollars at period-end exchange rates, and their revenues and expenses are translated at average exchange rates for the period. Translation adjustments are accumulated in a separate component of stockholders' equity until such time as the foreign subsidiary is sold or substantially liquidated. Deferred taxes have not been allocated to the cumulative foreign currency translation adjustment included in stockholders' equity because there is no intent to repatriate earnings of the foreign subsidiary.

NET INCOME PER COMMON SHARE - Net income per common share is calculated upon net income applicable to common shareholders, which represents net income adjusted for cumulative preferred dividends applicable to the period.

The weighted average common shares is based upon actual common stock and common stock equivalents outstanding. Additionally, common stock equivalents issued during the prior year at less than the \$4.00 proposed initial public offering price have been included for all periods presented in the computation using the "treasury stock method" and the anticipated public offering price.

Fully diluted net income per common share is computed using the "if converted" method for preferred stock.

ACCOUNTING ESTIMATES - The preparation of financial statements in conformity generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The actual results could differ from those estimates.

The Company's financial statements are based upon a number of significant estimates, including the allowance for doubtful accounts, technological obsolescence of inventories, the estimated useful lives selected for property and equipment, realizability of deferred tax assets,

allowance for sales returns, and warranty reserve. Due to the uncertainties inherent in the estimation process, it is at least reasonably possible that these estimates will be further revised in the near term and such revisions could be material.

IMPAIRMENT OF LONG-LIVED ASSETS - Effective January 1, 1996, the Company adopted Financial Accounting Standards Board Statement 121 (FAS 121) entitled "Accounting for Impairment of Long-Lived Assets."

In the event that facts and circumstances indicate that the cost of assets or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is required. Adoption of FAS 121 had no effect on the unaudited June 30, 1996 financial statements.

STOCK-BASED COMPENSATION - In October 1995, the Financial Accounting Standards Board issued a new statement titled "Accounting for Stock-Based Compensation" (FAS 123) which the Company adopted January 1, 1996. FAS 123 encourages, but does not require, companies to recognize compensation expense for grants of stock, stock options and other equity instruments to employees based on fair value. Companies that do not adopt the fair value accounting rules must disclose the impact of adopting the new method in the notes to the financial statements. Transactions in equity instruments with non-employees for goods or services must be accounted for on the fair value method. The Company has elected not to adopt the fair value accounting prescribed by FAS 123 for employees, but is subject to the disclosure requirements prescribed by FAS 123.

ACCRUED WARRANTY COSTS - Estimated warranty costs are provided for at the time of sale of the warranted product. The Company generally extends warranty coverage for one year from the time of sale.

CONCENTRATIONS OF CREDIT RISK - Credit Risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or groups counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly effected by changes in economic or other conditions described below. In accordance with FASB Statement No. 105, **DISCLOSURE OF INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK**, the credit risk amounts shown do not take into account the value of any collateral or security.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The estimated fair values for financial instruments under SFAS No. 107, **DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**, are determined at discrete points in time based on relevant market information. These estimated involve uncertainties and cannot be determined with precision. The estimated fair values of the Company's financial instruments, which includes all cash, accounts receivables, accounts payable, long- term debt, and other debt, approximates the carrying value in the consolidated financial statements at December 31, 1995.

INTERIM FINANCIAL INFORMATION - The June 30, 1995 and 1996 financial statements have been prepared by the Company without audit. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of the Company's financial position as of June 30, 1996, and the results of their operations and cash flows for the six month periods ended June 30, 1995 and 1996. The results of operations for the six month periods ended June 30, 1995 and 1996 are not necessarily indicative of those that will be obtained for the entire fiscal year.

DIGITAL POWER CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (INFORMATION SUBSEQUENT TO DECEMBER 31, 1995 IS UNAUDITED)

3. INVENTORY:

Inventory consists of the following:

	December 31, 1995	JUNE 30, 1996
Raw Materials	\$ 110,318	\$ 114,260
Work-in-process	1,718,952	2,573,864
Finished goods	127,956	94,826
Allowance for obsolescence	(400,000)	(640,496)
	\$ 1,557,226	\$ 2,142,454

4. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	December 31, 1995	JUNE 30, 1996
Machinery and equipment	\$ 1,004,955	\$ 1,182,785
Office equipment and furniture	272,614	314,663
Leasehold improvements	23,409	11,177
	1,300,978	1,508,625
Accumulated Depreciation	(943,298)	(962,612)
	\$ 357,680	\$ 546,013

5. ACCRUED LIABILITIES:

Accrued liabilities consists of the following:

	December 31, 1995	JUNE 30, 1996
Accrued payroll and benefits	\$ 87,712	\$ 292,875
Accrued commissions and royalties	58,665	68,000
Accrued warranty expense	60,000	149,125
Accrued income taxes	46,000	50,500
Other	144,886	208,966
	\$ 397,263	\$ 769,466

6. LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31, 1995	JUNE 30, 1996
\$1,500,000 line of credit bearing interest at the bank's prime rate plus one percent (total of 9.5% at December 31, 1995), maturing October 15, 1997, collateralized by substantially all assets of DPC	\$ 924,145	\$ 952,010
Unsecured note payable, due on demand, interest at 12%	10,000	10,000
Note payable, due in monthly installments of \$3,881 including interest at 10%, due December 1998, collateralized by substantially all assets of DPC	120,000	152,448
Employee stock ownership plan loan See Note 11	-	500,000
	1,054,145	1,614,458
Less current portion	(46,014)	(143,097)
	\$ 1,008,131	\$ 1,471,361

Aggregate maturities of long-term debt are due as follows:

YEARS ENDING DECEMBER 31,	AMOUNT
1996	\$ 46,014
1997	964,020
1998	44,111
	\$ 1,054,145

7. CAPITAL LEASE OBLIGATIONS:

The Company leases certain equipment under agreements classified as capital leases. Equipment under these leases has a cost of \$61,680 and accumulated amortization of \$15,420 at December 31, 1995. Following is a schedule of future minimum lease payments under capital leases at December 31, 1995:

YEARS ENDING DECEMBER 31,	AMOUNT
1996	\$ 16,787
1997	16,696
1998	14,689
1999	5,375
Total future minimum lease payments	53,547
Less, amount representing interest	(9,932)
Present value of net minimum lease payments	43,615
Less current portion	(11,925)
	\$ 31,690

8. STOCKHOLDERS' EQUITY:

PREFERRED STOCK

The preferred stock has one series authorized, Series A cumulative redeemable convertible preferred stock ("Series A"), and an additional 500,000 shares of preferred stock has been authorized, but the rights, preferences, privileges and restrictions on these shares has not been determined. DPC's Board of Directors is authorized to create new series of preferred stock and fix the number of shares as well as the rights, preferences, privileges and restrictions granted to or imposed upon any series of preferred stock.

The holders of Series A are entitled to one vote for each share of common stock into which the Series A can be converted, and vote together with the common shareholders as a single class. Dividends on Series A are at an annual rate of \$.22 per share and are cumulative from the date of issuance, and shall be paid prior to dividends on common stock. The Company had never declared a dividend through December 31, 1995, and the accumulated dividends on Series A were approximately \$483,000 at December 31, 1995.

Shares of Series A are convertible into common stock at any time at the option of the holder at a rate of one share of common stock for each share of Series A. The conversion rate is subject to adjustment under certain circumstances. Additionally, conversion is automatic on the effective date of a firm commitment for an underwritten public offering of \$1,000,000 or more.

The Company may redeem the Series A in whole or in part, by paying \$1.80 per share plus any dividends in arrears. Partial redemptions shall be pro-rata among all Series A holders.

In the event of a liquidation, dissolution, or winding up of the Company, Series A holders are entitled to receive a liquidation preference of \$1.80 per share of Series A plus all dividends in arrears. The liquidation preference on the Series A was approximately \$1,100,000 at December 31, 1995.

Additionally, see Note 13.

STOCK OPTIONS

The Company has issued non-qualified options covering 104,922 shares exercisable at \$.50 per share. Upon issuance, the Company recorded compensation expense for the difference between the exercise price and the fair market value of the underlying common stock of \$1.80 per share. Such options expire in 2003. Subsequent to December 31, 1995, 8,022 of such option were exercised.

In May 1993 the Company issued options to purchase 237,500 shares of its common stock at \$1.80 per share. Such options are subject to a four year vesting plan. The exercise price of \$1.80 per share approximated the fair market value at the date of grant.

In May 1996, the Company adopted the 1996 Stock Option Plan covering 513,000 shares. Under the plan, the Company can issue either incentive or non-statutory stock options. Immediately thereafter, the Company issued options to purchase 275,500 shares of its common stock at \$1.80 per share. Such options become 100% vested two years after issuance. The exercise price was based upon a letter from its investment banker as to the fair market value of such options based upon their terms, conditions and restrictions.

The following table sets forth activity for all options:

	NUMBER	EXERCISE PRICE PER SHARE
BALANCES		
January 1, 1994,		
December 31, 1994 and		
December 31, 1995	342,422	\$.50 - \$ 1.80
ISSUED	275,500	\$ 1.80
EXERCISED	(8,022)	\$.50
BALANCE, JUNE 30, 1996	609,900	\$.50 - \$ 1.80

AT DECEMBER 31, 1995 AND JUNE 30, 1996 OPTIONS TO PURCHASE 223,672 AND 275,025 SHARES RESPECTIVELY AT PRICES RANGING FROM \$.50 TO \$1.80 PER SHARE WERE EXERCISABLE.

9. COMMITMENTS:

The Company leases office space in California, and a manufacturing facility in Guadalajara, Mexico under the terms of operating leases. The total future minimum lease payments are as follows:

YEARS ENDING DECEMBER 31,	AMOUNT
1996	\$ 118,423
1997	105,640
1998	108,880
1999	109,174
2000	112,579
Thereafter	10,378
	\$ 565,074

Lease payments on the manufacturing facility in Mexico are to be made in Mexican Pesos. The above schedule was prepared using the conversion rate in effect at December 31, 1995. Changes in the conversion rate will have an impact on the Company's required minimum payments and its operating results. Additionally, lease payments on the facility in Mexico will increase on an annual basis in proportion to the increase in the minimum wage in the Guadalajara, Mexico area.

Rent expense was \$116,337 and \$116,699 for 1994 and 1995, respectively.

The Company has a royalty agreement with a third party on various products, and any derivatives from the base design of these products. Commitments under this agreement are as follows:

5% of first \$20,000,000 in sales of these products 4% of next \$25,000,000 in sales of these products 3% of next \$33,333,333 in sales of these products 2% of next \$50,000,000 in sales of these products 1% of next \$100,000,000 in sales of these products

As of December 31, 1995, the Company had sold approximately \$13,630,000 of product subject to this agreement.

If the Company sells an additional \$6,370,000 of these products after December 31, 1995, the Company is required to grant 100,000 shares of common stock to the third party in the royalty agreement. Due to changing market demand, the Company's management currently expects to replace these products with products it is in the process of designing, and Company's management believes the Company will therefore not have to grant the 100,000 shares of common stock.

The Company sold approximately \$1,448,000 and \$1,453,000 of these products in 1994 and 1995, respectively, and had royalty expenses of approximately \$72,400 and \$72,600 for 1994 and 1995, respectively. The Company has an employment contract with its President/CEO which terminates on December 31, 1999. Under the terms of the employment contract, he shall serve as president and chief executive officer of the Company and his salary shall be \$150,000 per annum effective January 1, 1997, increasing in an amount to be determined by the employee and the Board such that he shall receive \$200,000 per annum by January 1, 1999. His current salary for 1996 is \$110,000. In addition, pursuant to the contract, he shall have the right to receive on the first day of each January during the term of his contract options to acquire 100,000 shares of Common Stock at the market value as of such date. Finally, pursuant to the employment contract, in the event there is a change in control, the employee shall be granted a five year consulting contract at \$200,000 per year.

10. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK, MAJOR CUSTOMERS AND OTHER RISKS AND UNCERTAINTIES:

Sales to unaffiliated customers which represent more than 10% of the Company's net sales for 1994 and 1995 were as follows (both customers are distributors):

CUSTOMER	1994	1995
A	16%	27%
B	- %	10%

The Company operates primarily in one industry segment: the manufacture and sale of switching power supplies. Additionally, most of the Company's sales are to customers located in California. Financial instruments that subject the Company to credit risk consist primarily of accounts receivable. The Company frequently sells large quantities of inventory to its customers. At December 31, 1995, approximately \$1,053,000 or 65% of the Company's net accounts receivable were due from five customers.

As of December 31, 1995, the Company maintained cash in a bank that was approximately \$352,000 in excess of the federally insured limit.

11. EMPLOYEE BENEFIT PLANS:

The Company has a 401(k) profit sharing plan (the "Plan") covering substantially all employees of DPC. Eligible employees may make voluntary contributions to the Plan, which are matched by the Company at a rate of \$.25 for each \$1.00 contributed, up to a maximum of six percent of eligible compensation. The Company can also make discretionary contributions. The Company made matching contributions to the Plan of \$5,593 and \$9,594 for 1994 and 1995, respectively. The Board of Directors of DPC elected not to make a discretionary contribution to the Plan for 1994 or 1995.

The Company also has an employee stock ownership plan (the "ESOP") covering substantially all employees of DPC. The Company can make discretionary contributions of cash or company stock (as defined in the ESOP plan document) up to deductible limits prescribed by the Internal Revenue Code. The Board of Directors of DPC elected to make no contributions to the ESOP for 1994 or 1995.

Effective June 13, 1996, the ESOP obtained a \$500,000 loan guaranteed by the Company for the purpose of acquiring common stock of Company from existing stockholders. The loan bears interest at 10.5% per annum requires monthly payments of principle and interest of \$10,784 through July 2001. Immediately upon the funding of the loan, the ESOP purchased approximately 154,000 shares of the Company's common stock from existing shareholders.

In accordance with the AICPA Statements of Position 93-6 entitled "Employers Accounting for Employee Stock Ownership Plans", the Company has recorded the \$500,000 loan as a debt on its books with a corresponding charge to stockholder's equity.

12. INCOME TAXES:

Income tax expense is comprised of the following:

FOR YEARS ENDED DECEMBER 31,

	1994	1995
Federal	\$ -	\$ (351,150)
State	23,253	73,750
Foreign	-	-
	\$ 23,253	\$ (277,400)

The components of the net deferred tax asset at December 31, 1995 are as follows:

Net book value of fixed assets	\$ (3,695)
Net operating loss carryforward	383,551
Total deferred tax asset	\$ 379,856

As of December 31, 1995, DPC has net operating loss carryforwards for federal income tax purposes of approximately \$1,044,000 which begin to expire in 2002. As of December 31, 1995, PD has a net operating loss carryforward of approximately \$58,000 which expires in 1999.

Total income tax expense differed from the amounts computed by applying the U.S. federal statutory tax rates to pre-tax income as follows:

FOR YEARS ENDED DECEMBER 31,

	1994	1995
Total expense computed by applying the U.S. statutory rate	\$ 49,292	\$ 281,005
State income taxes	23,253	73,750
Effect of income taxable in Mexico	27,197	(14,857)
Utilization of temporary difference	(76,489)	(261,135)
Effect of valuation allowance	-	(356,163)
	\$ 23,253	\$ (277,400)

13. SUBSEQUENT EVENTS:

On May 31, 1996, DPC signed a letter of intent for a proposed public offering of 1,000,000 shares of DPC common stock at \$4.00 per share. Of the 1,000,000 shares, 750,000 are being sold by the Company and 250,000 shares are being sold by certain existing shareholders.

On May 31, 1996, all of the 415,302 issued and outstanding shares of Series A preferred stock were converted into 415,302 shares of common stock. Additionally, the Company declared a dividend on the Series A preferred stock for all unpaid dividends through the conversion date and issued an aggregate of 216,229 shares of common stock to holders of Series A preferred stock effective immediately prior to such conversion.

On August 19, 1996, the shareholders of the Company approved an amendment to the Company's articles of incorporation increasing the number of authorized shares of common stock from 5,000,000 shares to 10,000,000 shares and preferred stock from 1,000,000 to 2,000,000.

In addition, on August 19, 1996, the Company issued 200,000 Common Stock purchase warrants to certain Company directors and affiliates. Each warrant entitles the holder to purchase one share of common stock at \$5.00.

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UNTIL _____, 1996 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

NO PERSON HAS BEEN AUTHORIZED IN CONNECTION WITH THE OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY TO ANY PERSON OR BY ANYONE IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

Digital Power Corporation 1,000,000 shares of Common Stock No Par Value 700,000 Redeemable Common Stock Purchase Warrants

Werbel-Roth Securities, Inc.

_____, 1996

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 24. Indemnification of Directors and Officers

Sections 204 and 317 of the California Corporations Code ("Corporations Code") permit indemnification of directors, officers, and employees of corporations under certain conditions subject to certain limitations. Article IV of the Company's Amended and Restated Articles of Incorporation ("Articles") provides that the liability of the directors for monetary damages shall be eliminated to the fullest extent permissible under California Law. Article V of the Company's Articles states that the Company may provide indemnification of its agents, including its officers and directors, for breach of duty to the Company in excess of the indemnification otherwise permitted by Section 317 of the Corporations Code, subject to the limits set forth in Section 204 of the Corporations Code. Article VI of the Bylaws provides that the Company shall, to the maximum extent and in the manner permitted in the Corporations Code, indemnify each of its agents, including its officers and directors, against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact any such person is or was an agent of the Company.

Pursuant to Section 317 of the Corporations Code, the Company is empowered to indemnify any person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the Company to procure a judgment in its favor) by reason of the fact that such person is or was an officer, director, employee, or other agent of the Company or its subsidiaries, against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with such proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Company and, in the case of a criminal proceeding, has no reasonable cause to believe the conduct of such person was unlawful. In addition, the Company may indemnify, subject to certain exceptions, any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action by or in the right of the Company to procure a judgment in its favor by reason of the fact that such person is or was an officer, director, employee, or other agent of the Company or its subsidiaries, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of

such action if such person acted in good faith and in a manner such person believed to be in the best interest of the Company and its shareholders. The Company may advance expenses incurred in defending any proceeding prior to final disposition upon receipt of an undertaking by the agent to repay that amount if it shall be determined that the agent is not entitled to indemnification as authorized by Section 317. In addition, the Company is permitted to indemnify its agents in excess of Section 317.

Item 25. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses payable by the Company in connection with the issuance and distribution of the securities being registered hereunder. No expenses shall be borne by the Selling Stockholders except for commissions and expenses related to the sale of their shares. All of the amounts shown are estimates, except for the SEC and NASD registration fees.

SEC registration fee	\$2,597.54
NASD registration fee	\$1,357.19
Printing and engraving expenses	* \$ _____
Accounting fees and expenses	* \$ _____
Legal fees and expenses	* \$ _____
Transfer agent and registrar fees	* \$ _____
Fees and expenses for qualification under state securities laws	\$ _____
Miscellaneous	* \$ _____
TOTAL	\$ _____

*estimated

Item 26. Recent Sales of Unregistered Securities.

(a) On May 21, 1996, the board approved the issuance of stock options to acquire 275,500 shares of Common Stock at \$1.80 per share to employees and directors pursuant to a stock option plan. The stock option plan was approved by the shareholders on August 19, 1996. The Company believes that the issuance of the stock options is exempt from registration pursuant to section 4(2) of the Securities Act and Regulation D promulgated thereunder.

(b) On May 31, 1996, the Company sold 8,022 shares of Common Stock at \$.50 per share to one employee upon the exercise of an outstanding option. The Company believes that the issuance of Common Stock is exempt from registration pursuant to section 4(2) of the Securities Act.

(c) On August 19, 1996, the board granted Warrants to acquire 200,000 shares of Common Stock at \$5.00 per share to the directors and an affiliate of the Company. The Company believes that the issuance of the Warrants is exempt from registration pursuant to section 4(2) of the Securities Act.

Item 27. Exhibits.

- 1.1 Underwriting Agreement between Digital Power Corporation and Werbel Roth Securities, Inc.
- 3.1 Amended and Restated Articles of Incorporation for Digital Power Corporation
- 3.2 Amendment to Articles of Incorporation
- 3.3 Bylaws of Digital Power Corporation
- 4.1 Specimen Stock Certificate*
- 4.2 Specimen Warrant
- 4.3 Representatives' Warrant
- 5.1 Opinion of Bartel Eng Linn & Schroder re Legality*
- 10.1 Revolving Credit Facility with San Jose National Bank
- 10.2 KDK Contract
- 10.3 Agreement with Fortron/Source Corp.
- 10.4 Employment Agreement with Robert O. Smith*
- 10.5 1996 Stock Option Plan
- 16.1 Letter on change of certifying accountant
- 21.1 Subsidiary of the small business issuer
- 23.1 Consent of Hein + Associates LLP is contained on page II-6
- 23.2 Consent of Bartel Eng Linn & Schroder is contained in Exhibit 5
- 23.3 Consent of Micro-Tech Consultants
- 24.1 Power of attorney is contained on signature page *To be filed by Amendment

Item 28. Undertakings

The Company hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer, or controlling person of the Company in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Company hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The Company undertakes that it will:

- (1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:
 - (i) Include any prospectus required by section 10(a)(3) of the Securities Act;
 - (ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and
 - (iii) Include any additional or changed material information on the plan of distribution.
- (2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.
- (3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Digital Power Corporation and Subsidiary:

We hereby consent to the use in this Registration Statement on Form SB-2 of our report dated August 31, 1996, relating to the consolidated financial statements of Digital Power Corporation and Subsidiary. We also consent to the reference to our firm under the caption "Experts" in the Prospectus.

HEIN + ASSOCIATES LLP
Certified Public Accountants

Orange, California
October 15, 1996

SIGNATURE

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Fremont, California on October 10, 1996.

DIGITAL POWER CORPORATION,

A CALIFORNIA CORPORATION

*/S/ ROBERT O. SMITH
Robert O. Smith,
Chief Executive Officer*

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert O. Smith or Edward L. Lammerding as his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or any of them, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates stated.

SIGNATURES

DATE

*/S/ ROBERT O. SMITH
Robert O. Smith, Chief Executive Officer
(Principal Executive Officer)*

October 10, 1996

*/S/ PHILIP G. SWANY
Philip G. Swany, Chief Financial Officer
(Principal Accounting and
Financial Officer)*

October 10, 1996

*/S/ EDWARD L. LAMMERDING
Edward L. Lammerding,
Chairman of the Board*

October 10, 1996

*/S/ THOMAS W. O'NEIL
Thomas W. O'Neil, Jr., Director*

October 10, 1996

*/S/ PHILIP M. LEE
Philip M. Lee, Director*

October 10, 1996

*/S/ CLAUDE ADKINS
Claude Adkins, Director*

October 10, 1996

**DIGITAL POWER CORPORATION
REGISTRATION STATEMENT ON
FORM SB-2**

EXHIBITS

DATED OCTOBER 16, 1996

1,000,000 SHARES OF COMMON STOCK

500,000 REDEEMABLE COMMON STOCK PURCHASE WARRANTS

DIGITAL POWER CORPORATION

UNDERWRITING AGREEMENT

Boca Raton, Florida
_____, 1996

WERBEL-ROTH SECURITIES, INC.

As Representative of the
The Underwriters listed on Schedule A hereto 150 East Palmetto Park Road
Suite 380
Boca Raton, Florida 33432

Ladies and Gentlemen:

Digital Power Corporation., a California corporation (the "Company") confirms its agreement with Werbel-Roth Securities, Inc. ("Werbel-Roth") and each of the underwriters named in Schedule A hereto (collectively, the "Underwriters," which term shall also include any underwriter substituted as hereinafter provided in Section 12), for whom Werbel-Roth is acting as representative (in such capacity, Werbel-Roth shall hereinafter be referred to as "you" or the "Representative"), with respect to the sale by the Company and certain selling securityholders of the Company named in Schedule B herein, ("Selling Securityholders") and the purchase by the Underwriters, acting severally and not jointly, of an aggregate of 1,000,000 shares of Common Stock, no par value per share, of the Company from the Company and the Selling Securityholder's shares, of which 750,000 shares shall be offered by the Company and 250,000 shall be offered by the Selling Securityholders, (collectively the "Shares") and 500,000 Redeemable Common Stock Purchase Warrants, each of which, upon exercise, entitles the holder thereof to purchase one share of Common Stock during the three years following the date hereof at a price of \$5.00 per share ("Warrants"), from the Company, in the respective amounts. The Company shall have the right to call each Warrant for redemption upon not less than thirty (30) days written notice for a redemption price of \$.125 per Warrant provided that the closing bid price of the Common Stock has been at least \$6.00 per share for thirty (30) consecutive days ending within three (3) trading days of the date on which notice of redemption is given. The Shares and Warrants are hereinafter referred to as the "Securities."

Upon your request, as provided in Section 2(b) of this Agreement, the Company shall also sell to the Underwriters acting severally and not jointly, up to an aggregate of 150,000 shares of Common Stock (the "Option Shares") and 75,000 Warrants (the "Option Warrants") for the purpose of covering over-allotments, if any. Such Option Shares and Option Warrants are hereinafter collectively referred to as the "Option Securities."

The Company also proposes to issue and sell to you warrants (the "Representative's Warrants") pursuant to the Representative's Warrant Agreement (the "Representative's Warrant Agreement") for the purchase of an additional 100,000 shares of Common Stock (the "Underlying Shares") and 50,000 warrants (the "Underlying Warrants"), similar but not identical to, the Warrants. The underlying shares, underlying warrants and Common Stock underlying the Warrants issuable upon exercise of the Representative's Warrants are hereinafter referred to as the "Representative's Securities." The Securities, the Option Securities, the Representative's Warrants and the Representative's Securities are more fully described in the Registration Statement and the Prospectus referred to below.

1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SELLING SECURITYHOLDERS. The Company and the Selling Securityholders represents and warrants to, and agrees with, each of the Underwriters as of the date hereof, and as of the Closing Date (hereinafter defined) and the Option Closing Date (hereinafter defined), if any, as follows:

(a) The Company has prepared and filed with the Securities and Exchange Commission (the "Commission") a registration statement, and an amendment or amendments thereto, on Form SB-2 (No. _____), including any related preliminary prospectus ("Preliminary Prospectus"), for the registration of the Securities, the Option Securities, the Representative's Warrants and the Representative's Securities (collectively, hereinafter referred to as the "Securities"), under the Securities Act of 1933, as amended (the "Act"), which registration statement and amendment or amendments have been prepared by the Company in conformity with the requirements of the Act, and the rules and regulations (the "Regulations") of the Commission under the Act. The Company will promptly file a further amendment to said registration statement in the form heretofore delivered to the Underwriters and will not file any other amendment thereto to which the Underwriters shall have objected in writing after having been furnished with a copy thereof. Except as the context may otherwise require, such registration statement, as amended, on file with the Commission at the time the registration statement becomes effective (including the prospectus, financial statements, schedules, exhibits and all other documents filed as a part thereof or incorporated therein (including, but not limited to those documents or information incorporated by reference therein) and all information deemed to be a part thereof as of such time pursuant to paragraph (b) of Rule 430(A) of the Rules and Regulations), is hereinafter called the "Registration Statement", and the form of prospectus in the form first filed with the Commission pursuant to Rule 424(b) of the Regulations, is hereinafter called the "Prospectus." For purposes hereof, "Rules and Regulations" mean the rules and regulations adopted by the Commission under either the Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as applicable.

(b) Neither the Commission nor any state regulatory authority has issued any order preventing or suspending the use of any Preliminary Prospectus, the Registration Statement or Prospectus or any part of any thereof and no proceedings for a stop order suspending the effectiveness of the Registration Statement or any of the Company's securities have been instituted or are pending or threatened. Each of the Preliminary Prospectus, the Registration Statement and Prospectus at the time of filing thereof conformed with the requirements of the Act and the Rules and Regulations, and none of the Preliminary Prospectus, the Registration Statement or Prospectus at the time of filing thereof contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein and necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty does not apply to statements made or statements omitted in reliance upon and in conformity with written information furnished to the Company with respect to the Underwriters by or on behalf of the Underwriters expressly for use in such Preliminary Prospectus, Registration Statement or Prospectus.

(c) When the Registration Statement becomes effective and at all times subsequent thereto up to the Closing Date (as defined herein) and each Option Closing Date (as defined herein), if any, and during such longer period as the Prospectus may be required to be delivered in connection with sales by the Underwriters or a dealer, the Registration Statement and the Prospectus will contain all statements which are required to be stated therein in accordance with the Act and the Rules and Regulations, and will conform to the requirements of the Act and the Rules and Regulations; neither the Registration Statement nor the Prospectus, nor any amendment or supplement thereto, will contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that this representation and warranty does not apply to statements made or statements omitted in reliance upon and in conformity with information furnished to the Company in writing by or on behalf of any Underwriter expressly for use in the Preliminary Prospectus, Registration Statement or Prospectus or any amendment thereof or supplement thereto.

(d) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the state of its incorporation. Except as set forth in the Prospectus, the Company does not own an interest in any corporation, partnership, trust, joint venture or other business entity. The Company is duly qualified and licensed and in good standing as a foreign corporation in each jurisdiction in which its ownership or leasing of any properties or the character of its operations require such qualification or licensing. The Company has all requisite power and authority (corporate and other), and has obtained any and all necessary authorizations, approvals, orders, licenses, certificates, franchises and permits of and from all governmental or regulatory officials and bodies, to own or lease its properties and conduct its business as described in the Prospectus; the Company is and has been doing business in compliance with all such authorizations, approvals, orders, licenses, certificates, franchises and permits; and the Company has not received any notice of proceedings relating to the revocation or modification of any such authorization, approval, order, license, certificate, franchise, or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would materially and adversely affect the condition, financial or otherwise, or the earnings, position, prospects, value, operation, properties, business or results of operations of the Company. The disclosures in the Registration Statement concerning the effects of federal, state, local, and foreign laws, rules and regulations on the Company's business as currently conducted and as contemplated are correct in all material respects and do not omit to state a material fact necessary to make the statements contained therein not misleading in light of the circumstances in which they were made.

(e) The Company has a duly authorized, issued and outstanding capitalization as set forth in the Prospectus, under "Capitalization" and "Description of Securities" and will have the adjusted capitalization set forth therein on the Closing Date based upon the assumptions set forth therein, and the Company is not a party to or bound by any instrument, agreement or other arrangement providing for it to issue any capital stock, rights, warrants, options or other securities, except for this Agreement, Representative's Warrant Agreement and as described in the Prospectus. The Securities and all other securities issued or issuable by the Company conform or, when paid for and issued, will conform, in all respects to all statements with respect thereto contained in the Registration Statement and the Prospectus. All issued and outstanding securities of the Company have been duly authorized and validly issued and are fully paid and non-assessable and the holders thereof have no rights of rescission with respect thereto, and are not subject to personal liability by reason of being such holders; and none of such securities were issued in violation of the preemptive rights of any holders of any security of the Company or similar contractual rights granted by the Company. The Securities are not and will not be subject to any preemptive or other similar rights of any shareholder, have been duly authorized and, when paid for, issued and delivered in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and will conform to the description thereof contained in the Prospectus; the holders thereof will not be subject to any liability solely as such holders; all corporate action required to be taken for the authorization, issue and sale of the Securities has been duly and validly taken; and the certificates representing the Securities will be in due and proper form. Upon the issuance and delivery pursuant to the terms hereof of the Securities to be sold by the Company hereunder, the Representatives or the Representative, as the case may be, will acquire good and marketable title to such Securities free and clear of any lien, charge, claim, encumbrance, pledge, security interest, defect or other restriction or equity of any kind whatsoever.

(f) The financial statements of the Company together with the related notes and schedules thereto, included in the Registration Statement, each Preliminary Prospectus and the Prospectus fairly present the financial position, income, changes in cash flow, changes in shareholders' equity and the results of operations of the Company at the respective dates and for the respective periods to which they apply and such financial statements have been prepared in conformity with generally accepted accounting principles and the Rules and Regulations, consistently applied throughout the periods involved. There has been no adverse change or development involving a material prospective change in the condition, financial or otherwise, or in the earnings, position, prospects, value, operations, properties, business, or results of operations of the Company whether or not arising in the ordinary course of business, since the date of the financial statements included in the Registration Statement and the Prospectus and the outstanding debt, the property, both tangible and intangible, and the businesses of the Company conform in all respects to the descriptions thereof contained in the Registration Statement and the Prospectus. Financial information set forth in the Prospectus under the headings "Summary Financial Information," "Selected Financial Data," "Capitalization," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," fairly present, on the basis stated in the Prospectus, the information set forth therein, and have been derived from or compiled on a basis consistent with that of the audited and unaudited financial statements included in the Prospectus.

(g) The Company (i) has paid, accrued or otherwise reserved for, all federal, state, local, and foreign taxes required to be paid, including, but not limited to, withholding taxes and amounts payable under Chapters 21 through 24 of the Internal Revenue Code of 1986 (the "Code"), and has furnished all information returns it is required to furnish pursuant to the Code, (ii) has established adequate reserves for such Taxes which are not due and payable, and (iii) does not have any tax deficiency or claims outstanding, proposed or assessed against it.

(h) No transfer tax, stamp duty or other similar tax is payable by or on behalf of the Representatives in connection with (i) the issuance by the Company of the Securities, (ii) the purchase by the Representatives of the Securities from the Company and the purchase by the Representative of the Representatives Warrants from the Company, (iii) the consummation by the Company of any of its obligations under this Agreement, or (iv) resales of the Securities in connection with the distribution contemplated hereby.

(i) The Company has, including, but not limited to, general liability, product and property insurance, which insures the Company and its employees against such losses and risks generally insured against by comparable businesses. The Company (A) has not failed to give notice or present any insurance claim with respect to any matter, including but not limited to the Company's business, property or employees, under the insurance policy or surety bond in a due and timely manner, (B) has no disputes or claims against any underwriter of such insurance policies or surety bonds or has failed to pay any premiums due and payable thereunder, or (C) has not failed to comply with all conditions contained in such insurance policies and surety bonds. There are no facts or circumstances under any such insurance policy or surety bond which would relieve any insurer of its obligation to satisfy in full any valid claim of the Company.

(j) There is no action, suit, proceeding, inquiry, arbitration, investigation, litigation or governmental proceeding, domestic or foreign, pending or threatened against (or circumstances that may give rise to the same), or involving the properties or business of, the Company which (i) questions the validity of the capital stock of the Company, this Agreement or the Representative's Warrant Agreement, or of any action taken or to be taken by the Company pursuant to or in connection with this Agreement or the Representative's Warrant Agreement, (ii) is required to be disclosed in the Registration Statement which is not so disclosed (and such proceedings as are summarized in the Registration Statement are accurately summarized in all respects), or (iii) might materially and adversely affect the condition, financial or otherwise, or the earnings, position, prospects, shareholders' equity, value, operations, properties, business or results of operations of the Company.

(k) The Company has full legal right, power and authority to authorize, issue, deliver and sell the Securities, the Representative's Securities, enter into this Agreement and the Representative's Warrant Agreement and to consummate the transactions provided for in such agreements; and this Agreement, and the Representative's Warrant Agreement have each been duly and properly authorized, executed and delivered by the Company. Each of this Agreement and the Representative's Warrant Agreement constitutes a legal, valid and binding agreement of the Company enforceable against the Company in accordance with its terms subject to bankruptcy, insolvency, and creditor's rights and the application of equitable principles in any action legal or equitable, and none of the Company's issue and sale of the Securities, the Representative's Securities, execution or delivery of this Agreement or the Representative's Warrant Agreement its performance hereunder and thereunder, its consummation of the transactions contemplated herein and therein, or the conduct of its business as described in the Registration Statement, the Prospectus, and any amendments or supplements thereto, conflicts with or will conflict with or results or will result in any breach or violation of any of the terms or provisions of, or constitutes or will constitute a default under, or result in the creation or imposition of any lien, charge, claim, encumbrance, pledge, security interest, defect or other restriction or equity of any kind whatsoever upon, any property or assets (tangible or intangible) of the Company pursuant to the terms of, (i) the articles of incorporation or bylaws of the Company, (ii) any license, contract, indenture, mortgage, deed of trust, voting trust agreement, shareholders agreement, note, loan or credit agreement or any other agreement or instrument to which the Company is a party or by which it is or may be bound or to which its properties or assets (tangible or intangible) is or may be subject, or any indebtedness, or (iii) any statute, judgment, decree, order, rule or regulation applicable to the Company of any arbitrator, court, regulatory body or administrative agency or other governmental agency or body (including, without limitation, those having jurisdiction over environmental or similar matters), domestic or foreign, having jurisdiction over the Company or any of its activities or properties.

(l) Except as described in the Prospectus, no consent, approval, authorization or order of, and no filing with, any court, regulatory body, government agency or other body, domestic or foreign, is required for the issuance of the Securities pursuant to the Prospectus and the Registration Statement, the issuance of the Representative's Warrants, the performance of this Agreement and the Representative's Warrant Agreement and the transactions contemplated hereby and thereby, including without limitation, any waiver of any preemptive, first refusal or other rights that any entity or person may have for the issue and/or sale of any of the Securities, or the Representative's Warrants, except such as have been or may be obtained under the Act or may be required under state securities or Blue Sky laws in connection with the Representatives' purchase and distribution of the Securities, and the Representative's Warrants to be sold by the Company hereunder.

(m) All executed agreements, contracts or other documents or copies of executed agreements, contracts or other documents filed as exhibits to the Registration Statement to which the Company is a party or by which they may be bound or to which its assets, properties or business may be subject have been duly and validly authorized, executed and delivered by the Company and constitute the legal, valid and binding agreements of the Company enforceable against the Company, as the case may be, in accordance with respective terms. The descriptions in the Registration Statement of agreements, contracts and other documents are accurate and fairly present the information required to be shown with respect thereto by Form SB-2, and there are no contracts or other documents which are required by the Act to be described in the Registration Statement or filed as exhibits to the Registration Statement which are not described or filed as required, and the exhibits which have been filed are complete and correct copies of the documents of which they purport to be copies.

(n) Subsequent to the respective dates as of which information is set forth in the Registration Statement and Prospectus, and except as may otherwise be indicated or contemplated herein or therein, the Company has not (i) issued any securities or incurred any liability or obligation, direct or contingent, for borrowed money, (ii) entered into any transaction other than in the ordinary course of business, or (iii) declared or paid any dividend or made any other distribution on or in respect of its capital stock of any class, and there has not been any material change in or

affecting the general affairs, management, financial operations, shareholders equity or results of operations of the Company.

(o) No default exists in the due performance and observance of any term, covenant or condition of any material license, contract, indenture, mortgage, installment sale agreement, lease, deed of trust, voting trust agreement, shareholders agreement, partnership agreement, note, loan or credit agreement, purchase order, or any other material agreement or instrument evidencing an obligation for borrowed money, or any other material agreement or instrument to which the Company is a party or by which the Company may be bound or to which the property or assets (tangible or intangible) of the Company is subject or affected.

(p) The Company has generally enjoyed a satisfactory employer-employee relationship with its employees and is in material compliance with all federal, state, local, and foreign laws and regulations respecting employment and employment practices, terms and conditions of employment and wages and hours. There are no pending investigations involving the Company by the U.S. Department of Labor, or any other governmental agency responsible for the enforcement of such federal, state, local, or foreign laws and regulations. There is no unfair labor practice charge or complaint against the Company pending before the National Labor Relations Board or any strike, picketing, boycott, dispute, slowdown or stoppage pending or threatened against or involving the Company, or any predecessor entity, and none has ever occurred. No representation question exists respecting the employees of the Company, and no collective bargaining agreement or modification thereof is currently being negotiated by the Company. No grievance or arbitration proceeding is pending under any expired or existing collective bargaining agreements of the Company. No labor dispute with the employees of the Company exists, or, is imminent.

(q) Except as described in the Prospectus, the Company does not maintain, sponsor or contribute to any program or arrangement that is an "employee pension benefit plan," an "employee welfare benefit plan" or a "multi-employer plan" as such terms are defined in Sections 3(2), 3(1) and 3(37), respectively, of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") ("ERISA Plans"). The Company does not maintain or contribute, now or at any time previously, to a defined benefit plan, as defined in Section 3(35) of ERISA. No ERISA Plan (or any trust created thereunder) has engaged in a "prohibited transaction" within the meaning of Section 406 of ERISA or Section 4975 of the Code, which could subject the Company to any tax penalty on prohibited transactions and which has not adequately been corrected. Each ERISA Plan is in compliance with all material reporting, disclosure and other requirements of the Code and ERISA as they relate to any such ERISA Plan. Determination letters have been received from the Internal Revenue Service with respect to each ERISA Plan which is intended to comply with Code Section 401(a), stating that such ERISA Plan and the attendant trust are qualified thereunder. The Company has never completely or partially withdrawn from a "multi-employer plan."

(r) The Company, nor any of its officers, directors, partners, "affiliates" or "associates" (as these terms are defined in Rule 405 promulgated under the Rules and Regulations) has ever taken or will take, directly or indirectly, any action designed to or which has constituted or which might be expected to cause or result in, under the Exchange Act, or otherwise, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities or otherwise.

(s) Except as otherwise disclosed in the Prospectus, none of the patents, patent applications, trademarks, service marks, trade names and copyrights, and licenses and rights to the foregoing presently owned or held by the Company are in dispute so far as known by the Company or are in any conflict with the right of any other person or entity. The Company (i) owns or has the right to use, free and clear of all liens, charges, claims, encumbrances, pledges, security interests, defects or other restrictions or equities of any kind whatsoever, all patents, trademarks, service marks, trade names and copyrights, technology and licenses and rights with respect to the foregoing, used in the conduct of its business as now conducted or proposed to be conducted without infringing upon or otherwise acting adversely to the right or claimed right of any person, corporation or other entity under or with respect to any of the foregoing; and (ii) is not obligated or under any liability whatsoever to make any payment by way of royalties, fees or otherwise to any owner or licensee of, or other claimant to, any patent, trademark, service mark, trade name, copyright, know-how, technology or other intangible asset, with respect to the use thereof or in connection with the conduct of its business or otherwise.

(t) The Company owns and has the unrestricted right to use all trade secrets, know-how (including all other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), inventions, designs, processes, works of authorship, computer programs and technical data and information (collectively herein "intellectual property") that are material to the development, manufacture, operation and sale of all products and services sold or proposed to be sold by the Company free and clear of and without violating any right, lien, or claim of others, including without limitation, former employers of its employees; provided, however, that the possibility exists that other persons or entities, completely independently of the Company, as the case may be, or its employees or agents, could have developed trade secrets or items of technical information similar or identical to those of the Company. The Company is not aware of any such development of similar or identical trade secrets or technical information by others.

(u) The Company has taken reasonable security measures to protect the secrecy, confidentiality and value of all its intellectual property in all material aspects.

(v) The Company has good and marketable title to, or valid and enforceable leasehold estates in, all items of real and personal property stated in the Prospectus, to be owned or leased by it free and clear of all liens, charges, claims, encumbrances, pledges, security interests, defects, or other restrictions or equities of any kind whatsoever, other than those referred to in the Prospectus and liens for taxes not yet due and payable.

(w) Hein + Associates, LLP, whose report is filed with the Commission as a part of the Registration Statement, are independent certified public accountants as required by the Act and the Rules and Regulations and have been retained by the Company as its auditors.

(x) Except as provided herein and in the Registration Statement, the Company has caused to be duly executed legally binding and enforceable

agreements ("Lock-up Agreements") pursuant to which the Company's shareholders and holders of securities exchangeable or exercisable for or convertible into shares of Common Stock have agreed not to, directly or indirectly, publicly offer to sell, sell, grant any option for the sale of, assign, transfer, pledge, hypothecate or otherwise encumber or dispose of any shares of Common Stock or securities convertible into, exercisable or exchangeable for or evidencing any right to purchase or subscribe for any shares of Common Stock (either pursuant to Rule 144 of the Rules and Regulations or otherwise) or dispose of any beneficial interest therein for a period of not less than twenty-four (24) months following the effective date of the Registration Statement without the prior written consent of the Representative. On or before the Closing Date, the Company shall deliver instructions to the Transfer Agent authorizing it to place appropriate legends on the certificates representing the securities subject to the Lock-up Agreements and to place appropriate stop transfer orders on the Company's ledgers. Except for the issuance of shares of capital stock by the Company in connection with a dividend, recapitalization, reorganization or similar transaction or as a result of the exercise of warrants or outstanding options disclosed in the Registration Statement, the Company shall not, for a period of TWELVE (12) months following the Closing Date, directly or indirectly, offer, sell, issue or transfer any shares of its capital stock, or any security exchangeable or exercisable for, or convertible into, shares of the capital stock, without the prior written consent of the Representative. Prior to the effective date of the Registration Statement, the Company will cause each of its shareholders owning more than 5,000 Shares and private warrant holders to enter into a written agreement with the Representative that (i) such shareholders and warrant holders will not sell or otherwise dispose of any shares of the Company's Common Stock owned directly or indirectly by them or beneficially by them (as defined by the Securities Exchange Act of 1934, as amended (the "Exchange Act") and rules promulgated thereunder) on the effective date of the Registration Statement for a period of twelve (12) months from the effective date without the Representative's prior written consent and (ii) they will permit all certificates evidencing Such Common Stock to be stamped at closing with an appropriate restrictive legend, and will cause the transfer agent for the Company to note such restriction on the transfer books and records of the Company.

(y) There are no claims, payments, issuances, arrangements or understandings, whether oral or written, for services in the nature of a finder's or origination fee with respect to the sale of the Securities hereunder or any other arrangements, agreements, understandings, payments or issuances with respect to the Company, or any of its officers, directors, shareholders, partners, employees or affiliates that may affect the Representatives' compensation, as determined by the National Association of Securities Dealers, Inc. ("NASD").

(z) Upon the effective date of the Registration Statement the Company will have the Shares and the Warrants and underlying Shares registered on the National Association of Securities Dealers Automated Quotation System, Interdealer Quotation system ("NASDAQ") and will use its best efforts to maintain such listing for not less than five years. The Company shall also prior to the effective date of the Registration Statement make application for a listing on an accelerated basis of the Company's securities in Standard & Poor's.

(aa) To the Company's best knowledge, no funds or assets of the Company have been used for illegal purposes; no unrecorded funds or assets of the Company have been established for any purpose; no accumulation or use of the Company's corporate funds or assets have been made without being properly accounted for in the respective books and records of the Company; all payments by or on behalf of the Company have been duly and properly recorded and accounted for in the Company's books and records; no false or artificial entry has been made in the books and records of the Company for any reason; no payment has been made by or on behalf of Company with the understanding that any part of such payment is to be used for any purpose other than that described in the documents supporting such payments; the Company has not made, directly or indirectly, any illegal contributions to any political party or candidate. The Company's internal accounting controls are sufficient to cause the Company to comply with the Foreign Corrupt Practices Act of 1977, as amended.

(bb) Except as set forth in the Prospectus, no officer, director, shareholder or partner of the Company, or any "affiliate" or "associate" (as these terms are defined in Rule 405 promulgated under the Rules and Regulations) of any of the foregoing persons or entities has or has had, either directly or indirectly, (i) an interest in any person or entity which (A) furnishes or sells services or products which are furnished or sold or are proposed to be furnished or sold by the Company; or (B) purchases from or sells or furnishes to the Company any goods or services, or (ii) a beneficial interest in any contract or agreement to which the Company is a party or by which it may be bound or affected. Except as set forth in the Prospectus under "Management" or "Certain Transactions," there are no existing material agreements, arrangements, understandings or transactions, or proposed agreements, arrangements, understandings or transactions, between or among the Company, and any officer, director, Principal Shareholder (as such term is defined in the Prospectus) of the Company, or any partner, affiliate or associate of any of the foregoing persons or entities.

(cc) Any certificate signed by any officer of the Company and delivered to the Representatives or to Representatives' Counsel (as defined herein) shall be deemed a representation and warranty by the Company to the Representatives as to the matters covered thereby.

(dd) The minute book of the Company has been made available to the Representatives and contains a complete summary of all meetings and actions of the directors and shareholders of the Company since the time of its incorporation, and reflects all transactions referred to in such minutes accurately in all respects.

(ee) Except and to the extent described in the Prospectus, no holders of any securities of the Company or of any options, warrants or other convertible or exchangeable securities of the Company have the right to include any securities issued by the Company in the Registration Statement or any registration statement to be filed by the Company or to require the Company to file a registration statement under the Act and no person or entity holds any anti-dilution rights with respect to any securities of the Company.

(ff) The Company has as of the effective date of the Registration Statement (i) entered into an employment agreement with Robert O. Smith in the form filed as Exhibit 10.____ of the Registration Statement, and (ii) has purchased keyman life insurance on the life of Robert O. Smith. The policy shall provide for coverage in the amount of \$1,000,000, and the policy shall name the Company as the sole beneficiary thereof.

2. REPRESENTATIONS AND WARRANTIES OF THE SELLING SECURITYHOLDERS

(a) The Selling Securityholders will have on the Closing Date, good, valid and marketable title to securities listed on Schedule B hereto to be sold by such Selling Securityholders to the Representatives, free and clear of any liens, charges, claims, encumbrances, pledges, security interests, restrictions, equities, stockholders' agreements, voting trusts or defects in title whatsoever; and upon delivery of such Securities and payment of the purchase price therefor as contemplated in this Agreement, each of the Representatives will receive good and marketable title to such Securities purchased by it from such Selling Securityholders, free and clear of any lien, charge, claim, encumbrance, pledge, security interest, restriction, equity, shareholders' agreement, voting trust, community property right or defect in title whatsoever; and other than as described in the Registration Statement and the Prospectus or created hereby, there are no outstanding options, warrants, rights, or other agreements or arrangements requiring such Selling Securityholders at any time to transfer any Securities to be sold hereunder by such Selling Securityholders.

(b) Such Selling Securityholders have duly authorized (if applicable), executed and delivered, in the form heretofore furnished to the Representative, a Power of Attorney (the "Power of Attorney") with _____ as attorney-in-fact, (an "Attorney-in-Fact"), and a Letter of Transmittal and Custody Agreement (the "Custody Agreement") with _____ as custodian (the "Custodian"); each of the Power of Attorney and Custody Agreement constitutes a valid and binding obligation of such Selling Securityholders, enforceable in accordance with its terms subject to bankruptcy, insolvency and creditor's right; such Selling Securityholder's Attorney-in-Fact, acting alone, is authorized to execute and deliver the certificate(s) evidencing the Securities to be sold to the Representatives on behalf of such Selling Securityholders, to authorize the delivery of those Securities to be sold by such Selling Securityholders under this Agreement and to duly endorse (in blank or otherwise) the certificate or certificates representing such Securities or a stock power or powers with respect thereto, to accept payment therefor, and otherwise to act on behalf of such Selling Securityholders in connection with this Agreement.

(c) All authorizations, approvals, consents and orders necessary for the execution and delivery by such Selling Securityholders of the Power of Attorney and the Custody Agreement, the execution and delivery by or on behalf of such Selling Securityholders of this Agreement, and the sale and delivery of Securities to be sold by such Selling Securityholders under this Agreement have been obtained and are in full force and effect; such Selling Securityholders have full right, power and authority to enter into and perform her obligations under this Agreement and such Power of Attorney and Custody Agreement and to sell, transfer and deliver the Securities to be sold by such Selling Securityholders under this Agreement.

(d) On the Closing Date, certificates in negotiable form for the Securities to be sold by such Selling Securityholders under this Agreement on the Closing Date, together with a stock power or powers duly endorsed in blank by such Selling Securityholders, will have been placed in custody with the Custodian for the purpose of effecting delivery hereunder and thereunder.

(e) The performance of this Agreement and the consummation of the transactions herein contemplated by such Selling Securityholders, will not conflict with or result in a breach of, or default under, (i) any license, contract, indenture, mortgage, deed of trust, voting trust agreement, shareholders' agreement, note, loan or credit agreement, the Bylaws, the Articles of Incorporation or other agreement or instrument to which such Selling Securityholders is a party or by which such Selling Securityholders is or may be bound or to which any of her property is or may be subject, or (ii) any statute, judgment, decree, order, rule or regulation applicable to such Selling Securityholders of any arbitrator, court, regulatory body or administrative agency or other governmental agency or body, domestic or foreign, having jurisdiction over such Selling Securityholders or any of such Selling Securityholders's activities or properties; this Agreement when executed and delivered by the Selling Securityholders and, to the extent this Agreement is a binding agreement of the Representatives, constitutes the valid and binding agreement of such Selling Securityholders, enforceable in accordance with its terms except as such enforceability may be limited by applicable bankruptcy, insolvency, moratorium or other laws of general application relating to or affecting enforcement of creditors' rights and the application of equitable principles in any action, legal or equitable, and except as rights to indemnity or contribution may be limited by applicable law.

(f) Such Selling Securityholders have reviewed and are familiar with the Registration Statement as originally filed with the Commission and all amendments and supplements thereto, if any, filed with the Commission prior to the date hereof, and with the Preliminary Prospectus and the Prospectus, as supplemented, if applicable, to the date hereof, and has no knowledge of any fact, condition or information not disclosed in the Registration Statement and Prospectus, as so supplemented, if applicable, which has adversely affected or could adversely affect the condition, financial or otherwise, or the earnings, position, prospects, value, operation, properties, business or results of operations of the Company; and the information relating to such Selling Securityholders and the Securities and other securities of the Company owned by Selling Securityholders that is set forth in such Registration Statement and Prospectus, as so supplemented, does not and at the Closing Date, will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such information, in light of the circumstances under which they were made, not misleading and all information furnished by or on behalf of such Selling Securityholders for use in the Registration Statement, the Preliminary Prospectus, the Prospectus, or any amendment or supplement thereto is, and, at the Closing Date will be true and complete in all material respects; and such Selling Securityholders are not prompted to sell the Securities to be sold by such Selling Securityholders under this Agreement by any information concerning the Company which is not set forth in the Prospectus, as so supplemented.

(g) Nothing has come to the attention of such Selling Securityholders to cause such Selling Securityholders to believe that the Company's representations and warranties contained in this Agreement are not accurate in all material respects.

(h) There is not pending or threatened against such Selling Securityholders any action, suit or proceeding (or circumstances that may give rise to the same) which (i) questions the validity of this Agreement, the Custody Agreement, the Power of Attorney or of any action taken or to be taken by such Selling Securityholders pursuant to or in connection with any of the foregoing; or (ii) which is required to be disclosed in the

Registration Statement and the Prospectus which is not disclosed and such proceedings which are summarized in all material respects.

(i) No stamp duty or similar tax is payable by or on behalf of the Representatives in connection with (i) the sale of the Securities to be sold by such Selling Securityholders; (ii) the purchase by the Representatives of the Securities to be sold by such Selling Securityholders; (iii) the consummation by such Selling Securityholders of any of its obligations under this Agreement, the Custody Agreement or the Power of Attorney; or (iv) resales of the Securities in connection with the distribution contemplated hereby.

(j) Except as set forth in the Prospectus, such Selling Securityholders does not have any registration rights with respect to any securities of the Company; and such Selling Securityholders do not have any right of first refusal or other similar right to purchase any securities of the Company upon the issuance or sale thereof by the Company or upon the sale thereof by any other stockholder of the Company.

(k) Such Selling Securityholders have not since the filing of the initial Registration Statement (i) sold, bid for, purchased, attempted to induce any person to purchase, or paid anyone any compensation for soliciting purchases of, Common Stock, or (ii) paid or agreed to pay to any person any compensation for soliciting another to purchase any securities of the Company (except for the sale of the Securities to the Representatives under this Agreement and except as otherwise permitted by law).

(l) Such Selling Securityholders have not taken, and will not take, directly or indirectly, any action which has constituted or which might reasonably be expected to cause or result in stabilization of the price of any security of the Company to facilitate the distribution of the Securities.

(m) Such Selling Securityholders will review the Prospectus and will comply with all agreements and satisfy all conditions on its part to be complied with or satisfied pursuant to this Agreement, the Custody Agreement and the Power of Attorney at or prior to the Closing Date and will advise one of its Attorneys-in-Fact prior to the Closing Date, as the case may be, if any statement to be made on behalf of such Selling Securityholders in this Agreement contains any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading if made as of such Closing Date, as the case may be.

(n) Any certificate signed by or on behalf of such Selling Securityholders and delivered to the Representatives shall be deemed a representation and warranty by such Selling Securityholders to the Representatives as to the matters covered thereby.

3. PURCHASE, SALE AND DELIVERY OF THE SECURITIES AND REPRESENTATIVE'S WARRANTS.

(a) On the basis of the representations, warranties, covenants and agreements herein contained, but subject to the terms and conditions herein set forth, the Company and the Selling Securityholders agree to sell to each Representative, and each Representative, severally and not jointly, agrees to purchase from the Company and the Selling Securityholders, as the case may be, at a price of \$4.00 per share of Common Stock and \$.125 per Warrant, that number of Securities set forth in Schedule A opposite the name of such Representative, subject to such adjustment as the Representative in its sole discretion shall make to eliminate any sales or purchases of fractional shares of Common Stock or Warrants, plus any additional number of Securities which such Representative may become obligated to purchase pursuant to the provisions of Section 1 hereof.

(b) In addition, on the basis of the representations, warranties, covenants and agreements, herein contained, but subject to the terms and conditions herein set forth, the Company hereby grants an option to the Representatives, severally and not jointly, to purchase all or any part of the Option Shares (up to an aggregate of an additional 150,000 shares of Common Stock and 75,000 Warrants) at the initial offering price, less the Representative's discount. The option granted hereby will expire 45 days after (i) the date the Registration Statement becomes effective, if the Company has elected not to rely on Rule 430A under the Rules and Regulations, or (ii) the date of this Agreement if the Company has elected to rely upon Rule 430A under the Rules and Regulations, and may be exercised in whole or in part from time to time only for the purpose of covering over-allotments which may be made in connection with the offering and distribution of the Securities upon notice by the Representative to the Company setting forth the number of Option Securities as to which the several Representatives are then exercising the option and the time and date of payment and delivery for any such Option Securities. Any such time and date of delivery (an "Option Closing Date") shall be determined by the Representative, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Date, as hereinafter defined, unless otherwise agreed upon by the Representative and the Company. Nothing herein contained shall obligate the Representatives to make any over-allotments. No Option Securities shall be delivered unless the Securities shall be simultaneously delivered or shall theretofore have been delivered as herein provided.

(c) Payment of the purchase price for, and delivery of securities for, the Securities shall be made at the offices of the Representative at 150 East Palmetto Park Road, Suite 380, Boca Raton, Florida 33432, or at such other place as shall be agreed upon by the Representative and the Company. Such delivery and payment shall be made at 10:00 a.m. (Florida time) on _____, 1996, or at such other time and date as shall be agreed upon by the Representative and the Company, but not less than THREE (3) nor more than TEN (10) full business days after the effective date of the Registration Statement (such time and date of payment and delivery being herein called "Closing Date"). In addition, in the event that any or all of the Option Securities are purchased by the Representatives, payment of the purchase price for and delivery of certificates for, such Option Securities shall be made at the above-mentioned firm office of the Representative or at such other place as shall be agreed upon by the Representative and the Company on the Option Closing Date as specified in the notice from the Representative to the Company. Delivery of the certificates for the Securities and the Option Securities, if any, shall be made to the Representatives against payment by the Representatives, severally and not jointly, of the purchase price for the Securities and the Option Securities, if any, by New York Clearing House funds. In the event such option is exercised, each of the Representatives, acting severally and not jointly, shall purchase that proportion of the total number of Option Securities then being purchased which the number of Securities set forth in Schedule A hereto opposite the name of such Representative bears to the total number of Securities, subject in each case to such adjustments as the Representative in its discretion shall make to eliminate any sales or purchases of fractional shares. Certificates for the Securities and the Option Securities, if any, shall be in definitive, fully registered form, shall bear no restrictive legends and shall be in such denominations and registered in such names as the Representatives may request in writing at least two (2) business days prior to the Closing Date or the Option Closing Date, as the case may be. The certificates for the Securities and the Option Securities, if any, shall be made available to the Representative at such office or such other place as the Representative may designate for inspection, checking and packaging no later than 9:30 a.m. on the last business day prior to the Closing Date or the Option Closing Date, as the case may be.

(d) On the Closing Date, the Company shall issue and sell to the Representative the Representative's Warrants for nominal consideration, which warrants shall entitle the holders thereof to purchase an aggregate of 100,000 shares of Common Stock and 50,000 Warrants, similar but not identical to, the Warrants. The Representative's Warrants shall be non-exercisable and non-transferable (other than a transfer to affiliates of the Representative or members of the selling group) for a period of 12 months following the date of the definitive Prospectus. The Representative's Warrants and the underlying securities shall contain the usual anti-dilution provisions and shall not be redeemable. The Representative's Warrants will be exercisable 12 months after the date of the definitive Prospectus used in the offering and for a period of four years thereafter; and if the Representative's Warrants are not exercised during this term, they shall, by their terms, automatically expire. The exercise price of each of the Representative's Warrants shall be 120% of the public offering price per Share and Offered Warrants.

The Company and the Representative agree that the Representative may designate that the Representative's Warrants be issued in varying amounts directly to its officers, directors, shareholders, employees, and other proper persons and not to the Representative; however, such designation will only be made by the Representative if it determines and represents to the Company that such issuance would not violate the interpretation of the Board of Governors of the NASD relating to the review of corporate financing arrangements and would not require registration of the Representative's Warrants or underlying securities.

4. PUBLIC OFFERING OF THE SECURITIES. As soon after the Registration Statement becomes effective as the Representative deems advisable, the Representatives shall make a public offering of the Securities (other than to residents of or in any jurisdiction in which qualification of the Securities is required and has not become effective) at the price and upon the terms set forth in the Prospectus. The Representative may from time to time increase or decrease the public offering price after distribution of the Securities has been completed to such extent as the Representative, in its sole discretion deems advisable. The Representatives may enter into one or more agreements as the Representatives, in each of their sole discretion, deem advisable with one or more broker-dealers who shall act as dealers in connection with such public offering.

5. COVENANTS AND AGREEMENTS OF THE COMPANY. The Company covenants and agrees with each of the Representatives as follows:

(a) The Company shall use its best efforts to cause the Registration Statement and any amendments thereto to become effective as promptly as practicable and will not at any time, whether before or after the effective date of the Registration Statement, file any amendment to the Registration Statement or supplement to the Prospectus or file any document under the Act or Exchange Act before termination of the offering of the Securities by the Representatives of which the Representative shall not previously have been advised and furnished with a copy, or to which the Representative shall have objected or which is not in compliance with the Act, the Exchange Act or the Rules and Regulations.

(b) As soon as the Company is advised or obtains knowledge thereof, the Company will advise the Representative and confirm the notice in writing, (i) when the Registration Statement, as amended, becomes effective, if the provisions of Rule 430A promulgated under the Act will be relied upon, when the Prospectus has been filed in accordance with said Rule 430A and when any post-effective amendment to the Registration Statement becomes effective; (ii) of the issuance by the Commission of any stop order or of the initiation, or the threatening, of any proceeding, suspending the effectiveness of the Registration Statement or any order preventing or suspending the use of the Preliminary Prospectus or the Prospectus, or any amendment or supplement thereto, or the institution of proceedings for that purpose; (iii) of the issuance by the Commission or by any state securities commission of any proceedings for the suspension of the qualification of any of the Securities for offering or sale in any jurisdiction or of the initiation, or the threatening, of any proceeding for that purpose; (iv) of the receipt of any comments from the Commission; and (v) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information. If the Commission or any state securities commission authority shall enter a stop order or suspend such qualification at any time, the Company will make every effort to obtain promptly the lifting of such order.

(c) The Company shall file the Prospectus (in form and substance satisfactory to the Representative) or transmit the Prospectus by a means reasonably calculated to result in filing with the Commission pursuant to Rule 424(b)(1) (or, if applicable and if consented to by the Representative, pursuant to Rule 424(b)(4)) not later than the Commission's close of business on the earlier of (i) the second business day following the execution and delivery of this Agreement; and (ii) the fifth business day after the effective date of the Registration Statement.

(d) The Company will give the Representative notice of its intention to file or prepare any amendment to the Registration Statement (including any post-effective amendment) or any amendment or supplement to the Prospectus (including any revised prospectus which the Company proposes for use by the Representatives in connection with the offering of the Securities which differs from the corresponding prospectus on file at the Commission at the time the Registration Statement becomes effective, whether or not such revised prospectus is required to be filed pursuant to Rule 424(b) of the Rules and Regulations) and will furnish the Representative with copies of any such amendment or supplement a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file any such prospectus to which the Representative or Atlas, Pearlman, Trop & Borkson, P.A. ("Representatives' Counsel"), shall object.

(e) The Company shall endeavor in good faith, in cooperation with the Representative, at or prior to the time the Registration Statement becomes effective, to qualify the Securities for offering and sale under the securities laws of such jurisdictions as the Representative may designate to permit the continuance of sales and dealings therein for as long as may be necessary to complete the distribution, and shall make such applications, file such documents and furnish such information; HOWEVER, the Company shall not be required to qualify as a foreign corporation or file a general or limited consent to service of process in any such jurisdiction. In each jurisdiction where such qualification shall be effected, the Company will, unless the Representative agrees that such action is not at the time necessary or advisable, use all reasonable efforts to file and make such statements or reports at such times as are or may reasonably be required by the laws of such jurisdiction to continue such qualification.

(f) During the time when a prospectus is required to be delivered under the Act, the Company shall use all reasonable effort to comply with all requirements imposed upon it by the Act and the Exchange Act, as now and hereafter amended and by the Rules and Regulations, as from time to time in force, so far as necessary to permit the continuance of sales of or dealings in the Securities in accordance with the provisions hereof and the Prospectus, or any amendments or supplements thereto. If at any time when a prospectus relating to the Securities or the Representative's Securities is required to be delivered under the Act, any event shall have occurred as a result of which, in the opinion of counsel for the Company or Representatives' Counsel, the Prospectus, as then amended or supplemented, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend the Prospectus to comply with the Act, the Company will notify the Representative promptly and prepare and file with the Commission an appropriate amendment or supplement in accordance with Section 10 of the Act, each such amendment or supplement to be reasonably satisfactory to Representatives' Counsel, and the Company will furnish to the Representatives copies of such amendment or supplement as soon as available and in such quantities as the Representatives may reasonably request.

(g) As soon as practicable, but in any event not later than 45 days after the end of the 12-month period beginning on the day after the end of the fiscal quarter of the Company during which the effective date of the Registration Statement occurs (90 days in the event that the end of such fiscal quarter is the end of the Company's fiscal year), the Company shall make generally available to its securityholders, in the manner specified in Rule 158(b) of the Rules and Regulations, and will deliver to the Representative, an earnings statement which will be in the detail required by, and will otherwise comply with, the provisions of Section 11(a) of the Act and Rule 158(a) of the Rules and Regulations, which statement need not be audited unless required by the Act, covering a period of at least twelve (12) consecutive months after the effective date of the Registration Statement.

(h) During a period of five (5) years after the date hereof, the Company will furnish to its shareholders, as soon as practicable, annual reports

(including financial statements audited by independent public accountants) and will deliver to the Representative:

- i) Concurrently with furnishing such quarterly reports to its shareholders, statements of income of the Company for each quarter in the form furnished to the Company's shareholders and certified by the Company's principal financial or accounting officer;
- ii) concurrently with furnishing such annual reports to its shareholders, a balance sheet of the Company as at the end of the preceding fiscal year, together with statements of operations, shareholders' equity, and cash flows of the Company for such fiscal year, accompanied by a copy of the certificate thereon of independent certified public accountants;
- iii) as soon as they are available, copies of all reports (financial or other) mailed to shareholders;
- iv) as soon as they are available, copies of all reports and financial statements furnished to or filed with the Commission, the NASD, NASDAQ or any other securities exchange;
- v) every press release and every material news item or article of interest to the financial community in respect of the Company, or its affairs which was released or prepared by or on behalf of the Company; and
- vi) any additional information of a public nature concerning the Company or its business which the Representative may request.

During such five-year period, if the Company has active subsidiaries, the foregoing financial statements will be on a consolidated basis to the extent that the accounts of the Company and its subsidiary are consolidated, and will be accompanied by similar financial statements for any significant subsidiary which is not so consolidated.

(i) The Company will maintain a Transfer Agent and, if necessary under the jurisdiction of incorporation of the Company, a Registrar (which may be the same entity as the Transfer Agent) for its Common Stock.

(j) The Company will furnish to the Representative or on the Representative's order, without charge, at such place as the Representative may designate, copies of each Preliminary Prospectus, the Registration Statement and any pre-effective or post-effective amendments thereto (two of which copies will be signed and will include all financial statements and exhibits), the Prospectus, and all amendments and supplements thereto, including any prospectus prepared after the effective date of the Registration Statement, in each case as soon as available and in such quantities as the Representative may reasonably request.

(k) On or before the effective date of the Registration Statement, the Company shall provide the Representative with true copies of duly executed, legally binding and enforceable Lock-up Agreements pursuant to which for a period of twenty-four (24) months from the effective date of the Registration Statement, shareholders of the Company owning shares of Common Stock and holders of securities exchangeable or exercisable for or convertible into shares of Common Stock (owning Warrants) agree that it or he or she will not directly or indirectly, publicly issue, offer to sell, sell, grant an option for the sale of, assign, transfer, pledge, hypothecate or otherwise encumber or dispose of any shares of Common Stock or securities convertible into, exercisable or exchangeable for or evidencing any right to purchase or subscribe for any shares of Common Stock (either pursuant to Rule 144 of the Rules and Regulations or otherwise) or dispose of any beneficial interest therein without the prior written consent of the Representative. On or before the Closing Date, the Company shall deliver instructions to the Transfer Agent authorizing it to place appropriate legends on the certificates representing the securities subject to the Lock-up Agreements and to place appropriate stop transfer orders on the Company's ledgers. Except for the issuance of shares of capital stock by the Company in connection with a dividend, recapitalization, reorganization or similar transaction or as a result of the exercise of warrants or outstanding options disclosed in the Registration Statement, the Company shall not, for a period of twenty-four (24) months following the Closing Date, directly or indirectly, offer, sell, issue or transfer any shares of its capital stock, or any security exchangeable or exercisable for, or convertible into, shares of the capital stock, without the prior written consent of the Representative, except the Company may issue options, not to exceed 120,000 options (without the prior written consent of the Representative) pursuant to the Company's Stock Option Plan.

(l) The Company shall apply the net proceeds from the sale of the Securities in the manner, and subject to the conditions, set forth under "Use of Proceeds" in the Prospectus. No portion of the net proceeds will be used, directly or indirectly, to acquire any securities issued by the Company.

(m) The Company shall timely file all such reports, forms or other documents as may be required (including, but not limited to, a Form SR as may be required pursuant to Rule 463 under the Act) from time to time, under the Act, the Exchange Act, and the Rules and Regulations, and all such reports, forms and documents filed will comply as to form and substance with the applicable requirements under the Act, the Exchange Act, and the Rules and Regulations.

(n) The Company shall furnish to the Representative as early as practicable prior to each of the date hereof, the Closing Date and each Option Closing Date, if any, but no later than two full business days prior thereto, a copy of the latest available unaudited interim financial statements of the Company (which in no event shall be as of a date more than thirty (30) days prior to the date of the Registration Statement) which have been read by the Company's independent public accountants, as stated in their letters to be furnished pursuant to Section 7(1) hereof.

(o) The Company shall cause the Common Stock and Warrants to be quoted on NASDAQ and for a period of five years from the date hereof,

use its best efforts to maintain the NASDAQ listing of the Common Stock or, upon the written consent of the Representative, quotation on a principal stock exchange.

(p) For a period of five years from the Closing Date, the Company shall furnish to the Representative at the Company's sole expense, (i) daily consolidated transfer sheets relating to the Common Stock if such transfer sheets have been furnished to the Company by its transfer agent at no additional cost, (ii) the list of holders of all of the Company's securities and (iii) a Blue Sky "Trading Survey" for secondary sales of the Company's securities prepared by counsel.

(q) As soon as practicable, (i) but in no event more than ten business days before the effective date of the Registration Statement, file a Form 8-A with the Commission providing for the registration under the Exchange Act of the Securities; and (ii) but in no event more than 30 days from the effective date of the Registration Statement, take all necessary and appropriate actions to be included in Standard and Poor's Corporation Descriptions and to continue such inclusion for a period of not less than five (5) years.

(r) Until the completion of the distribution of the Securities, the Company shall not without the prior written consent of the Representative and Representatives' Counsel, issue, directly or indirectly any press release or other communication or hold any press conference with respect to the Company or its activities or the offering contemplated hereby, other than trade releases issued in the ordinary course of the Company's business consistent with past practices with respect to the Company's operations.

(s) For a period equal to the lesser of (i) five (5) years from the date hereof, and (ii) the sale to the public of the Representative's Securities, the Company will not take any action or actions which may prevent or disqualify the Company's use of Form SB-2 (or other appropriate form) for the registration under the Act of the Representative's Securities.

(t) For a period of five (5) years after the effective date of the Registration Statement, the Representative shall have the right to designate one individual to be elected to the Company's Board of Directors (the "Board") and the Company shall use its best efforts to cause such designee to be elected to the Board. In the event the Representative shall not have designated such individual at the time of any meeting of the Board or such person is unavailable to serve, then for a period of two (2) years after the effective date of the Registration Statement, the Company shall timely notify the Representative of each meeting of the Board and an individual selected by the Representative shall be permitted to attend all meetings of the Board. In addition, the Company shall send to the Representative's designee all notices and other correspondence and communications sent by Company to members of the Board at least two (2) days before any meeting, if applicable. The Company shall reimburse the Representative's designee for all reasonable expenses incurred in connection with his service on, or attendance of, meetings of the Board to the same extent as is provided to all non-employee members of the Board of Directors.

(u) On or before the effective date of the Registration Statement, the Company shall have an authorized capital stock acceptable to the Representative including, without limitation, any stock option plans of the Company.

(v) On or before the effective date of the Registration Statement, the Company shall have (i) entered into an employment agreement with Robert O. Smith in the form filed as Exhibit 10.____ of the Registration Statement, and (ii) has purchased keyman life insurance on the life of Robert O. Smith. The policy shall provide for coverage in the amount of \$1,000,000, and the policy shall name the Company as the sole beneficiary thereof.

(w) If the transactions contemplated by this Agreement are consummated, during the five (5) year period from the Effective Date, the Representative and its successors will have the right of first refusal (the "Right of First Refusal") to act (1) as underwriter, placement agent or investment banker for any and all public or private offerings of the securities, whether equity, debt or a combination of equity and debt of the Company, or any successor to or any current or future subsidiary of the Company (collectively referred to in this Section (w) as the "Company") by the Company (the "Subsequent Company Offerings") or any secondary offering (the "Secondary Offering") of the Company's securities by any principal shareholder of the Company (the "Principal Shareholders") and (2) to act as the Company's investment banker on such other transactions as may arise from time to time, including without limitation, acting as financial advisor or intermediary in connection with merger and acquisition opportunities introduced to the Company by Werbel-Roth. Accordingly, if during such period the Company intends to make a Subsequent Company Offering, the Company receives notification from any of the such Principal Shareholders of its securities of such holders' intention to make a Secondary Offering, or the Company proposes a merger, acquisition or disposition of assets, the Company shall notify the Representative in writing of such intention and of the proposed terms of the offering or transaction. The Company shall thereafter promptly furnish the Representative with such information concerning the business, condition and prospects of the Company as the Representative may reasonably request. If, within thirty (30) business days of the receipt of such notice of intention and statement of terms, the Representative does not accept in writing such offer to act as underwriter, placement agent or investment banker with respect to such offering upon the terms proposed, the Company and each of the Principal Shareholders shall be free to negotiate terms with other underwriters with respect to such offering and to effect such offering on such proposed terms within six (6) months after the end of such ten (10) business days. Before the Company and/or any of the Principal Shareholders shall accept any modified proposal from such other underwriter, placement agent or investment banker, the Representative's preferential right shall be reinstated in the same procedure with respect to such modified proposal as provided above shall be adopted. The failure by the Representative to exercise its Right of First Refusal in any particular instance shall not affect in any way such right with respect to any other Subsequent Company Offering or Secondary Offering.

(x) The Representative and its successors will have a Right of First Refusal for a period of five (5) years from the Effective Date to purchase for the Representative's account or to sell for the account of the Company's principal stockholders any securities sold pursuant to Rule 144 under the Act. Each of the principal stockholders agrees to consult with the Representative with respect to any such sales and will offer the Representative the exclusive opportunity to purchase or sell such securities on terms at least as favorable to such principal stockholders as they

can secure elsewhere. If the Representative fails to accept in writing any such proposal for sale by such principal stockholders within three (3) business days after receipt of a notice containing such proposal, then the Representative shall have no claim or right with respect to any such sales contained in any such notice. If, thereafter, such proposal is modified in any material respect, such principal stockholders shall adopt the same procedure as with respect to the original proposal.

(y) The Company shall on the Closing Date, enter into a financial advisory agreement ("Consulting Agreement") with the Representative for a term of three (3) years commencing on the Effective Date which will provide that the Representatives will be paid a consulting fee of one percent of the gross proceeds from the Company's offering of Securities.

6. PAYMENT OF EXPENSES.

(a) The Company hereby agrees to pay on each of the Closing Date and the Option Closing Date (to the extent not paid as fees of Representatives' Counsel, except as provided in (iv) below) incident to the performance of the obligations of the Company under this Agreement and the Representative's Warrant Agreement, including, without limitation, (i) the fees and expenses of accountants and counsel for the Company, (ii) all costs and expenses incurred in connection with the preparation, duplication, printing, filing, delivery and mailing of the Registration Statement and the Prospectus and any amendments and supplements thereto and the printing, mailing and delivery of this Agreement, the Agreement Among Representatives, the Selected Dealer Agreements, if any, the Selling Agreements, if any, and related documents, including the cost of all copies thereof and of the Preliminary Prospectuses and of the Prospectus and any amendments thereof or supplements thereto supplied to the Representatives and such dealers as the Representatives may request, in quantities as hereinabove stated, (iii) the printing, engraving, issuance and delivery of the Securities including, but not limited to, (x) the purchase by the Representatives of the Securities and the purchase by the Representative of the Representative's Warrants from the Company, and (y) the consummation by the Company of any of its obligations under this Agreement and the Representative's Warrant Agreement, (iv) the qualification of the Securities under state or foreign securities or "Blue Sky" laws and determination of the status of such securities under legal investment laws, including the costs of printing and mailing the "Preliminary Blue Sky Memorandum," the "Supplemental Blue Sky Memorandum," "Legal Investments Survey," if any, and the "Final Blue Sky Memorandum" and disbursements and fees of counsel in connection therewith, it being agreed that Representative's Counsel shall perform the required "Blue Sky" legal services for the account of the Company, (v) advertising costs and expenses, consisting of the Company's travel costs and preparation expenses in connection with the "road show," information meetings and presentations, bound volumes and prospectus memorabilia and one "tomb-stone" advertisement in The Wall Street Journal, with expenses relating to travel, postage and tomb-stone advertising shall not exceed \$15,000 in the aggregate, (vi) fees and expenses of the transfer agent and registrar, (vii) the fees payable to the Commission and the NASD, and (viii) the fees and expenses incurred in connection with the listing of the Securities with NASDAQ and any other exchange.

(b) The Selling Securityholders agree that they will pay all stock transfer taxes, stamp duties and other similar taxes, if any, payable (i) upon the sale, issuance or delivery of the Securities sold by such Selling Securityholders, (ii) upon the purchase by the Representatives of the Securities sold by such Selling Securityholders, (iii) upon resales of the Securities sold by such Selling Securityholders in connection with the distribution contemplated hereby or (iv) in connection with the consummation by such Selling Securityholders of any of their obligations under this Agreement and further authorizes the payment of any such amount (and any amounts payable pursuant to Section 5(c) hereof) by deduction from the proceeds of the Shares to be sold by them under this Agreement.

(c) If this Agreement is terminated by the Representatives in accordance with the provisions of Section 6 or Section 12, the Company shall reimburse and indemnify the Representative for all of its actual out-of-pocket expenses, including the fees and disbursements of Representatives' Counsel, less any amounts already paid pursuant to Section 5(d) hereof.

(d) The Company further agrees that, in addition to the expenses payable pursuant to subsection (a) of this Section 6, it will pay to the Representative on the Closing Date by deduction from the proceeds of the offering contemplated herein a non-accountable expense allowance equal to three percent (3%) of the gross proceeds received by the Company from the sale of the Securities and Option Securities, if any, of which has been paid upon the execution of the Letter of Intent between the parties hereto. The Company also agrees to pay certain due diligence fees and expenses incurred by the Representative in connection with (i) background investigation of officers, directors and the shareholder of the Company, pursuant to judgment, UCC and Commission searches and (ii) due diligence meetings for syndicate members and others.

7. CONDITIONS OF THE REPRESENTATIVES' OBLIGATIONS. The obligations of the Representatives hereunder shall be subject to the continuing accuracy of the representations and warranties of the Company and Selling Securityholders herein as of the date hereof and as of the Closing Date and each Option Closing Date, if any, with respect to the Company as if they had been made on and as of the Closing Date or each Option Closing Date, as the case may be; the accuracy on and as of the Closing Date of the statements of the Selling Securityholders and officers of the Company made pursuant to the provisions hereof; and the performance by the Company and the Selling Securityholder on and as of the Closing Date and each Option Closing Date, if any, of its or their covenants and obligations hereunder and to the following further conditions:

(a) The Registration Statement shall have become effective not later than 12:00 P.M., Florida time, on the date of this Agreement or such later date and time as shall be consented to in writing by the Representative, and, at Closing Date and each Option Closing Date, if any, no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or shall be pending or contemplated by the Commission and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of Representatives' Counsel. If the Company has elected to rely upon Rule 430A of

the Rules and Regulations, the price of the Securities and any price-related information previously omitted from the effective Registration Statement pursuant to such Rule 430A shall have been transmitted to the Commission for filing pursuant to Rule 424(b) of the Rules of Regulations within the prescribed time period, and prior to Closing Date the Company shall have provided evidence satisfactory to the Representative of such timely filing, or a post-effective amendment providing such information shall have been promptly filed and declared effective in accordance with the requirements of Rule 430A of the Rules and Regulations.

(b) The Representative shall not have advised the Company or the Selling Securityholders that either the Registration Statement, or any amendment thereto, or the Prospectus, contains an untrue statement of fact which, in the Representative's opinion, is material, or omits to state a fact which, in the Representative's opinion, is material and is required to be stated therein or is necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(c) On or prior to the Closing Date, the Representative shall have received from Company's Counsel, and shall have used its best efforts to cause such counsel to deliver such opinion or opinions with respect to the organization of the Company, the validity of the Securities, the Representative's Warrants, the Registration Statement, the Prospectus and other related matters as the Representative may request and Representatives' Counsel shall have received such papers and information as they request to enable them to pass upon such matters.

(d) At the Closing Date, the Representatives shall have received the favorable opinion of Bartel Eng Linn & Schroder, counsel to the Company, dated the Closing Date, addressed to the Representatives and in form and substance reasonably satisfactory to Representatives' Counsel, to the effect that:

i) the Company (A) has been duly organized and is validly existing as a corporation in good standing under the laws of its jurisdiction, (B) is duly qualified and licensed and in good standing as a foreign corporation in each jurisdiction where the nature of its properties or the conduct of its business requires such registration and the failure to register or so qualify would have a material adverse effect on the Company, (C) has all requisite corporate power and authority, and has obtained any and all necessary authorizations, approvals, orders, licenses, certificates, franchises and permits of and from all governmental or regulatory officials and bodies (including, without limitation, those having jurisdiction over environmental or similar matters), to own or lease its properties and conduct its business as described in the Prospectus; (D) the Company is and has been doing business in material compliance with all such authorizations, approvals, orders, licenses, certificates, franchises and permits and all federal, state and local laws, rules and regulations; and, (E) the Company has not received any notice of proceedings relating to the revocation or modification of any such authorization, approval, order, license, certificate, franchise or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would materially adversely affect the business, condition, financial or otherwise, or the earnings, affairs, position, prospects, value, operation, properties, business or results of operations of the Company. The disclosures in the Registration Statement concerning the effects of federal, state and local laws, rules and regulations on the Company's business as currently conducted and as contemplated are correct in all material respects or do not omit to state a material fact necessary to make the statements contained therein not misleading in light of the circumstances in which they were made.

ii) the Company has a duly authorized, issued and outstanding capitalization as set forth in the Prospectus, and any amendment or supplement thereto, under "Capitalization", and to our knowledge, the Company is not a party to or bound by any instrument, agreement or other arrangement providing for it to issue any capital stock, rights, warrants, options or other securities, except for this Agreement and the Representative's Warrant Agreement and as described in the Prospectus. The Securities, the Representative's Warrants and all other securities issued or issuable by the Company conform in all material respects to all statements with respect thereto contained in the Registration Statement and the Prospectus. All issued and outstanding securities of the Company have been duly authorized and validly issued and are fully paid and non-assessable; the holders thereof have no rights to rescission with respect thereto, and are not subject to personal liability by reason of being such holders; and none of such securities were issued in violation of the preemptive rights of any holders of any security of the Company. The Securities and the Representative's Securities to be sold by the Company hereunder and under the Representative's Warrant Agreement are not and will not be subject to any preemptive or other similar rights of any shareholder, have been duly authorized and, when issued, paid for and delivered in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and conform to the description thereof contained in the Prospectus; the holders thereof will not be subject to any liability solely as such holders; all corporate action required to be taken for the authorization, issue and sale of the Securities and the Representative's Securities has been duly and validly taken; and the certificates representing the Securities and the Representative's Warrants are in due and proper form. Subject to compliance with the registration provisions of the Act and applicable state registration and qualification provisions, the Representative's Warrants constitute valid and binding obligations of the Company to issue and sell, upon exercise thereof and payment therefor, the number and type of securities of the Company called for thereby. Upon the issuance and delivery pursuant to this Agreement of the Securities and the Representative's Warrants to be sold by the Company, and upon payment in full therefor the Representatives and the Representative, respectively, will acquire good and marketable title to the Securities and Representative Warrants free and clear of any pledge, lien, charge, claim, encumbrance, security interest, or other restriction (excluding securities law restrictions) or equity of any kind whatsoever, except with respect to any actions that may have been taken or omitted to be taken by the Representatives or the Representative after the date hereof. No transfer tax is payable by or on behalf of the Representatives in connection with (A) the issuance by the Company of the Securities, (B) the purchase by the Representatives and the Representative of the Securities and the Representative's Securities, respectively, from the Company, (C) the consummation by the Company of any of its obligations under this Agreement or the Representative's Warrant Agreement, or (D) resales of the Securities in connection with the distribution contemplated hereby.

iii) the Registration Statement has become effective under the Act, and, if applicable, filing of all pricing information has been timely made in the appropriate form under Rule 430A, and no stop order suspending the use of the Preliminary Prospectus, the Registration Statement or Prospectus or any part of any thereof or suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or, to the best of such counsel's knowledge, threatened or contemplated under the Act.

iv) each of the Preliminary Prospectus, the Registration Statement, and the Prospectus and any amendments a statements or supplements thereto (other than the financial statements and the notes thereto and other financial and statistical data included therein, as to which no opinion need be rendered) comply as to form in all material respects with the requirements of the Act and the Rules and Regulations.

v) to the best of such counsel's knowledge, (A) there are no agreements, contracts or other documents required by the Act to be described in the Registration Statement and the Prospectus and filed as exhibits to the Registration Statement other than those described in the Registration Statement (or required to be filed under the Exchange Act if upon such filing they would be incorporated, in whole or in part, by reference therein) and the Prospectus and filed as exhibits thereto, and the exhibits which have been filed are correct copies of the documents of which they purport to be copies; (B) the descriptions in the Registration Statement and the Prospectus and any supplement or amendment thereto of contracts and other documents to which the Company is a party or by which it is bound, including any document to which the Company is a party or by which it is bound, incorporated by reference into the Prospectus and any supplement or amendment thereto, are accurate and fairly represent the information required to be shown by Form SB-2; or (C) there is not pending or threatened against the Company any action, arbitration, suit, proceeding, inquiry, investigation, litigation, legal, statutory, regulatory, governmental or other proceeding (including, without limitation, those having jurisdiction over environmental or similar matters), domestic or foreign, pending or threatened against, or involving the properties or business of the Company which (x) is required to be disclosed in the Registration Statement which is not so disclosed (and such proceedings as are summarized in the Registration Statement are accurately summarized in all respects), (y) questions the validity of the capital stock of the Company or this Agreement or the Representative's Warrant Agreement, or of any action taken or to be taken by the Company pursuant to or in connection with any of the foregoing; (D) no statute or regulation or legal or governmental proceeding required to be described in the Prospectus is not described as required; and (E) there is no action, suit or proceeding, pending or threatened, against or affecting the Company before any court or arbitrator or governmental body, agency or official (or any basis thereof known to such counsel) which in any manner draws into question the validity or enforceability of this Agreement or the Representative's Warrant Agreement;

vi) the Company has full legal right, power and authority to enter into each of this Agreement and the Representative's Warrant Agreement, and to consummate the transactions provided for therein; and each of this Agreement and the Representative's Warrant Agreement has been duly authorized, executed and delivered by the Company. Each of this Agreement and the Representative's Warrant Agreement, assuming due authorization, execution and delivery by each other party thereto constitutes a legal, valid and binding agreement of the Company enforceable against the Company in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application relating to or affecting enforcement of creditors' rights and the application of equitable principles in any action, legal or equitable, and except as rights to indemnity or contribution may be limited by applicable law), and none of the Company's execution or delivery of this Agreement and the Representative's Warrant Agreement, its performance hereunder or thereunder, its consummation of the transactions contemplated herein or therein, or the conduct of its business as described in the Registration Statement, the Prospectus, and any amendments or supplements thereto, conflicts with or will conflict with or results or will result in any breach or violation of any of the terms or provisions of, or constitutes or will constitute a default under, or result in the creation or imposition of any lien, charge, claim, encumbrance, pledge, security interest, defect or other restriction or equity of any kind whatsoever upon, any property or assets (tangible or intangible) of the Company pursuant to the terms of, (A) the articles of incorporation or by-laws of the Company; (B) any license, contract, indenture, mortgage, deed of trust, voting trust agreement, shareholders agreement, note, loan or credit agreement or any other agreement or instrument to which the Company is a party or by which it is or may be bound or to which any of its properties or assets (tangible or intangible) is or may be subject, or any indebtedness, or (C) any statute, judgment, decree, order, rule or regulation applicable to the Company of any arbitrator, court, regulatory body or administrative agency or other governmental agency or body (including, without limitation, those having jurisdiction over environmental or similar matters), domestic or foreign, having jurisdiction over the Company or any of its activities or properties.

vii) no consent, approval, authorization or order, and no filing with, any court, regulatory body, government agency or other body (other than such as may be required under Blue Sky laws, as to which no opinion need be rendered) is required in connection with the issuance of the Securities pursuant to the Prospectus, the issuance of the Representative's Warrants, and the Registration Statement, the performance of this Agreement and the Representative's Warrant Agreement, and the transactions contemplated hereby and thereby;

viii) the properties and business of the Company conform in all material respects to the description thereof contained in the Registration Statement and the Prospectus;

ix) the Company is not in breach of, or in default under, any term or provision of any material license, contract, indenture, mortgage, installment sale agreement, deed of trust, lease, voting trust agreement, shareholders' agreement, partnership agreement, note, loan or credit agreement or any other material agreement or instrument evidencing an obligation for borrowed money, or any other material agreement or instrument to which the Company is a party or by which any of the Company may be bound or to which the property or assets (tangible or intangible) of any of the Company is subject or affected; and the Company is not in violation of any term or provision of its Articles of Incorporation or by-laws or in violation of any franchise, license, permit, judgment, decree, order, statute, rule or regulation;

x) the statements in the Prospectus under "PROSPECTUS SUMMARY - THE COMPANY," "BUSINESS," "MANAGEMENT," "SELLING SECURITYHOLDERS," "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS," "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT," "DESCRIPTION OF SECURITIES," and "SHARES ELIGIBLE FOR FUTURE SALE" have been reviewed by such counsel, and insofar as they refer to statements of law, descriptions of statutes, licenses, rules or regulations or legal conclusions are correct in all material respects;

xi) the Securities will be listed on NASDAQ upon the effective date of the Registration statement.

xii) the person listed under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Prospectus are the respective "beneficial owners" (as such phrase is defined in Regulation 13d-3 under the Exchange Act) of the securities set forth opposite their respective names thereunder as and to the extent set forth therein;

xiii) except as described in the Prospectus, no person, corporation, trust, partnership, association or other entity has the right to include and/or register any securities of the Company in the Registration Statement, require the Company to file any registration statement or, if filed, to include any security in such registration statement;

xiv) except as described in the Prospectus, there are no claims, payments, issuances, arrangements or understandings for services in the nature of a finder's or origination fee with respect to the sale of the Securities hereunder or financial consulting arrangement or any other arrangements, agreements, understandings, payments or issuances that may affect the Representatives' compensation, as determined by the NASD;

xv) assuming due execution by the parties thereto other than the Company, the Lock-up Agreements hereof are legal, valid and binding obligations of parties thereto, enforceable against the party and any subsequent holder of the securities subject thereto in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization moratorium or other laws of general application relating to or affecting enforcement of creditors' rights and the application of equitable principles in any action, legal or equitable, and except as rights to indemnity or contribution may be limited by applicable law);

xvi) except as described in the Prospectus, the Company does not (A) maintain, sponsor or contribute to any ERISA Plans, (B) maintain or contribute, now or at any time previously, to a defined benefit plan, as defined in Section 3(35) of ERISA, and (C) has never completely or partially withdrawn from a "multi-employer plan;"

xvii) except as set forth in the Prospectus, no officer, director or shareholder of the Company, or any "affiliate" or "associate" (as these terms are defined in Rule 405 promulgated under the Rules and Regulations) of any of the foregoing persons or entities has or has had, either directly or indirectly, (A) an interest in the person or entity which (x) furnishes or sells services or products which are furnished or sold or are proposed to be furnished or sold by the Company, or (y) purchases from or sells or furnishes to the Company any goods or services, or (B) a beneficial interest in any contract or agreement to which the Company is a party or by which they may be bound or affected. Except as set forth in the Prospectus under "Management" or "Certain Transactions," there are no existing material agreements, arrangements, understandings or transactions, or proposed agreements, arrangements, understandings or transactions, between or among the Company, and any officer, director, or Principal Shareholder of the Company, or any affiliate or associate of any such person or entity.

Such counsel shall state that during the course of its participation in the preparation of the Registration Statement and the Prospectus and the amendments thereto, no facts have come to the attention of such counsel which lead them to believe that either the Registration Statement or any amendment thereto, at the time such Registration Statement or amendment became effective or the Preliminary Prospectus or Prospectus or amendment or supplement thereto as of the date of such opinion contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading (it being understood that such counsel need express no opinion with respect to the financial statements and schedules and other financial and statistical data included in the Preliminary Prospectus, the Registration Statement or Prospectus).

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws other than the laws of the United States and jurisdictions in which they are admitted, to the extent such counsel deems proper and to the extent specified in such opinion, if at all, upon an opinion or opinions (in form and substance satisfactory to Representatives' Counsel) of other counsel acceptable to Representatives' Counsel, familiar with the applicable laws; (B) as to matters of fact, to the extent they deem proper, on certificates and written statements of responsible officers of the Company and certificates or other written statements of officers of departments of various jurisdictions having custody of documents respecting the corporate existence or good standing of the Company, provided that copies of any such statements or certificates shall be delivered to Representatives' Counsel if requested. The opinion of such counsel for the Company shall state that the opinion of any such other counsel is in form satisfactory to such counsel and that the Representative and they are justified in relying thereon.

(e) At the Closing Date, the Representative shall have received the favorable opinion of Bartel Eng Linn & Schroder with respect to the Selling Securityholders dated the Closing Date, addressed to the Representatives and in form and substance satisfactory to Representatives' Counsel, to the effect that:

i) The Selling Securityholders have full right, power and authority to enter into and to perform its obligations under this Agreement, his Power of Attorney, Custody Agreement and to sell, transfer and deliver the Securities to be sold by such Selling Securityholders under this Agreement.

ii) This Agreement and the Powers of Attorney have been duly executed and delivered by or on behalf of the Selling Securityholders, and are the valid and binding obligations of such Selling Securityholders, enforceable against such Selling Securityholders in accordance with their respective terms;

iii) The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, including the issuance, sale and delivery of the Securities to be sold by the Selling Securityholders, will not result in a breach or violation of, or constitute a default under, any will, license, contract indenture, mortgage, voting trust agreement, shareholders' agreement, deed of trust, note, loan or credit agreement, or other agreement or instrument to which such Selling Securityholders are a party or by which such Selling Securityholders are or

may be bound or to which any of such Selling Securityholders's property are or may be subject or any indebtedness, statute, judgment, decree, order, rule or regulation applicable to such Selling Securityholders of any arbitrator, court, regulatory body or administrative agency or other governmental agency or body (including, without limitation, those having jurisdiction over environmental or similar matters), domestic or foreign having jurisdiction over such Selling Securityholders or any of their activities or properties;

iv) To the best of such counsel's knowledge, no consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any court or any public, governmental or regulatory agency or body having jurisdiction over such Selling Securityholders, or any of their respective properties or assets is required for the execution, delivery and performance of this Agreement, the consummation of the transactions contemplated hereby, including the issuance, sale and delivery of the Securities to be sold by such Selling Securityholders, except the registration under the Act of the Shareholder Securities and such consents, approvals, authorizations, orders, registrations, filings, qualifications, licenses and permits as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shareholder Securities to be sold by the Representatives; and

v) Upon delivery of the Securities set forth on Schedule B hereto to be sold by such Selling Securityholders, and the receipt of payment therefor pursuant hereto, good, valid and marketable title to such Securities and, free and clear of all liens, charges, encumbrances, equities, claims, pledges, security interests, restrictions, shareholders' agreements, voting trusts, community property rights, or defects in title whatsoever will pass to the Representatives.

(f) At each Option Closing Date, if any, the Representatives shall have received the favorable opinion of Bartel Eng Linn & Schroder, counsel to the Company, dated the Option Closing Date, addressed to the Representatives and in form and substance satisfactory to Representatives' Counsel confirming as of such Option Closing Date the statements made by Bartel Eng Linn & Schroder, in the opinion delivered on the Closing Date with respect to the Option Securities.

(g) On or prior to each of the Closing Date and the Option Closing Date, if any, Representatives' Counsel shall have been furnished such documents, certificates and opinions as they may reasonably require for the purpose of enabling them to review or pass upon the matters referred to in subsection (c) of this Section 6, or in order to evidence the accuracy, completeness or satisfaction of any of the representations, warranties or conditions of the Company, or herein contained.

(h) Prior to each of the Closing and each Option Closing Date, if any (1) there shall be no adverse change or development involving a prospective change in the condition, financial or otherwise, prospects, shareholder's equity with the business activities of the Company, whether or not in the ordinary course of business, from the latest dates as of which such condition is set forth in the Registration Statement and Prospectus; (2) there shall have been no transaction, not in the ordinary course of business, entered into by the Company, from the latest date as of which the financial condition of the Company is set forth in the Registration Statement and Prospectus which is adverse to the Company; (3) the Company shall not be in default under any provision of any instrument relating to any outstanding indebtedness; (4) the Company shall not have issued any securities (other than Securities and the Representatives Warrants) or declared or paid any dividend or made any distribution in respect of its capital stock of any class and there has not been any change in the capital stock or change in the debt (long or short term) or liabilities or obligations of the Company (contingent or otherwise); (5) no material amount of the assets of the Company shall have been pledged or mortgaged, except as set forth in the Registration Statement and Prospectus; (6) no action, suit or proceeding, at law or in equity, shall have been pending or threatened (or circumstances giving rise to same) against the Company or affecting any of its properties or business before or by any court or federal, state or foreign commission, board or other administrative agency wherein an unfavorable decision, ruling or finding may materially adversely affect the business, operations, prospects or financial condition or income of the Company, except as set forth in the Registration Statement and Prospectus; and (7) no stop order shall have been issued under the Act and no proceedings therefor shall have been initiated, threatened or contemplated by the Commission.

(i) At each of the Closing Date and each Option Closing Date, if any, the Representatives shall have received a certificate of the Company signed by the principal executive officer and by the chief financial or chief accounting officer of the Company, dated the Closing Date or Option Closing Date, as the case may be, to the effect that each of such persons has carefully examined the Registration Statement, the Prospectus and this Agreement, and that:

i) The representations and warranties of the Company in this Agreement are true and correct in all material respects, as if made on and as of the Closing Date or the Option Closing Date, as the case may be, and the Company has complied with all agreements and covenants and satisfied all conditions contained in this Agreement on its part to be performed or satisfied at or prior to such Closing Date or Option Closing Date, as the case may be;

ii) No stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued, and no proceedings for that purpose have been instituted or are pending or, to the best of each of such person's knowledge, after due inquiry are contemplated or threatened under the Act;

iii) Each Preliminary Prospectus, the Registration Statement and the Prospectus and, if any, each amendment and each supplement thereto, contain all statements and information required to be included therein; and

iv) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, (a) the Company has not incurred up to and including the Closing Date or the Option Closing Date, as the case may be, other than in the ordinary course of its business, any material liabilities or obligations, direct or contingent; (b) the Company has not paid or declared any dividends or other distributions on its capital stock;

(c) the Company has not entered into any transactions not in the ordinary course of business; (d) there has not been any change in the capital stock or long-term debt or any increase in the short-term borrowings (other than any increase in the short-term borrowings in the ordinary course of business) of the Company; (e) the Company has not sustained any material loss or damage to its property or assets, whether or not insured; (f) there is no litigation which is pending or threatened (or circumstances giving rise to same) against the Company or any affiliated party of the foregoing which is required to be set forth in an amended or supplemented Prospectus which has not been set forth; and (g) there has occurred no event required to be set forth in an amended or supplemented Prospectus, which has not been set forth.

References to the Registration Statement and the Prospectus in this subsection (i) are to such documents as amended and supplemented at the date of such certificate.

(j) At the Closing Date, if any, the Representative shall have received a certificate of an Attorney-in-Fact for the Selling Securityholders, dated as of such date, to the effect that (i) the representations and warranties of such Selling Securityholders, contained herein are true and correct with the same force and effect as though expressly made at and as of such Closing Date, (ii) such Selling Securityholders have reviewed the Prospectus, and any supplements thereto, and the information relating to such Selling Securityholders and such Selling Securityholders's shares of Common Stock and other securities of the Company owned by such Selling Securityholders that is set forth in the Prospectus, and any supplements thereto, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make such information not misleading, and all of the information furnished by or on behalf of such Selling Securityholders for use in the Prospectus is true, correct and complete in all respects.

(k) The Representative shall have the obligation to satisfy the requirements set forth by the rules and regulations of the NASD as to the amount of compensation allowable or payable by the Representative and, accordingly, by the Closing Date, the Representatives will have received clearance from the NASD as to the amount of compensation allowable or payable to the Representatives, as described in the Registration Statement.

(l) At the time this Agreement is executed, the Representatives shall have received a letter, dated such date, addressed to the Representatives in form and substance satisfactory (including the non-material nature of the changes or decreases, if any, referred to in clause (iii) below) in all respects to the Representatives and Representatives' Counsel, from _____:

i) confirming that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable Rules and Regulations;

ii) stating that it is their opinion that the financial statements and supporting schedules of the Company included in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Act and the Rules and Regulations thereunder and that the Representative may rely upon the opinion of Hein + Associates, LLP, with respect to the financial statements and supporting schedules included in the Registration Statement;

iii) stating that, on the basis of a limited review which included a reading of the latest available unaudited interim financial statements of the Company (with an indication of the date of the latest available unaudited interim financial statements), a reading of the latest available minutes of the shareholders and board of directors and the various committees of the boards of directors of the Company, consultations with officers and other employees of the Company responsible for financial and accounting matters and other specified procedures and inquiries, nothing has come to its attention which would lead it to believe that (A) the unaudited financial statements and supporting schedules of the Company included in the Registration Statement do not comply as to form in all material respects with the applicable accounting requirements of the Act and the Rules and Regulations or are not fairly presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements of the Company included in the Registration Statement, or (B) at a specified date not more than five days prior to the effective date of the Registration Statement, there has been any change in the capital stock or long-term debt of the Company, or any decrease in the shareholder's equity or net assets of the Company as compared with amounts shown in the June 30, 1996 balance sheet included in the Registration Statement, other than as set forth in or contemplated by the Registration Statement, or, if there was any change or decrease, setting forth the amount of such change or decrease; and (C) during the period from June 30, 1996, to a specified date not more than five

(5) days prior to the effective date of the Registration Statement, there was any decrease in net revenues, net earnings or increase in net earnings per common share of the Company, as compared with the corresponding period beginning June 30, 1996, other than as set forth in or contemplated by the Registration Statement, or, if there was any such decrease, setting forth the amount of such decrease; setting forth, at a date not later than five (5) days prior to the date of the Registration Statement, the amount of liabilities of the Company (including a breakdown of commercial paper and notes payable to banks).

iv) stating that they have compared specific dollar amounts, numbers of shares, percentages of revenues and earnings, statements and other financial information pertaining to the Company set forth in the Prospectus in each case to the extent that such amounts, numbers, percentages, statements and information may be derived from the general accounting records, including work sheets, of the Company and excluding any questions requiring an interpretation by legal counsel, with the results obtained from the application of specified readings, inquiries and other appropriate procedures (which procedures do not constitute an examination in accordance with generally accepted auditing standards) set forth in the letter and found them to be in agreement;

v) stating that they have not during the immediately preceding five-year period brought to the attention of any of the Company's management any "weakness," as defined in Statement of Auditing Standard No. 60 "Communication of Internal Control Structure Related Matters Noted in an Audit," in any of the Company's internal controls;

vi) statements as to such other matters incident to the transaction contemplated hereby as the Representative may reasonably request.

(m) At Closing Date and each Option Closing Date, if any, the Representatives shall have received from Bartel Eng Linn & Schroder, a letter, dated as of the Closing Date or the Option Closing Date, as the case may be, to the effect that they reaffirm those statements made in the letter furnished pursuant to SUBSECTION (l) of this Section, except that the specified date referred to shall be a date not more than five days prior to Closing Date or the Option Closing Date, as the case may be, and, if the Company has elected to rely on Rule 430A of the Rules and Regulations, to the further effect that they have carried out procedures as specified in subsection (l) of this Section with respect to certain amounts, percentages and financial information as specified by the Representative and deemed to be a part of the Registration Statement pursuant to Rule 430A(b) and have found such amounts, percentages and financial information to be in agreement with the records specified in such subsection (l).

(n) On each of Closing Date and Option Closing Date, if any, there shall have been duly tendered to the Representative for the several Representatives' accounts the appropriate number of Securities.

(o) No order suspending the sale of the Securities in any jurisdiction, which in the judgment of the Representative is material to Closing of the transaction, designated by the Representative pursuant to subsection (e) of Section 4 hereof shall have been issued on either the Closing Date or the Option Closing Date, if any, and no proceedings for that purpose shall have been instituted or shall be contemplated.

(p) On or before the Closing Date, the Company shall have executed and delivered to the Representative, (i) the Representative's Warrant Agreement substantially in the form filed as Exhibit ____ to the Registration Statement in final form and substance satisfactory to the Representative, and (ii) the Representative's Warrants in such denominations and to such designees as shall have been provided to the Company.

(q) Upon the effective date of the Registration Statement, the Securities shall have been duly approved for quotation on NASDAQ, subject to official notice of issuance.

(r) On or before Closing Date, there shall have been delivered to the Representative all of the Lock-up Agreements, in form and substance reasonably satisfactory to Representatives' Counsel.

(s) On or before the Closing Date, the Company shall have executed and delivered to the Representative the Consulting Agreement substantially in the form filed as Exhibit ____.

If any condition to the Representatives' obligations hereunder to be fulfilled prior to or at the Closing Date or the relevant Option Closing Date, as the case may be, is not so fulfilled, the Representative may terminate this Agreement or, if the Representative so elects, it may waive any such conditions which have not been fulfilled or extend the time for their fulfillment.

8. INDEMNIFICATION.

(a) The Company and the Selling Securityholders, severally but not jointly agrees to indemnify and hold harmless each of the Representatives (for purposes of this Section 8 "Representative" shall include the officers, directors, partners, employees, agents and counsel of the Representative, including specifically each person who may be substituted for an Representative as provided in Section 12 hereof), and each person, if any, who controls the Representative ("controlling person") within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, from and against any and all losses, claims, damages, expenses or liabilities, joint or several (and actions in respect thereof), whatsoever (including but not limited to any and all expenses whatsoever reasonably incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever), as such are incurred, to which the Representative or such controlling person may become subject under the Act, the Exchange Act or any other statute or at common law or otherwise or under the laws of foreign countries, arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained (i) in any Preliminary Prospectus, the Registration Statement or the Prospectus (as from time to time amended and supplemented); (ii) in any post-effective amendment or amendments or any new registration statement and prospectus in which is included securities of the Company issued or issuable upon exercise of the Securities; or (iii) in any application or other document or written communication (in this Section 8 collectively called "application") executed by the Company or based upon written information furnished by the Company in any jurisdiction in order to qualify the Securities under the securities laws thereof or filed with the Commission, any state securities commission or agency, NASDAQ or any other securities exchange; or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading (in the case of the Prospectus, in the light of the circumstances under which they were made), unless such statement or omission was made in reliance upon and in conformity with written information furnished to the Company with respect to any Representative by or on behalf of such Representative expressly for use in any Preliminary Prospectus, the Registration Statement or Prospectus, or any amendment thereof or supplement thereto, or in any application, as the case may be.

The indemnity agreement in this subsection (a) shall be in addition to any liability which the Company or the Selling Securityholders may have at common law or otherwise.

(b) Each of the Representatives agree severally, but not jointly, to indemnify and hold harmless the Company, each of its directors, proposed directors, each of its officers who has signed the Registration Statement, counsel for the Company, the Selling Securityholders, and each other person, if any, who controls the Company within the meaning of the Act, to the same extent as the foregoing indemnity from the Company and

the Selling Securityholders to the Representatives but only with respect to statements or omissions, if any, made in any Preliminary Prospectus, the Registration Statement or Prospectus or any amendment thereof or supplement thereto or in any application made in reliance upon, and in strict conformity with, written information furnished to the Company with respect to any Preliminary Prospectus, the Registration Statement or Prospectus or any amendment thereof or supplement thereto or in any such application, provided that such written information or omissions only pertain to disclosures in the Preliminary Prospectus, the Registration Statement or Prospectus directly relating to the transactions effected by the Representatives in connection with this Offering. The Company acknowledges that the statements with respect to the public offering of the Securities set forth under the heading "Underwriting" and the stabilization legend in the Prospectus have been furnished by the Representatives expressly for use therein and constitute the only information furnished in writing by or on behalf of the Representatives for inclusion in the Prospectus.

(c) Promptly after receipt by an indemnified party under this

Section 8 of notice of the commencement of any action, suit or proceeding, such indemnified party shall, if a claim in respect thereof is to be made against one or more indemnifying parties under this Section 8, notify each party against whom indemnification is to be sought in writing of the commencement thereof (but the failure so to notify an indemnifying party shall not relieve it from any liability which it may have under this

Section 8 except to the extent that it has been prejudiced in any material respect by such failure or from any liability which it may have otherwise). In case any such action is brought against any indemnified party, and it notifies an indemnifying party or parties of the commencement thereof, the indemnifying party or parties will be entitled to participate therein, and to the extent it may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party. Notwithstanding the foregoing, the indemnified party or parties shall have the right to employ its or their own counsel in any such case but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless (i) the employment of such counsel shall have been authorized in writing by the indemnifying parties in connection with the defense of such action at the expense of the indemnifying party, (ii) the indemnifying parties shall not have employed counsel reasonably satisfactory to such indemnified party to have charge of the defense of such action within a reasonable time after notice of commencement of the action, or (iii) such indemnified party or parties shall have reasonably concluded, based upon an opinion of counsel, that there may be defenses available to it or them which are different from or additional to those available to one or all of the indemnifying parties (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses of one additional counsel shall be borne by the indemnifying parties. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel, in addition to any local counsel, separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. Anything in this Section 7 to the contrary notwithstanding, an indemnifying party shall not be liable for any settlement effected without its written consent; provided, however, that such consent was not unreasonably withheld.

(d) In order to provide for just and equitable contribution in any case in which (i) an indemnified party makes claim for indemnification pursuant to this Section 8, but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case, notwithstanding the fact that the express provisions of this Section 8 provides for indemnification in such case or (ii) contribution under the Act may be required on the part of any indemnified party, then each indemnifying party shall contribute to the amount paid as a result of such losses, claims, damages, expenses or liabilities (or actions in respect thereof) (A) in such proportion as is appropriate to reflect the relative benefits received by each of the contributing parties, on the one hand, and the party to be indemnified on the other hand, from the offering of the Securities or (B) if the allocation provided by clause (A) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of each of the contributing parties, on the one hand, and the party to be indemnified on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages, expenses or liabilities, as well as any other relevant equitable considerations. In any case where each of the Company or the Selling Securityholders are contributing parties and the Representatives are the indemnified party, the relative benefits received by the Company or Selling Securityholders on the one hand, and the Representatives, on the other, shall be deemed to be in the same proportion as the total net proceeds from the offering of the Securities (before deducting expenses) bear to the total underwriting discounts received by the Representatives hereunder, in each case as set forth in the table on the Cover Page of the Prospectus. Relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, the Selling Securityholders, or by the Representatives, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, expenses or liabilities (or actions in respect thereof) referred to above in this subdivision (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subdivision (d), the Representatives shall not be required to contribute any amount in excess of the underwriting discount applicable to the Securities purchased by the Representatives hereunder. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person, if any, who controls the Company within the meaning of the Act, each officer of the Company who has signed the Registration Statement, and each director of the Company shall have the same rights to contribution as the Company, subject in each case to this subparagraph (d). Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect to which a claim for contribution may be made against another party or parties under this subparagraph (d), notify such party or parties from whom contribution may be sought, but the omission so to notify such party or parties shall not relieve the party or parties from whom contribution may be sought from any obligation it or they may have hereunder or otherwise than under this subparagraph (d), except to the extent that such party or parties were adversely affected by such omission. The contribution agreement set forth above shall be in addition to any liabilities which any indemnifying party may have at common law or otherwise.

9. REPRESENTATIONS AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties and agreements contained in this

Agreement or contained in certificates of officers of the Company submitted pursuant hereto, shall be deemed to be representations, warranties and agreements at the Closing Date and the Option Closing Date, as the case may be, and such representations, warranties and agreements of the Company and the indemnity agreements contained in Section 7 hereof, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Representative, the Company, Selling Securityholders, any controlling person of any Representative or the Company, and shall survive termination of this Agreement or the issuance and delivery of the Securities to the Representatives and the Representative, as the case may be.

10. EFFECTIVE DATE. This Agreement shall become effective at 10:00

a.m., Florida time, on the next full business day following the date hereof, or at such earlier time after the Registration Statement becomes effective as the Representative, in its discretion, shall release the Securities for the sale to the public; provided, however, that the provisions of Sections 6, 8 and 11 of this Agreement shall at all times be effective. For purposes of this Section 10, the Securities to be purchased hereunder shall be deemed to have been so released upon the earlier of dispatch by the Representative of telegrams to securities dealers releasing such shares for offering or the release by the Representative for publication of the first newspaper advertisement which is subsequently published relating to the Securities.

11. TERMINATION.

(a) Subject to subsection (b) of this Section 11, the Representative shall have the right to terminate this Agreement, (i) if any domestic or international event or act or occurrence has disrupted, or in the Representative's opinion will in the immediate future disrupt the financial markets, AND SUCH EVENTS HAVE A MATERIAL AND ADVERSE IMPACT ON THE MARKET FOR THE SECURITIES; or (ii) any material adverse change in the financial markets shall have occurred; or (iii) if trading on the New York Stock Exchange, the American Stock Exchange, or the over-the-counter market shall have been suspended, or minimum or maximum prices for trading shall have been fixed, or maximum ranges for prices for securities shall have been required on the over-the-counter market by the NASD or by order of the Commission or any other government authority having jurisdiction; or (iv) if the United States shall have become involved in a war or major hostilities, or if there shall have been an escalation in an existing war or major hostilities or a national emergency shall have been declared in the United States; or (v) if a banking moratorium has been declared by a state or federal authority; or (VI) if the Company shall have sustained a loss material or substantial to the Company by fire, flood, accident, hurricane, earthquake, theft, sabotage or other calamity or malicious act which, whether or not such loss shall have been insured, will, in the Representative's opinion, make it inadvisable to proceed with the delivery of the Securities; or (VII) if there shall have been such a material adverse change in the conditions or prospects of the Company as in the Representative's judgment would make it inadvisable to proceed with the offering, sale and/or delivery of the Securities; or (VIII) IF THERE SHALL HAVE BEEN A MATERIAL ADVERSE CHANGE IN THE GENERAL MARKET, POLITICAL OR ECONOMIC CONDITIONS, IN THE UNITED STATES OR ELSEWHERE, THAT HAVE A MATERIAL AND ADVERSE IMPACT ON THE SECURITIES MARKET GENERALLY

(b) If this Agreement is terminated by the Representative in accordance with the provisions of Section 11(a), the Company shall promptly reimburse and indemnify the Representative for all of its actual and reasonable out-of-pocket expenses, including the fees and disbursements of counsel for the Representatives (less amounts previously paid pursuant to Section 6(c) above). Notwithstanding any contrary provision contained in this Agreement, if this Agreement shall not be carried out within the time specified herein, or any extension thereof granted to the Representative, by reason of any failure on the part of the Company to perform any undertaking or satisfy any condition of this Agreement by it to be performed or satisfied (including, without limitation, pursuant to Section 7 or Section 13) then, the Company shall promptly reimburse and indemnify the Representative for all of its actual out-of-pocket expenses, including the fees and disbursements of counsel for the Representatives (less amounts previously paid pursuant to Section 6(d) above). In addition, the Company shall remain liable for all reasonable Blue Sky counsel fees and expenses and Blue Sky filing fees. Notwithstanding any contrary provision contained in this Agreement, any election hereunder or any termination of this Agreement (including, without limitation, pursuant to Sections 7, 11, 12 and 13 hereof), and whether or not this Agreement is otherwise carried out, the provisions of Section 6 and Section 8 shall not be in any way affected by such election or termination or failure to carry out the terms of this Agreement or any part hereof.

12. SUBSTITUTION OF THE REPRESENTATIVES. If one or more of the Representatives shall fail (otherwise than for a reason sufficient to justify the termination of this Agreement under the provisions of Section 6, Section 10 or Section 12 hereof) to purchase the Securities which it or they are obligated to purchase on such date under this Agreement (the "Defaulted Securities"), the Representative shall have the right, within 24 hours thereafter, to make arrangement for one or more of the non-defaulting Representatives, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the Representative shall not have completed such arrangement within such 24-hour period, then:

(a) if the number of Defaulted Securities does not exceed 10% of the total number of Securities to be purchased on such date, the non-defaulting Representatives shall be obligated to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Representatives, or

(b) if the number of Defaulted Securities exceeds 10% of the total number of Securities, this Agreement shall terminate without liability on the part of any non-defaulting Representatives, or the Company.

No action taken pursuant to this Section shall relieve any defaulting Representative from liability in respect of any default by such Representative under this Agreement.

In the event of any such default which does not result in a termination of this Agreement, the Representative shall have the right to postpone the Closing Date for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Prospectus or in

any other documents or arrangements.

13. **DEFAULT BY THE COMPANY AND/ OR SELLING SECURITYHOLDERS.** If the Company or Selling Securityholders fail at the Closing Date or the Company shall fail at any Option Closing Date, to sell and deliver the number of Securities which it or they are obligated to sell hereunder on such date, then this Agreement shall terminate (or, if such default shall occur with respect to any Option Securities to be purchased on an Option Closing Date, the Representatives may at the Representative's option, by notice form the Representative to the Company, terminate the Representatives' obligation to purchase Option Securities from the Company on such date) without any liability on the part of any non-defaulting party other than pursuant to Section 5, Section 7 and Section 10 hereof. No action taken pursuant to this Section shall relieve the Company or Selling Securityholders from liability, if any, in respect of such default.

14. **NOTICES.** All notices and communications hereunder, except as herein otherwise specifically provided, shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Representatives shall be directed to the Representative at Werbel-Roth Equities, Inc., 150 East Palmetto Park Road, Suite 380, Boca Raton, Florida 33432, Attention: Howard Roth, with a copy to Atlas, Pearlman, Trop & Borkson, P.A., New River Center, Suite 1900, 200 East Las Olas Boulevard, Fort Lauderdale, Florida 33301, Attention: Joel D. Mayersohn, Esq. Notices to the Company shall be directed to the Company at c/o Sierra Resources Corporation, 629 J. Street, Sacramento, CA 95814 Attention: Mr. Edward Lammerding, 41920 Christy Street, Fremont, CA 94538-3158 with a copy to Bartel Eng Linn & Schroder, 300 Capitol Mall, Suite 1100, Sacramento, CA 95814, Attention: Daniel B. Eng , Esq.

15. **PARTIES.** This Agreement shall inure solely to the benefit of and shall be binding upon, the Representatives, the Company, Selling Securityholders and the controlling persons, directors and officers referred to in Section 7 hereof, and their respective successors, legal representatives and assigns, and no other person shall have or be construed to have any legal or equitable right, remedy or claim under or in respect of or by virtue of this Agreement or any provisions herein contained. No purchaser of Securities from any Representative shall be deemed to be a successor by reason merely of such purchase.

16. **CONSTRUCTION.** This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Florida without giving effect to the choice of law or conflict of laws principles. The parties hereto agree that any action, proceeding or claim against it arising out of or in any way related to this Agreement shall be brought and enforced in the courts of the State of Florida or the United States of America for the Southern District of Florida and irrevocably submit to such exclusive jurisdiction, and hereby irrevocably waive any objection to such exclusive jurisdiction or inconvenient forum.

17. **COUNTERPARTS.** This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which taken together shall be deemed to be one and the same instrument.

18. **ENTIRE AGREEMENT; AMENDMENTS.** This Agreement and the Representative's Warrant Agreement constitute the entire agreement of the parties hereto and supersede all prior written or oral agreements, understandings and negotiations with respect to the subject matter hereof. This Agreement may not be amended except in a writing, signed by the Representative and the Company.

If the foregoing correctly sets forth the understanding between the Representatives and the Company, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among us.

Very truly yours,

DIGITAL POWER CORPORATION

By: _____
Mr. Edward Lammerding,
Chairman of the Board

Confirmed and accepted as of
the date first above written.

By: _____
for Selling Securityholders

WERBEL-ROTH SECURITIES, INC.

For itself and as Representative
of the several Representatives named
in Schedule A hereto.

By: _____
Howard Roth, President

SCHEDULE A

NAMES OF REPRESENTATIVES	Number of Shares TO BE PURCHASED	Number of Warrants TO BE PURCHASED
Werbel-Roth Securities Corp.	1,000,000	500,000
Total	1,000,000	500,000

SCHEDULE B

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

DIGITAL POWER CORPORATION

Claude Adkins and Robert Smith certify that:

1. They are the President and Secretary, respectively, of Digital Power Corporation, a California corporation.

2. The Articles of Incorporation of this corporation are amended and restated to read as follows:

I.

The name of this corporation is Digital Power Corporation.

II.

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporation Code.

III.

(A) (I) This corporation is authorized to issue two classes of shares to be designated respectively Preferred Stock ("Preferred") and Common Stock ("Common"). The total number of shares of Preferred this corporation shall have authority to issue is 1,000,000 and the total number of shares of Common the corporation shall have authority to issue is 5,000,000.

The corporation shall from time to time in accordance with the laws of the State of California increase the authorized amount of its Common if at any time the number of Common shares remaining unissued and available for issuance shall not be sufficient to permit conversion of the Preferred.

(II) The Preferred authorized by these Articles of Incorporation shall be issued in one or more series. The first series of Preferred shall be designated Series A Preferred Stock (the "Series A Preferred") and shall consist of Five Hundred Thousand (500,000) shares with the rights, preferences, privileges and restrictions set forth in paragraph (B) below. The Board of Directors is authorized to fix the number of shares of any other series, and to determine the designation of any such series. The Board of Directors is also authorized to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any such series of Preferred, and, within the limitations and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any such series, to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares in any such series subsequent to the issue of shares of that series.

(B) The relative rights, preferences, privileges and restrictions granted to or imposed upon the respective classes and series of the shares of capital stock or the holders thereof are as follows:

SECTION 1. GENERAL DEFINITIONS. For purposes of this Article the following definitions shall apply:

A. 'JUNIOR SHARES' shall mean all Common and any other shares of this corporation other than the Preferred.

B. 'SUBSIDIARY' shall mean any corporation at least 50%, of whose outstanding voting shares shall at the time be owned by the corporation and/or one or more of such subsidiaries.

SECTION 2. DIVIDEND RIGHTS OF PREFERRED. The holders of the Series A Preferred shall be entitled to receive, out of any funds legally available therefor, cash dividends on each outstanding share of Series A Preferred, payable in preference and priority to any payment of any dividend on Junior Shares at the rate of Twenty-two Cents (\$.22) per Share (as appropriately adjusted for any stock dividends, stock splits recapitalization, consolidation or the like, with respect to such shares) per annum out of any funds legally available therefor. Such dividends shall be payable only when and as declared by the Board of Directors. The right to such dividends on the Series A Preferred shall be cumulative, whether or not declared.

In the event that the corporation shall have declared and unpaid dividends outstanding immediately prior to, and in the event of, a conversion of Preferred (as provided in Section 5 hereof, the corporation shall pay in cash to the holder(s) of the Series A Preferred subject to such conversion the full amount of any such dividends.

SECTION 3. LIQUIDATION PREFERENCE.

(A) In the event of any liquidation, dissolution or winding up of the corporation, either voluntary or involuntary, the holders of the Preferred shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the corporation to the holders of the Junior Shares by reason of their ownership thereof, the amount of (One Dollar and Eighty Cents (\$1.80) per share for each share of Series A Preferred (as appropriately adjusted for any stock dividends, stock splits, recapitalization consolidation or the like with respect to such shares) then held by them, and, in addition an amount equal to all cumulative but unpaid dividends (whether or not declared) on such Series A Preferred. If, upon the occurrence of such event, the assets and funds thus distributed among the holders of the Preferred shall be insufficient to permit the payment of the full preferential amount to such holders, then the entire assets and funds of the corporation legally available for distribution shall be distributed ratably among the holders of the Preferred in proportion to the respective preferential amounts fixed for such series upon a liquidation, dissolution or winding up of the corporation. After payment has been made to the holders of the Preferred of the full amounts to which they shall be entitled as aforesaid, the holders of Junior Shares shall be entitled to receive all remaining assets of the corporation.

(B) For purposes of this Section 3, a merger or consolidation of the corporation with or into any other corporations or sale of all or substantially all of the assets of the Corporation, shall not be treated as a liquidation, dissolution or winding up.

(C) For purposes of this Section 3, if the distributions or consideration received by the shareholders of the Corporation is other than cash, its value will be deemed to be its fair market value as determined in good faith by the Board of Directors of the Corporation, and the holders of the Preferred will receive the same type of distribution or consideration. In the case of publicly traded securities listed on an exchange, fair market value shall mean the average last closing sale price as reported by such exchange or by a consolidated transaction reporting system for the five-day period immediately preceding the date of such distribution. In the case of publicly traded securities not listed on an exchange, fair market value shall mean the average last closing bid price as reported by the National Association of Securities Dealers Automatic Quotation System, Inc. or such successor or similar organization, for the five-day period immediately preceding the date of such distribution.

SECTION 4. REDEMPTION.

(A) The corporation may, at any time it may lawfully do so and at the option of the Board of Directors, redeem the Series A Preferred in whole or in part, by paying in cash for each share to be redeemed the price of One Dollar Eighty Cents (\$1.80) per share (as appropriately adjusted for any stock dividends, stock splits, recapitalization or consolidation of Series A Preferred), together with an amount equal to any accrued and unpaid dividends on Series A Preferred to the date fixed for redemption. Such amount is the "Redemption Price." Any partial redemption shall be pro-rata among the holders of the Series A Preferred.

(B) At least thirty (30) days prior to the date fixed for any redemption of Preferred (the "Redemption Date"), written notice shall be mailed, postage prepaid, to each holder of record of Preferred to be redeemed, at the post office address last shown on the records of the corporation, notifying such holder of the election of the corporation to redeem such shares, specifying the Redemption Date, the applicable Redemption Price and the date on which such holder's Conversion Rights (as defined in Section 5) as to such shares terminate, and calling upon such holder to surrender to the corporation, in the manner and at the place designated, the certificate or certificates representing the shares to be redeemed (such notice is the "Redemption Notice"). On or after the Redemption Date, each holder of Preferred to be redeemed shall surrender the certificate or certificates representing such shares to the corporation, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner of such shares, and each surrendered certificate shall be canceled. From and after the Redemption Date, all rights of the holders of Preferred designated for redemption in the Redemption Notice as holders of Preferred of the corporation shall cease and terminate with respect to such shares (except the right to receive the Redemption Price without interest upon surrender of their certificate or certificates), and such shares shall not subsequently be transferred on the books of the corporation or be deemed to be outstanding for any purpose whatsoever.

(C) On or prior to the Redemption Date, the corporation shall deposit the Redemption Price of all shares of Preferred designated for redemption in the Redemption Notice and not yet redeemed with a bank or trust company having aggregate capital and surplus in excess of One Hundred Million Dollars (\$100,000,000) as a trust fund for the benefit of the respective holders of such shares, together with irrevocable instructions and authority to the bank or trust company to pay the Redemption Price for such shares to their respective holders on or after the Redemption Date upon receipt of notification from the corporation that such holder has surrendered his share certificate to the corporation pursuant to Section 4 (b). Such instructions shall also provide that any funds deposited by the corporation hereunder for the redemption of shares which are subsequently converted into shares of Common (pursuant to Section 5 no later than the fifth (5th) day preceding the Redemption Date) shall be returned to the corporation forthwith upon such conversion. The balance of any funds deposited by the corporation pursuant to this Section 4(c) remaining unclaimed at the expiration of one (1) year following the Redemption Date shall be returned to the corporation.

SECTION 5. CONVERSION. The holders of Preferred shall have conversion rights as follows (the "Conversion Rights"):

(A) RIGHT TO CONVERT. Each share of Preferred, at the option of its holder, at the office of the corporation or any transfer agent for the Preferred, at any time after the date of issuance of such share or on or prior to the fifth (5th) business day prior to the Redemption Date with respect to such share pursuant to Section 4 above, shall be convertible into such number of fully paid and nonassessable shares of Common as is determined by dividing \$1.80 for each share of Series A Preferred by the Conversion Price in effect at the time of the conversion. The initial Conversion Price shall be \$1.80 for each share of Series A Preferred per share of Common. Such initial Conversion Price shall be subject to adjustment as hereinafter provided. In the event of delivery of a Redemption Notice pursuant to Section 4 above, the Conversion Rights shall

terminate as to the number of shares designated for redemption at the close of business on the fifth (5th) day preceding the Redemption Date, unless default is made in payment of the Redemption Price, in which case the Conversion Rights for such shares shall continue.

(B) AUTOMATIC CONVERSION. Each share of Preferred automatically shall be converted into shares of Common at its then effective Conversion Price on the effective date of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, provided that the aggregate gross proceeds to the Company are \$1,000,000 or more.

(C) MECHANICS OF CONVERSION. No fractional shares of Common shall be issued upon conversion of Preferred. In lieu of any fractional shares to which the holder would otherwise be entitled (after aggregating all shares into which shares of Preferred held by such holder could be converted), the corporation shall pay cash equal to such fraction multiplied by the then fair market value of the Common, as determined by the Board of Directors. Before any holder of Preferred shall be entitled to convert the same into full shares of Common, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the corporation or of any transfer agent for the Preferred, and shall give written notice to the corporation at such office that he elects to convert the same. The corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred, a certificate or certificates for the number of shares of Common to which he shall be entitled, together with a check payable to the holder in the amount of any cash amounts payable as the result of a conversion into fractional shares of Common. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Preferred to be converted, or in the case of automatic conversion, on the effective date of the offering or merger or consolidation as provided in Section 5(b) above, and the person or persons entitled to receive the shares of Common issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common on such date.

(D) ADJUSTMENT FOR STOCK SPLITS AND COMBINATIONS. If the corporation at any time or from time to time effects a subdivision of the outstanding Common, the Conversion Price then in effect immediately before that subdivision shall be proportionately decreased, and conversely, if the corporation at any time or from time to time combines the outstanding shares of Common, the Conversion Price then in effect immediately before the combination shall be proportionately increased. Any adjustment under this Section 5(d) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(E) ADJUSTMENT FOR CERTAIN DIVIDENDS AND DISTRIBUTIONS. In the event the corporation at any time or from time to time makes, or fixes a record date for the determination of holders of Common entitled to receive, a dividend or other distribution payable in additional shares of Common, then and in each such event the Conversion Price then in effect shall be decreased as of the time of such issuance or, in the event such a record date is fixed as of the close of business on such record date, by multiplying the Conversion Price then in effect by a fraction (1) the numerator of which is the total number of shares of Common issued and outstanding immediately prior to the time of such issuance on the close business on such record date, and (2) the denominator of which shall be the total number of shares of Common issued and outstanding immediately prior to the time of such issuance on the close of business on such record date, plus the number of shares of Common issuable in payment of such dividend or distribution; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this Section 5(e) as of the time of actual payment of such dividends or distributions.

(F) ADJUSTMENTS FOR OTHER DIVIDENDS AND DISTRIBUTIONS. In the event the corporation at any time or from time to time makes, or fixes a record date for the determination of holders of Common entitled to receive, a dividend or other distribution payable in securities of the corporation other than shares of Common, then and in each such event provision shall be made so that the holders of the Preferred shall receive upon conversion thereof, in addition to the number of shares of Common receivable thereupon, the amount of securities of the corporation which they would have received had their Preferred been converted into Common on the date of such event and had they thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period, under this Section 5(f) with respect to the rights of the holders of Preferred.

(G) ADJUSTMENTS FOR RECLASSIFICATION, EXCHANGE AND SUBSTITUTION. If the Common issuable upon the conversion of the Preferred is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a subdivision or combination of shares or a stock dividend or a reorganization, merger, consolidation or sale of assets, as provided for elsewhere in this Section 5), then and in such event each holder of Preferred shall have the right thereafter to convert such stock into the kind and amount of stock and other securities and properly receivable upon such reorganization, reclassification or other change, by holders of the number of shares of Common into which such shares of Preferred might have been converted immediately prior to such reorganization, reclassification or change, all subject to further adjustment as provided herein.

(H) REORGANIZATION OR SALES OF ASSETS. If at any time or from time to time there is capital reorganization of the Common (other than a consolidation, recapitalization, subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 5), or the sale of all or substantially all of the corporation's properties and assets to any other person, then, as a part of such reorganization or sale, provision shall be made so that the holders of the Preferred thereafter shall be entitled to receive upon conversion of the Preferred, the number of shares of stock or other securities or property of the corporation, or of any successor corporation resulting from such sale, to which holder of Common would have been entitled on such capital reorganization or sale, deliverable upon conversion. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 5 with respect to the rights of the holders of the Preferred after the reorganization or sale to the end that the provisions of this Section 5 (including adjustment of the Conversion Price then in effect and number of shares purchasable upon conversion of the Preferred) shall be applicable after that event and be as nearly equivalent to the provisions hereof as may be practicable. This section 5(h) shall apply to successive reorganizations and sales.

(I) CERTIFICATE AS TO ADJUSTMENTS. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Section 5, the corporation at its expense promptly shall compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Preferred a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The corporation shall, upon the written request at any time of any holder of Preferred, furnish or cause to be furnished to such holder a like certificate setting forth (I) such adjustments and readjustments, (II) the Conversion Price at the time in effect, and (III) the number of shares of Common and the amount, if any, of other property which at the time would be received upon the conversion of Preferred.

(J) NOTICES OF RECORD DATE. In the event that the corporation shall propose at any time:

(I) to, declare any dividend or distribution upon its Common, whether in cash, property, stock other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus;

(II) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights.

(III) to effect any reclassification or recapitalization of its outstanding Common involving a change in the Common; or

(IV) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all of its property or business, or to liquidate, dissolve or wind up;

then, in connection with each such event, the corporation shall send to the holders of the Preferred:

(1) at least ten (10) days' prior written notice of the date on which a record shall be taken for such dividend. Distribution or subscription rights and a description thereof (and specifying the date on which the holders of Common shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in (III) and (IV) above; and

(2) in the case of the matters referred to in (III) and (IV) above, at least ten (10) days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common shall be entitled to exchange their Common for securities or other property deliverable upon the occurrence of such event).

Each such written notice shall be given by first class mail, postage prepaid, addressed to the holders of Preferred at the address for each such holder as shown on the books of the corporation.

SECTION 6. VOTING RIGHTS. Except as otherwise required by law, each share of Common issued and outstanding shall have one vote and each share of Series A Preferred issued and outstanding shall have the number of votes equal to the number of whole Common shares into which the Preferred is convertible, as adjusted from time to time pursuant to Section 5 hereof. The Series A Preferred Stock shall have the right to cumulate the votes in the election of directors.

SECTION 7. CONSENT FOR CERTAIN REPURCHASES OF COMMON STOCK DEEMED TO DISTRIBUTIONS. Each holder of an outstanding share of Preferred shall be deemed to have consented, for purposes of Section 502, 503 and 506 of the General Corporation Law, to distributions made by the corporation in connection with the repurchase of shares of Common issued to or held by employees or consultants upon termination of their employment or services pursuant to agreements providing for the right of said repurchase between the corporation and such persons.

SECTION 8. RESIDUAL RIGHTS. All rights accruing to the outstanding shares of the corporation not expressly provided for to the contrary herein shall be vested in the Common.

IV.

The liability of the directors of this corporation for monetary damage shall be eliminated to the fullest extent permissible under California law.

V.

This corporation is authorized to provide indemnification of agents (as defined in Section 317 of the Corporations Code) for breach of duty to the corporation and its stockholders through bylaws provisions or through agreements with the agents, or both, in excess of the indemnification otherwise permitted by Section 317 of the Corporations Code, subject to the limits on such excess indemnification set forth in section 204 of the Corporations Code.

3. The foregoing amendment of Articles of Incorporation has been duly approved by the Board of Directors.

4. The foregoing amendment of Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Section 902 of the Corporations Code. The total number of outstanding shares of this corporation is 820,830 shares of Common Stock. The number of shares voting in favor of the amendment and the restatement equalled or exceeded the vote required. The percentage vote required was more than fifty percent (50%) of the outstanding shares of Common Stock.

*/S/ CLAUDE ADKINS
CLAUDE ADKINS, PRESIDENT*

*/S/ ROBERT SMITH
ROBERT SMITH, SECRETARY*

The undersigned declares under penalty of perjury that the matters set forth in the foregoing certificate are true of his own knowledge.

Executed at Fremont, California on 9/29 , 1992.

*/S/ CLAUDE ADKINS
CLAUDE ADKINS*

*/S/ ROBERT SMITH
ROBERT SMITH*

CERTIFICATE OF AMENDMENT

OF

ARTICLES OF INCORPORATION

Robert O. Smith, and Philip G. Swany, certify that:

1. They are the president and secretary, respectively, of Digital Power Corporation, a California corporation.
2. The first paragraph of Section (a)(i) of Article III of the Articles of Incorporation of this corporation is amended to read as follows:

"III: (a) (i) This corporation is authorized to issue two classes of shares to be designated respectively Preferred Stock, no par value, ("Preferred") and Common Stock, no par value, ("Common"). The total number of shares of Preferred this corporation shall have authority to issue is 2,000,000 and the total number of shares of Common the corporation shall have authority to issue is 10,000,000."
3. The foregoing Amendment of Articles of Incorporation has been duly approved by the board of directors.
4. The foregoing Amendment of Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Section 902 of the Corporations Code. The total number of outstanding shares of Common stock as of August 19, 1996 of the corporation is 1,700,175. At present there are no outstanding shares of Preferred Stock. The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was more than fifty percent (50%).

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

DATE: 9/9/96

/S/ ROBERT O. SMITH
Robert O. Smith, President

/S/ PHILIP G. SWANY
Philip G. Swany, Secretary

BY-LAWS OF
DIGITAL POWER CORPORATION

ARTICLE I
CORPORATE OFFICES

1.1 PRINCIPAL OFFICE.

The board of directors shall fix the location of the principal executive office of the corporation at any place within or outside the State of California. If the principal executive office is located outside such state, and the corporation has one or more business offices in such state, the board of directors shall fix and designate a principal business office in the State of California.

1.2 OTHER OFFICES.

The board of directors may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

ARTICLE II
MEETINGS OF SHAREHOLDERS

2.1 PLACE OF MEETINGS.

Meetings of shareholders shall be held at any place within or outside the State of California designated by the board of directors. In the absence of any such destination, shareholders' meetings shall be held at the principal executive office of the corporation.

2.2 ANNUAL MEETING.

The annual meetings of shareholders shall be held on the second Friday in May of each year at 10:00 a.m., or such other date or such other time as may be fixed by the board of directors; provided, however, that should said day fall upon a legal holiday, then any such annual meeting of shareholders shall be held at the same time and place on the next date thereafter ensuing which is not a legal holiday; provided, further, that if the board of directors wishes to set an annual meeting date by resolution, then such resolution must be passed by the board of directors not less than eighty (80) days prior to the date adopted in the resolution. At such meetings, directors shall be elected, reports of the affairs of the corporation shall be considered, and any other business may be transacted which is within the powers of the shareholders.

At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, or (b) or otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a shareholder's notice must be delivered or mailed and received at the principal executive offices of the corporation, not less than 40 days nor more than 60 days prior to the meeting; provided, however, that in the event that less than 50 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business of the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation's books, of the shareholder proposing such business, (c) the class and number of the shares of the corporation which are beneficially owned by the shareholder, and (d) any material interest of the shareholder in such business. Notwithstanding anything in the by-laws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Article 2.2. The Chairman of the annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Article 2.2, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

2.3 SPECIAL MEETING.

A special meeting of the shareholders may be called at anytime by the board of directors, or by the chairman of the board, or by the president, or by one or more shareholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes at that meeting.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by

telegraphic or other facsimile transmission to the chairman of the board, the president, any vice president or the secretary of the corporation. The officer receiving the request shall cause notice to be promptly given to the shareholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5 of these by-laws, that a meeting will be held at the time requested by the person or persons calling the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the board of directors may be held.

2.4 NOTICE OF SHAREHOLDERS' MEETINGS.

All notices of meetings of shareholders shall be sent or otherwise given in accordance with Section 2.5 of these by-laws not less than ten (10) nor more than sixty (60) days before the date of the meeting to each shareholder entitled to vote thereat. The notice shall specify the place, date, and hour of the meeting.

In the case of a special meeting the notice shall specify the general nature of the business to be transacted and no other business may be transacted at said meeting.

In the case of the annual meeting the notice shall specify those matters which the board of directors, at the time of the mailing of the notice, intends to present for action by the shareholders, but any proper matter may be presented at the meeting. The notice shall also state the general nature of the business or proposal to be considered or acted upon at such meeting before action may be taken at such meeting for approval of (i) any transaction governed by Section 310 of the California Corporations Code including a proposal to enter into a contract or other transaction between the corporation and one or more of its directors, or between the corporation and any corporation, firm, or association in which one or more of the corporation's directors has a material financial interest or in which one or more of its directors are directors; or (ii) a proposal to amend the articles of incorporation in any manner other than may be accomplished by the board of directors alone as permitted by subsections

(b) through (d) of Section 902 of that Code; or (iii) a proposal to reorganize the corporation under Section 1201 of that Code; or (iv) a proposal to wind up and dissolve the corporation under Section 1900 of that Code; or (v) if the corporation is in the process of winding up and has both preferred and common shares outstanding, a proposal for a plan of distribution of the shares, obligations, or security of any other corporation, domestic or foreign, or assets other than money which is not in accordance with the liquidation rights of the preferred shares as specified in the articles of incorporation of this corporation.

The notice of any meeting at which directors are to be elected shall include the name of any candidates intended at the time of the notice to be presented by the board of directors for election. Shareholders who intend to present their own slate of candidates must give notice to the board of directors of the name(s), address(es), and telephone number(s) of such candidate(s) not less than seventy (70) days prior to the meeting date as set forth in these by-laws or by resolution of the board. Notice shall be deemed submitted to the board if it is delivered to the Secretary of the corporation personally or by first-class mail, by telegraph, facsimile, or other form of written communication, charges prepaid, addressed to the corporation's principal executive office. Notice shall be deemed to have been given at the time delivered personally, deposited in the mail, delivered to a common carrier for transmission to the recipient, or actually transmitted by facsimile or electronic means to the recipient by the person giving the notice.

2.5 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE.

Notice of any meeting of shareholders shall be given either personally or by first-class mail or telegraphic or other written communication, charges prepaid, addressed to the shareholder at the address of that shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or is given, notice shall be deemed to have been given if sent to that shareholder by first-class mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

If any notice addressed to a shareholder at the address of that shareholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at that address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the shareholder on written demand of the shareholder at the principal executive office of the corporation for a period of one (1) year from the date of the giving of the notice.

An affidavit of the mailing or other means of giving any notice of any shareholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be PRIMA FACIE evidence of the giving of such notice.

2.6 QUORUM.

The presence in person or by proxy of the holders of a majority of the shares entitled to vote thereat constitutes a quorum for the transaction of business at all meetings of shareholders. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

2.7 ADJOURNED MEETING; NOTICE.

Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy, but in the absence of a quorum, no other business may be transacted at that meeting, except as provided in Section 2.6 of these by-laws.

When any meeting of shareholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at the meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than forty-five

(45) days from the date set for the original meeting, in which case notice of the adjourned meeting shall be given. Notice of any such adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 2.4 and 2.5 of these by-laws. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

2.8 VOTING.

The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with the provisions of Section 2.11 of these by-laws, subject to the provisions of Sections 702 to 704, inclusive, of the Code (relating to voting shares held by a fiduciary, in the name of a corporation or in joint ownership).

The shareholders' vote may be by voice vote or by ballot; provided, however, that any election for directors must be by ballot if demanded by any shareholder before the voting has begun.

On any matter other than the election of directors, any shareholder may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, but, if the shareholder fails to specify the number of shares which the shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares which the shareholder is entitled to vote.

If a quorum is present, the affirmative vote of the majority of the shares represented and voting at a duly-held meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number, or voting by classes, is required by the Code or by the articles of incorporation.

At a shareholders' meeting at which directors are to be elected, no shareholder shall be entitled to cumulate votes (i.e. cast for any candidate a number of votes greater than the number of votes which such shareholder normally is entitled to cast) unless the candidates' names have been placed in nomination prior to commencement of the voting and a shareholder has given notice prior to commencement of the voting of the shareholder's intention to cumulate votes. If any shareholder has given such a notice, then every shareholder entitled to vote may cumulate votes for candidates placed in nomination and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which that shareholder's shares are entitled, or distribute the shareholder's votes on the same principle among any or all of the candidates, as the shareholder thinks fit. The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

2.9 VALIDATION OF MEETINGS: WAIVER OF NOTICE; CONSENT.

The transactions of any meeting of shareholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in Section 2.4 of these by-laws, the waiver of notice or consent shall state the general nature of the proposal. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of that meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of a matter not included in the notice of the meeting, if that objection is expressly made at the meeting

2.10 SHAREHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

Any action which 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 action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted.

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.

All such consents shall be maintained in the corporate records. Any shareholder giving a written consent, or the shareholder's proxy holders, or a transferee of the shares, or a personal representative of the shareholder, or their respective proxy holders, may revoke the consent by a writing received by the secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been filed with the secretary.

If the consents of all shareholders entitled to vote have not been solicited in writing, and if the unanimous written consent of all such shareholders shall not have been received, the secretary shall give prompt notice of the corporate action approved by the shareholders without a meeting. Such notice shall be given in the manner specified in Section 2.5 of these by-laws. In the case of approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Code, (ii) indemnification of a corporate "agent", pursuant to Section 317 of the Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of the Code, and (iv) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of the Code, the notice shall be given at least ten (10) days before the consummation of any action authorized by that approval.

2.11 RECORD DATE FOR SHAREHOLDER NOTICE, VOTING AND GIVING CONSENTS.

For purposes of determining the shareholders entitled to notice of any meeting or to vote thereat or entitled to give consent to corporate action without a meeting, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting nor more than sixty (60) days before any such action without a meeting, and in such event only shareholders of record on the date so fixed are entitled to notice and to vote or to give consents, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the Code.

If the board of directors does not so fix a record date:

(a) the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held; and

(b) the record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the board has been taken, shall be the day on which the first written consent is given or (ii) when prior action by the board has been taken, shall be the day on which the board adopts the resolution relating to that action, or the sixtieth (60th) day before the date of such other action, whichever is later.

The record date for any other purpose shall be as provided in Article VIII of these by-laws.

2.12 PROXIES.

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the shareholder's name is placed on the proxy whether by manual signature, typewriting, telegraphic transmission or otherwise) by the shareholder or the shareholder's attorney-in-fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless

(i) revoked by the person executing it, before the vote pursuant to that proxy, by a writing delivered to the corporation stating that the proxy is revoked, or by a subsequent proxy executed by the person executing the prior proxy and presented to the meeting, or as to any meeting by attendance at such meeting and voting in person by the person executing the proxy or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Sections 705(e) and 705(f) of the Code.

2.13 INSPECTORS OF ELECTION.

Before any meeting of shareholders, the board of directors may appoint an inspector or inspectors of election to act at the meeting or its adjournment. If no inspector of election is so appointed, the chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint an inspector or inspectors of election to act at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting pursuant to the request of one (1) or more shareholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one

(1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

Such inspectors shall:

(a) Determine the number of shares outstanding and the voting power of each of the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies;

- (b) Receive votes, ballots or consents;
- (c) Hear and determine all challenges and questions in any way arising in connection with the right to vote;
- (d) Count and tabulate all votes or consents;
- (e) Determine when the polls shall close;
- (f) Determine the result; and
- (g) Do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

ARTICLE III

DIRECTORS

3.1 POWERS.

Subject to the provisions of the Code and any limitations in the articles of incorporation and these by-laws relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

Any director may resign effective on giving written notice to the chairman of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.2 NUMBER AND QUALIFICATION OF DIRECTORS.

The authorized number of directors shall be not less than five (5) not more than nine (9) with the exact number of directors to be fixed, within the limited 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.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS.

Directors shall be elected at each annual meeting of shareholders to hold office until the next such annual meeting. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

3.4 VACANCIES.

Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, except that a vacancy created by the removal of a director by the vote or written consent of the shareholders or by court order may be filled only by the vote of a majority of the outstanding shares entitled to vote thereon represented at a duly held meeting at which a quorum is present, or by the unanimous written consent of all shares entitled to vote thereon. Each director so elected shall hold office until the next annual meeting of the shareholders and until a successor has been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist in the event of the death, resignation or removal of any director, or if the board of directors by resolution declares vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony, or if the authorized number of directors is increased, or if the shareholders fail, at any meeting of shareholders at which any director or directors are elected, to elect the number of directors to be elected at that meeting.

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.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE.

Regular meetings of the board of directors may be held at any place within or outside the State of California that has been designated from time to time by resolution of the board. In the absence of such a designation regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of California that has been designated in the

notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another; and all such directors shall be deemed to be present in person at the meeting.

3.6 REGULAR MEETINGS.

Regular meetings of the board of directors may be held without notice if the times of such meetings are fixed by the board of directors.

3.7 SPECIAL MEETINGS.

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally, or by telephone or telegram, it shall be delivered personally or by telephone or to the telegraph company at least forty-eight

(48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

3.8 QUORUM.

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.10 of these by-laws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of Section 310 of the Code (as to approval of contracts or transactions in which a director has a direct or indirect material financial interest), Section 311 of the Code (as to appointment of committees) and Section 317(e) of the Code (as to indemnification of directors).

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 WAIVER OF NOTICE.

The transactions of any meeting of the board of directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. The waiver of notice or consent need not specify the purpose of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting, before or at its commencement, the lack of notice to that director.

3.10 ADJOURNMENT.

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

3.11 NOTICE OF ADJOURNMENT.

Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case notice of the time and place shall be given before the time of the adjourned meeting, in the manner specified in Section 3.7 of these by-laws, to the directors who were not present at the time of the adjournment.

3.12 ACTION WITHOUT MEETING.

Any action required or permitted to be taken by the board of directors may be taken without a meeting, if all members of the board shall individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board.

3.13 FEES AND COMPENSATION OF DIRECTORS.

Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement of expenses, as may be fixed or determined by resolution of the board of directors. This Section 3.13 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise, and receiving compensation for those services.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS.

The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one (1) or more committees, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

- (a) the approval of any action which, under the Code, also requires shareholders' approval or approval of the outstanding shares;
- (b) the filling of vacancies in the board of directors or in any committee;
- (c) the fixing of compensation of the directors for serving on the board or any committee;
- (d) the amendment or repeal of these by-laws or the adoption of new by-laws;
- (e) the amendment or repeal of any resolution of the board of directors which by its express terms is not so amendable or repealable;
- (f) a distribution to the shareholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the board of directors; or
- (g) the appointment of any other committees of the board of directors or the members of such committees.

4.2 MEETINGS AND ACTION OF COMMITTEES.

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these by-laws,

Section 3.5 (place of meetings), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment), Section 3.11 (notice of adjournment) and Section 3.12 (action without meeting), with such changes in the context of those by-laws as are necessary to substitute the committee and its members for the board of directors and its members, except that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee; special meetings of committees may also be called by resolution of the board of directors; and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these by-laws.

ARTICLE V

OFFICERS

5.1 OFFICERS.

The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these by-laws. Any number of offices may be held by the same person.

5.2 ELECTION OF OFFICERS.

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these by-laws, shall be chosen by the board, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS.

The board of directors may appoint, or may empower the president to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these by-laws or as the board of directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS.

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the board of directors at any regular or special meeting of the board or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES.

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these by-laws for regular appointments to that office.

5.6 CHAIRMAN OF THE BOARD.

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may be from time to time assigned to him by the board of directors or prescribed by these by-laws. If there is no president, the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these by-laws.

5.7 PRESIDENT.

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction and control of the business and the officers of the corporation. He shall preside at all meetings of the shareholders and, in the absence of the chairman of the board, or if there be none, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the board of directors or these by-laws.

5.8 VICE PRESIDENTS.

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these by-laws, the president or the chairman of the board.

5.9 SECRETARY.

The secretary shall keep or cause to be kept, at the principal executive office of the corporation, or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and shareholders, with the time and place of holding, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the board of directors required by these by-laws or by law to be given, and he shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these by-laws.

5.10 CHIEF FINANCIAL OFFICER.

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses,

capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these by-laws.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, AND OFFICERS, EMPLOYEES AND OTHER AGENTS

The corporation shall, to the maximum extent and in the manner permitted by the Code, indemnify each of its agents against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact any such person is or was an agent of the corporation. For purposes of this Article VI, an "agent" of the corporation includes any person who is or was a director, officer, employee or other agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or was a director, officer, employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF SHARE REGISTER.

The corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed and as determined by resolution of the board of directors, a record of its shareholders, giving the names and addresses of all shareholders and the number and class of shares held by each shareholder.

A shareholder or shareholders of the corporation holding at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation or who holds at least one percent (1%) of such voting shares and has filed a Schedule 14B with the Securities and Exchange Commission relating to the election of directors, may (i) inspect and copy the records of shareholders' names and addresses and shareholdings during usual business hours on five (5) days' prior written demand on the corporation, (ii) obtain from the transfer agent of the corporation, on written demand and on the tender of such transfer agent's usual charges for such list, a list of the names and addresses of the shareholders who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which that list has been compiled or as of a date specified by the shareholder after the date of demand. Such list shall be made available to any such shareholder by the transfer agent on or before the later of five (5) days after the demand is received or five (5) days after the date specified in the demand as the date as of which the list is to be compiled.

The record of shareholders shall also be open to inspection on the written demand of any shareholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate.

Any inspection and copying under this Section 7.1 may be made in person or by an agent or attorney of the shareholder or holder of a voting trust certificate making the demand.

7.2 MAINTENANCE AND INSPECTION OF BY-LAWS.

The corporation shall keep at its principal executive office, or if its principal executive office is not in the State of California, at its principal business office in such state, the original or a copy of these by-laws as amended to date, which by-laws shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office of the corporation is outside the State of California and the corporation has no principal business office in such state, the secretary shall, upon the written request of any shareholder, furnish to that shareholder a copy of these by-laws as amended to date.

7.3 MAINTENANCE AND INSPECTION OF OTHER CORPORATE RECORDS.

The accounting books and records, and the minutes of proceedings of the shareholders and the board of directors and any committee or committees of the board of directors, shall be kept at such place or places designated by the board of directors or, in absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form.

The minutes and accounting books and records shall be open to inspection upon the written demand of any shareholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate. The inspection may be made in person or by an agent or attorney, and shall include the right to copy and make extracts. Such rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

7.4 INSPECTION BY DIRECTORS.

Every director shall have the absolute right at any reasonable time to inspect all books, records and documents of every kind and the physical properties of the corporation and each of its subsidiary corporations. Such inspection by a director may be made in person or by an agent or attorney, and the right of inspection includes the right to copy and make extracts of documents.

7.5 ANNUAL REPORT TO SHAREHOLDERS; WAIVER.

The board of directors shall cause an annual report to be sent to the shareholders not later than one hundred twenty (120) days after the close of the fiscal year adopted by the corporation. Such report shall be sent at least fifteen (15) days before the annual meeting of shareholders to be held during the next fiscal year and in the manner specified in Section 2.5 of these by-laws for giving notice to shareholders of the corporation.

The annual report shall contain a balance sheet as of the end of the fiscal year and an income statement and statement of changes in financial position for the fiscal year, accompanied by any report of independent accountants or, if there is no such report, the certificate of an authorized officer of the corporation that the statements were prepared without audit from the books and records of the corporation.

The foregoing requirement of an annual report shall be waived so long as the shares of the corporation are held by less than one hundred (100) holders of record.

7.6 FINANCIAL STATEMENTS.

A copy of any annual financial statement and any income statement of the corporation for each quarterly period of each fiscal year, and any accompanying balance sheet of the corporation as of the end of each such period, that has been prepared by the corporation shall be kept on file in the principal executive office of the corporation for twelve (12) months; and each such statement shall be exhibited at all reasonable times to any shareholder demanding an examination of any such statement or a copy shall be mailed to any such shareholder.

If a shareholder or shareholders holding at least five percent (5%) of the outstanding shares of any class of stock of the corporation makes a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the then current fiscal year ended more than thirty (30) days before the date of the request, and for a balance sheet of the corporation as of the end of that period, the chief financial officer shall cause that statement to be prepared, if not already prepared, and shall deliver personally or mail that statement or statements to the person making the request within thirty (30) days after the receipt of the request. If the corporation has not sent to the shareholders its annual report for the last fiscal year, such report shall likewise be delivered or mailed to the shareholder or shareholders within thirty (30) days after the request.

The corporation shall also, on the written request of any shareholder, mail to the shareholder a copy of the last annual, semi-annual or quarterly income statement which it has prepared, and a balance sheet as of the end of that period.

The quarterly income statements and balance sheets referred to in this section shall be accompanied by the report, if any, of any independent accountants engaged by the corporation or the certificate of an authorized officer of the corporation that the financial statements were prepared without audit from the books and records of the corporation.

ARTICLE VIII

GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING.

For purposes of determining the shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action (other than action by shareholders by written consent without a meeting), the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action, and in that case only shareholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the Code.

If the board of directors does not so fix a record date, the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution or the sixtieth (60th) day before the date of that action, whichever is later.

8.2 CHECKS, DRAFTS, EVIDENCES OF INDEBTEDNESS.

All checks, drafts, or other orders for payment of money, notes, or other evidences of indebtedness, issued in the name of or payable to the corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the board of directors.

8.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED.

The board of directors, except as otherwise provided in these by-laws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances; and, unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.4 CERTIFICATES FOR SHARES.

A certificate or certificates for shares of the corporation shall be issued to each shareholder when any of such shares are fully paid, and the board of directors may authorize the issuance of certificates or shares as partly paid provided that these certificates shall state the amount of the consideration to be paid for them and the amount paid. All certificates shall be signed in the name of the corporation by the chairman of the board or vice chairman of the board or the president or a vice president and by the chief financial officer or an assistant treasurer or the secretary or an assistant secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be facsimile.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on a certificate shall have ceased to be that officer, transfer agent or registrar before that certificate is issued, it may be issued by the corporation with the same effect as if that person were an officer, transfer agent or registrar at the date of issue.

8.5 LOST CERTIFICATES.

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of replacement certificates on such terms and conditions as the board may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

8.6 CONSTRUCTION AND DEFINITIONS.

Unless the context requires otherwise, the general provisions, rules of construction and definitions in the Code shall govern the construction of these by-laws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE IX

AMENDMENTS

9.1 AMENDMENT BY SHAREHOLDERS.

New by-laws may be adopted or these by-laws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that if the articles of incorporation of the corporation 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.

9.2 AMENDMENT BY DIRECTORS.

Subject to the rights of the shareholders as provided in Section 9.1 of these by-laws, by-laws, other than a by-law or an amendment of a by-law 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), may be adopted, amended, or repealed by the board of directors.

Certificate Number Number of Warrants

**DIGITAL POWER CORPORATION
VOID AFTER 5:00 P.M. FREMONT, CALIFORNIA TIME
ON NOVEMBER __, 1999
OR EARLIER AS PROVIDED HEREIN**

**REDEEMABLE COMMON STOCK PURCHASE WARRANTS TO PURCHASE
SHARES OF COMMON STOCK OF DIGITAL POWER CORPORATION**

THIS CERTIFIES THAT, for value received,

or registered assigns, _____ is the registered holder of the number of Redeemable Common Stock Purchase Warrants (the "Warrants") set forth above. Each Warrant entitles the holder thereof to purchase from Digital Power Corporation (the "Company"), subject to the terms and conditions set forth hereinafter and in the Warrant Agreement hereinafter referred to, one share of the Company's common stock, no par value (the "Common Stock"), upon presentation and surrender of this Warrant Certificate. However, Warrants shall not be exercisable by the holder in any state where such exercise would be unlawful.

Unless sooner required in accordance with the terms hereof, this Warrant Certificate must be presented and surrendered to American Securities Transfer, Inc. (the "Warrant Agent"), along with the Purchase Price, at or prior to 5:00 p.m., Denver, Colorado time, on November __, 1999, at the corporate offices of the Warrant Agent; otherwise the Warrants represented by this Warrant Certificate shall become null and void.

Payment of the Purchase Price and any applicable taxes must accompany the surrender of this Warrant Certificate. The purchase price per share of the Common Stock is \$5.00 (the "Purchase Price").

The Warrants represented by this Warrant Certificate are subject to redemption by the Company upon the payment to the holder of \$0.125 per Warrant. The Warrants may be redeemed only in the event that the Common Stock of the Company has traded at or above a price of \$6.00 per share at closing for a minimum of thirty (30) consecutive trading days ending within three days of the date on which notice of redemption is given. In order to redeem the Warrants, the Company must provide each registered holder of the Warrant with at least thirty (30) days written notice of the Company's intention to redeem. Unless the holder exercises his right to purchase the shares of Common Stock covered by this Warrant Certificate on or prior to the close of business on such redemption date, the holder shall forfeit his right to do so and shall be entitled only to the redemption price.

This Warrant Certificate is subject to all of the terms, provisions, and conditions of the Warrant Agreement dated as of November __, 1996 (the "Warrant Agreement"), to all of which terms, provisions, and conditions the registered holder of this Warrant Certificate consents by acceptance hereof. The Warrant Agreement is hereby incorporated herein by reference and made a part hereof and to which Warrant Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties, and immunities hereunder of the holders of the Warrant Certificates. Copies of the Warrant Agreement are available for inspection at the corporate offices of the Company and the Warrant Agent.

This Warrant Certificate upon surrender at the corporate offices of the Warrant Agent may be exchanged for another Warrant Certificate or Certificates evidencing in the aggregate the same number of Warrants as the Warrant Certificate or Certificates so surrendered. If the Warrants evidenced by this Warrant Certificate shall be exercised in part, the holder hereof shall be entitled to receive upon surrender hereof another Warrant Certificate or Certificates evidencing the number of Warrants not so exercised. Reference is made to the further provisions of the Warrant set forth on the reverse hereof and such further provisions shall for all purposes have the same effect as if fully set forth at this place.

This Warrant Certificate shall not be valid unless countersigned by the Warrant Agent.

IN WITNESS WHEREOF, the Company has caused this certificate to be executed by the facsimile signatures of its duly authorized officers and a facsimile of its corporate seal to be printed hereon.

Digital Power Corporation.

By:

Dated:

Corporate Seal

President

Attest:

Dated:

Secretary

Countersigned:

AMERICAN SECURITIES TRANSFER, INC.
DENVER, COLORADO as Warrant Agent

By:

Dated:

Authorized Signature

DIGITAL POWER CORPORATION

The holder may exercise this Warrant, in whole or in part, by surrendering this Warrant Certificate, with the "Form Of Election To Purchase", properly completed and executed, together with payment of the Purchase Price, in cash or by official bank or cashier's check, at the office of the Warrant Agent, American Securities Transfer, Inc., Denver, Colorado. Upon the exercise of the Warrants, if the number of Warrants exercised shall be less than all Warrants represented hereby, the Warrant Agent shall deliver to the holder or his assignee a new Warrant Certificate representing the number of Warrants not exercised. No adjustment shall be made for any cash dividends on shares issuable upon exercise of Warrants. No certificate for fractional shares shall be issued, nor shall the Company or the Warrant Agent be required to make any cash payments in lieu thereof upon exercise of the Warrant. The holder hereby waives any right to receive fractional shares.

The Company and the Warrant Agent may deem and treat the registered holder(s) hereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone) for the purpose of any exercise hereof, or any distribution to the holder(s) hereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected or bound by any notice to the contrary. In the event of certain contingencies provided in the Warrant Agreement, the Purchase Price or the number of shares of Common Stock subject to purchase upon the exercise of each Warrant represented hereby are subject to modification or adjustment. This Warrant Certificate shall be governed by and construed under the laws of the State of California.

FORM OF ASSIGNMENT

(To Be Executed By The Registered Holder If Such Holder Desires To Transfer Warrants Evidenced By This Warrant Certificate)

FOR VALUE RECEIVED, hereby sells, assigns, and transfers unto _____ whose address is _____ Warrants, evidenced by this Warrant Certificate, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer the said Warrants evidenced by this Warrant Certificate on the books of the Company, with full power of substitution.

Dated:

NOTICE X _____

(Signature)

THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

X _____
(Signature)

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION AS DEFINED IN RULE 17 Ad-15 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED:

SIGNATURE(S) GUARANTEED BY:

FORM OF ELECTION TO PURCHASE

(To Be Executed If Holder Desires To Exercise Warrants Evidenced By This Warrant Certificate)

To Digital Power Corporation:

The undersigned hereby irrevocably elects to exercise Warrants evidenced by this Warrant Certificate to purchase full shares of Common Stock issuable upon exercise of said Warrants, and hereby makes payment in full of the Purchase Price of such shares and any applicable taxes. The undersigned requests that certificates for such shares be issued in the name of:

PLEASE INSERT SOCIAL SECURITY OR TAX IDENTIFICATION NUMBER

(Please print name and address)

and if said number of Warrants shall be less than all the Warrants evidenced by this Warrant Certificate, requests that a new Warrant Certificate evidencing the Warrants not so exercised be issued in the name of and delivered to:

(Please print name and address)

Dated: _____

NOTICE X _____

(Signature)

THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

X _____
(Signature)

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION AS DEFINED IN RULE 17 Ad-15 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED:

SIGNATURE(S) GUARANTEED BY:

DIGITAL POWER CORPORATION
(A CALIFORNIA CORPORATION)

**UNDERWRITER'S WARRANT TO PURCHASE
SHARES OF COMMON STOCK AND
COMMON STOCK PURCHASE WARRANTS**

NEITHER THIS UNDERWRITER'S WARRANT NOR THE SHARES OR STOCK PURCHASE WARRANTS ISSUABLE UPON ITS EXERCISE HAVE BEEN REGISTERED UNDER EITHER THE SECURITIES ACT OF 1933 AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED, ASSIGNED, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT WITH RESPECT TO THE SECURITIES UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

THIS CERTIFIES THAT, for value received, WERBEL-ROTH SECURITIES, INC. or its registered assigns (the "Underwriter"), is entitled to purchase at any time or from time to time during the Exercise Period (as defined in Subsection 1.2 below): (i) up to a maximum of One Hundred Thousand (100,000) shares of fully paid and non-assessable common stock of DIGITAL POWER CORPORATION, a California corporation (the "Company"), no par value (the "Shares" and/or the "Common Stock", as applicable); and (ii) up to a maximum of Fifty Thousand (50,000) stock purchase warrants, each of which entitles the holder thereof to purchase a single share of the Common Stock of the Company, or Fifty Thousand Shares in the aggregate (the "Stock Purchase Warrants"). The Shares and the Stock Purchase Warrants shall be purchased at the per Share purchase price and the per Stock Purchase Warrant purchase price set forth in Subsection 1.1 below, subject to the further provisions of this Underwriter's Warrant. The term "Underwriter's Warrant" as used herein shall mean this Warrant instrument and the various rights into which the rights granted under this Underwriter's Warrant are subsequently divided. The term "Stock Purchase Warrant" as used herein shall mean that form of warrant instrument attached hereto as Exhibit "A" and the various rights granted thereunder.

1. EXERCISE OF WARRANT.

The terms and conditions under which this Underwriter's Warrant may be exercised and the Common Stock subject hereto may be purchased are as follows:

1.1 SHARE AND WARRANT PURCHASE PRICES. The Share purchase price shall be equal to 120% of the per Share public offering price of the Common Stock offered for sale by the Company in or around November 1996, subject to adjustment as provided in Section 4, below, and this Section 1 (the "Share Purchase Price"). The Stock Purchase Warrant purchase price shall be equal to 120% of the per Warrant public offering price of the Stock Purchase Warrants offered for sale by the Company in or around November 1996, subject to adjustment as provided in Section 4, below, and this Section 1 (the "Warrant Purchase Price").

1.2 METHOD OF EXERCISE. The holder of this Underwriter's Warrant, on or after the date hereof shown at the end of this instrument (the "Effective Date"), and from time to time until four (4) years from the Effective Date (the "Exercise Period"), may exercise in whole or in part the purchase rights evidenced by this Underwriter's Warrant, provided that the holder exercises the purchase rights evidenced by this Underwriter's Warrant with respect to at least One Thousand (1,000) Shares of Common Stock and/or One Thousand (1,000) Stock Purchase Warrants, unless the remaining balance of such Shares or Stock Purchase Warrants is less than One Thousand (1,000). Such exercise shall be effected by:

(a) the surrender of the Underwriter's Warrant, together with a duly executed copy of the form of Subscription attached hereto, to the Secretary of the Company at its principal offices;

(b) the payment to the Company in U.S. funds, by certified check or bank draft payable to its order, of an amount equal to the aggregate Share Purchase Price and Warrant Purchase Price for the number of Shares and Stock Purchase Warrants for which the purchase rights hereunder are being exercised; and

(c) the delivery to the Company, if necessary, to assure compliance with federal and state securities laws, of an instrument executed by the holder certifying that the Shares and Stock Purchase Warrants are being acquired for the sole account of the holder and not with a view to any resale or distribution prior to the filing of a registration statement.

1.3 SATISFACTION WITH REQUIREMENTS OF SECURITIES ACT OF 1933. Notwithstanding the provisions of Subsection 1.2(c) and Section 7, each and every exercise of this Underwriter's Warrant is contingent upon the Company's satisfaction that the issuance of Common Stock and Stock Purchase Warrants upon the exercise is exempt from the requirements of the Securities Act and all applicable state securities laws at the relevant time(s). The holder of this Underwriter's Warrant agrees to execute any and all documents deemed necessary by the Company to effect the exercise of this Underwriter's Warrant, including, without limitation, a form of Stock Purchase Warrant attached hereto as Exhibit "A".

1.4 ISSUANCE OF SHARES AND NEW UNDERWRITER'S WARRANT. In the event the purchase rights evidenced by this Underwriter's Warrant are exercised in whole or in part, one or more certificates for the purchased Shares and/or Stock Purchase Warrants shall be issued as soon as practicable thereafter to the person exercising such rights. Such holder shall also be issued at such time a new Underwriter's Warrant

representing the number of Shares and/or Stock Purchase Warrants (if any) for which the purchase rights under this Underwriter's Warrant remain unexercised and continuing in force and effect.

1.5 DESIGNATION OF RECIPIENTS OF UNDERWRITER'S WARRANT. The Underwriter may designate that the Underwriter's Warrant be issued in varying amounts directly to its officers, directors, shareholders, employees, and affiliates and not to the Underwriter; however, such designation will only be made by the Underwriter if it determines and represents to the Company that such issuance would not violate the interpretation of the Board of Governors of the National Association of Securities Dealers relating to the review of corporate financing arrangements and would not require registration of the Underwriter's Warrant or underlying securities.

1.6 REGISTRATION RIGHTS. Upon the written request of the then holder(s) owning a majority of the Underwriter's Warrant and the underlying securities issued upon the exercise of the Underwriter's Warrant (i.e., owning in aggregate at least 75,001 Shares or Stock Purchase Warrants combined, or holding the right to purchase any combination thereof in excess of 75,001), made at anytime within the Exercise Period, the Company will file, not more than once, a registration statement under the Securities Act, registering or qualifying, as the case may be, the securities underlying the Underwriter's Warrant. The Company agrees to use its best efforts to cause the above filing to become effective. The registration statement must be filed within sixty (60) days of such written request. All expenses of such registration or qualification, including, but not limited to, legal, accounting, printing, and mailing fees, will be borne by the Company. In addition to the above, the Company understands and agrees that if, at any time during the Exercise Period and for a period of five (5) years thereafter, it should file a registration statement with the Securities Exchange Commission (the "SEC") pursuant to the Act for a public offering of securities, either for the account of the Company or for the account of any other person (except for a Form S-8 or Form S-4 registration statement), the Company, at its own expense, will offer to said holder(s) the opportunity to register or qualify for public offering the securities underlying this Underwriter's Warrant. In connection with this paragraph, the Company shall give such holder(s) notice by registered mail at least thirty (30) days prior to filing any such registration statement with the SEC. In addition to the rights above provided, the Company will cooperate with the then holder(s) of the Underwriter's Warrant and the securities issued upon the exercise of the Underwriter's Warrant in preparing and signing any registration statements or notification, in addition to the registration statements and notifications discussed above, required in order to sell or transfer the securities underlying the Underwriter's Warrant and will supply all information required therefor, but such additional registration statement or notification shall be at the cost and expense of the then holder(s).

2. TRANSFERS.

2.1 TRANSFERS. Subject to Section 7 hereof, this Underwriter's Warrant and all rights hereunder are transferable in whole or in part by the holder with the same effect as with a negotiable instrument. To transfer rights, the transfer form below must be completed. The transfer shall be recorded on the books of the Company upon the surrender of this Underwriter's Warrant, properly endorsed, to the Secretary of the Company at its principal offices and the payment to the Company of all transfer taxes and other governmental charges imposed on such transfer. In the event of a partial transfer, the Company shall issue to the several holders one or more appropriate new forms of Underwriter's Warrant.

2.2 LOCK-UP. Except as provided in Subsection 1.5 hereof, the holder covenants and agrees to a restriction on the exercise, sale, transfer, assignment, or hypothecation of the Underwriter's Warrant for a period of twelve (12) months from the effective date of a registration statement registering the Common Stock issuable upon the exercise of the Underwriter's Warrant.

2.3 REGISTERED HOLDER. Each holder agrees that until such time as any transfer pursuant to Subsection 2.1 is recorded on the books of the Company, the Company may treat the registered holder of this Underwriter's Warrant as the absolute owner; provided that nothing herein affects any requirement that the transfer of any Share of Common Stock or Stock Purchase Warrant issued or issuable upon the exercise hereof be subject to securities law compliance.

2.3 FORM OF NEW UNDERWRITER'S WARRANT. All new forms of Underwriter's Warrant issued in connection with transfers of this Underwriter's Warrant shall bear the same date as this Underwriter's Warrant and shall be substantially identical in form and provision to this Underwriter's Warrant except for the number of Shares and Stock Purchase Warrants purchasable thereunder.

3. FRACTIONAL SHARES OR FRACTIONAL STOCK PURCHASE WARRANTS.

Notwithstanding that the number of Shares or Stock Purchase Warrants purchasable upon the exercise of this Underwriter's Warrant may have been adjusted pursuant to the terms hereof, the Company shall nonetheless not be required to issue fractions of Shares or fractions of Stock Purchase Warrants upon the exercise of this Underwriter's Warrant or to distribute certificates that evidence fractional Shares or fractional Stock Purchase Warrants nor shall the Company be required to make any cash payments in lieu thereof upon exercise of this Underwriter's Warrant. Holder hereby waives any right to receive fractional Shares or fractional Stock Purchase Warrants.

4. ANTI-DILUTION PROVISIONS.

4.1 STOCK SPLITS AND COMBINATIONS. If the Company shall at any time subdivide or combine its outstanding Shares of Common Stock, this Underwriter's Warrant shall, after that subdivision or combination, evidence the right to purchase the number of Shares of Common Stock and Stock Purchase Warrants that would have been issuable as a result of that change with respect to the Shares of Common Stock and Stock Purchase Warrants that were purchasable under this Underwriter's Warrant immediately before that subdivision or combination. If the Company shall at any time subdivide the outstanding shares of Common Stock, the Stock Purchase Price and Warrant Purchase Price then in effect immediately before that subdivision shall be proportionately decreased, and, if the Company shall at any time combine the outstanding shares of Common Stock, the Stock Purchase Price and Warrant Purchase Price then in effect immediately before that combination shall be

proportionately increased. Any adjustment under this Section shall become effective at the close of business on the date the subdivision or combination becomes effective.

4.2 RECLASSIFICATION, EXCHANGE, AND SUBSTITUTION. If the Common Stock issuable upon exercise of this Underwriter's Warrant shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification, or otherwise (other than a subdivision or combination of shares provided for above), the holder of this Underwriter's Warrant shall, on its exercise, be entitled to purchase for the same aggregate consideration, in lieu of the Common Stock and Stock Purchase Warrants that the holder would have become entitled to purchase but for such change, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock and Stock Purchase Warrants that would have been subject to purchase by the holder on exercise of this Underwriter's Warrant immediately before that change.

4.3 REORGANIZATIONS, MERGERS, CONSOLIDATIONS, OR SALE OF ASSETS. If at any time there shall be a capital reorganization of the Company's Common Stock (other than a subdivision, stock split, combination, reclassification, exchange, or substitution of shares provided for elsewhere above) or merger or consolidation of the Company with or into another corporation, or the sale of substantially all of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as a part of such reorganization, merger, consolidation, or sale, lawful provision shall be made so that the holder of this Underwriter's Warrant shall thereafter be entitled to receive upon exercise of this Underwriter's Warrant, during the period specified in this Underwriter's Warrant and upon payment of the Stock Purchase Price and Warrant Purchase Price then in effect, the number of shares of Common Stock and Stock Purchase Warrants or other securities or property of the Company, or of the successor corporation resulting from such merger or consolidation, to which a holder of the Common Stock deliverable upon exercise of this Underwriter's Warrant would have been entitled in such capital reorganization, merger, consolidation, or sale if this Underwriter's Warrant had been exercised immediately before that capital reorganization, merger, consolidation, or sale. In any such case, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Underwriter's Warrant with respect to the rights and interests of the holder of this Underwriter's Warrant after the reorganization, merger, consolidation, or sale to the end that the provisions of this Underwriter's Warrant (including adjustment of the Stock Purchase Price and Warrant Purchase Price then in effect and number of Shares purchasable upon exercise of this Underwriter's Warrant) shall be applicable after that event, as near as reasonably may be, in relation to any Shares or Stock Purchase Warrants or other property deliverable after that event upon exercise of this Underwriter's Warrant. The Company shall, within thirty (30) days after making such adjustment, give written notice (by first class mail, postage prepaid) to the registered holder of this Underwriter's Warrant at the address of that holder shown on the Company's books. That notice shall set forth, in reasonable detail, the event requiring the adjustment and the method by which the adjustment was calculated and specify the Stock Purchase Price and Warrant Purchase Price then in effect after the adjustment and the increased or decreased number of Shares and Stock Purchase Warrants purchasable upon exercise of this Underwriter's Warrant. When appropriate, that notice may be given in advance and include as part of the notice required under other provisions of this Underwriter's Warrant.

4.4 COMMON STOCK DIVIDENDS; DISTRIBUTIONS. In the event the Company should at any time prior to the expiration of this Underwriter's Warrant fix a record date for the determination of the holders of Common Stock entitled to receive a dividend or other distribution (excluding a cash dividend or distribution) payable in additional shares of Common Stock or other securities or rights convertible into or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock (hereinafter referred to as the "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then, as of such record date (or the date of such distribution, split, or subdivision if no record date is fixed), the Stock Purchase Price shall be appropriately decreased and the number of shares of Common Stock issuable upon exercise of the Underwriter's Warrant shall be appropriately increased in proportion to such increase of outstanding shares.

4.5 ADJUSTMENTS OF OTHER DISTRIBUTIONS. In the event the Company shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by the Company or other persons, assets (excluding cash dividends), or options or rights not referred to in Subsection 4.4, then, in each such case for the purpose of this Subsection 4.5, upon exercise of this Underwriter's Warrant, the holder hereof shall be entitled to a proportionate share of any such distribution as though such holder was the holder of the number of Shares of Common Stock of the Company into which this Underwriter's Warrant may be exercised as of the record date fixed for the determination of the holders of Common Stock of the Company entitled to receive such distribution.

4.6 CERTIFICATE AS TO ADJUSTMENTS. In the case of each adjustment or readjustment of the Stock Purchase Price pursuant to this Section 4, the Company will promptly compute such adjustment or readjustment in accordance with the terms hereof and cause a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, to be delivered to the holder of this Underwriter's Warrant. The Company will, upon the written request at any time of the holder of this Underwriter's Warrant, furnish or cause to be furnished to such holder a certificate setting forth:

- (a) Such adjustments and readjustments;
- (b) The Stock Purchase Price and Warrant Purchase Price at the time in effect; and
- (c) The number of Shares of Common Stock and Stock Purchase Warrants issuable upon exercise of the Underwriter's Warrant and the amount, if any, of other property at the time receivable upon the exercise of the Underwriter's Warrant.

4.7 RESERVATION OF STOCK ISSUABLE UPON EXERCISE. The Company shall at all times reserve and keep available out of its

authorized but unissued shares of Common Stock solely for the purpose of effecting the exercise of this Underwriter's Warrant such number of its shares of Common Stock as shall from time to time be sufficient to effect the exercise of this Underwriter's Warrant and the underlying Stock Purchase Warrants, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the exercise of this Underwriter's Warrant and Stock Purchase Warrants, in addition to such other remedies as shall be available to the holder of this Underwriter's Warrant, the Company will use its best efforts to take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

5. RIGHTS PRIOR TO EXERCISE OF UNDERWRITER'S WARRANT.

This Underwriter's Warrant does not entitle the holder to any of the rights of a stockholder of the Company, including, without limitation, the right to receive dividends or other distributions, to exercise any preemptive rights, to vote, or to consent or to receive notice as a stockholder of the Company. If, however, at any time prior to the expiration of this Underwriter's Warrant and prior to its exercise, any of the following events shall occur:

- (a) the Company shall declare any dividend payable in any securities upon its shares of Common Stock or make any distribution (other than a regular cash dividend) to the holders of its shares of Common Stock; or
- (b) the Company shall offer to the holders of its shares of Common Stock any additional shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock or any right to subscribe for or purchase any thereof; or
- (c) a dissolution, liquidation, or winding up of the Company (other than in connection with a consolidation, merger, sale, transfer, or lease of all or substantially all of its property, assets, and business as an entirety) shall be proposed and action by the Company with respect thereto has been approved by the Company's Board of Directors,

then in any one or more of said events the Company shall give notice in writing of such event to the holder at his last address as it shall appear on the Company's records at least twenty (20) days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the stockholders entitled to such dividends, distribution, or subscription rights, or for the determination of stockholders entitled to vote on such proposed dissolution, liquidation, or winding up. Such notice shall specify such record date or the date of closing the transfer books, as the case may be. Failure to publish, mail, or receive such notice or any defect therein or in the publication or mailing thereof shall not affect the validity of any action taken in connection with such dividend, distribution, or subscription rights, or such proposed dissolution, liquidation, or winding up. Each person in whose name any certificate for shares of Common Stock is to be issued shall for all purposes be deemed to have become the holder of record of such shares on the date on which this instrument was surrendered and payment of the Stock Purchase Price was made, irrespective of the date of delivery of such stock certificate, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares of Common Stock at the close of business on the next succeeding date on which the stock transfer books are open.

6. NO RIGHT TO REDEEM WARRANTS.

The Company shall not have the right to redeem the Underwriter's Warrant or underlying Stock Purchase Warrants at any time during the Exercise Period.

7. RESTRICTED SECURITIES.

In order to enable the Company to comply with the Securities Act and applicable state laws, the Company may require the holder as a condition of the transfer or exercise of this Underwriter's Warrant to give written assurances satisfactory to the Company that the Underwriter's Warrant is being acquired, or in the case of an exercise hereof, that the Shares and Stock Purchase Warrants subject to this Underwriter's Warrant are being acquired, for its own account, for investment only, with no view to the distribution of the same, and that any disposition of all or any portion of this Underwriter's Warrant or the Shares or Stock Purchase Warrants issuable upon the due exercise of this Underwriter's Warrant shall not be made, unless and until:

- (a) There is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or
- (b)(i) The holder has notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (ii) the holder has furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such securities under the Securities Act and applicable state law.

The holder acknowledges that this Underwriter's Warrant is, and each of the shares of Common Stock and Stock Purchase Warrants issuable upon the due exercise hereof will be, restricted securities, that it understands the provisions of Rule 144 of the Securities and Exchange Commission, and that the certificate or certificates evidencing such shares of Common Stock and Stock Purchase Warrants will bear a legend substantially similar to the following:

"The Shares (or Stock Purchase Warrants) represented by this certificate have not been registered under the Securities Act of 1933, as

amended, or under the securities laws of any state. They may not be sold, transferred, or otherwise disposed of in the absence of an effective registration statement covering these securities under the said Act or laws, or an opinion of counsel satisfactory to the Company and its counsel that registration is not required thereunder."

8. SUCCESSORS AND ASSIGNS.

The terms and provisions of this Underwriter's Warrant shall inure to the benefit of, and be binding upon, the Company and the holder thereof and their respective successors and permitted assigns.

9. LOSS OR MUTILATION.

Upon receipt by the Company of satisfactory evidence of the ownership of and the loss, theft, destruction, or mutilation of any Underwriter's Warrant, and (i) in the case of loss, theft, or destruction, upon receipt by the Company of indemnity satisfactory to it, or (ii) in the case of mutilation, upon receipt of such Underwriter's Warrant and upon surrender and cancellation of such Underwriter's Warrant, the Company shall execute and deliver in lieu thereof a new Underwriter's Warrant representing the right to purchase an equal number of shares of Common Stock.

10. NOTICES.

All notices, requests, demands, and other communications under this Underwriter's Warrant shall be in writing and shall be deemed to have been duly given on the date of service if served personally on the party to whom notice is to be given, or on the date of mailing if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid, and properly addressed as follows: if to the holder, at his address as shown in the Company records; and if to the Company, at its principal office. Any party may change its address for purposes of this

Section by giving the other party written notice of the new address in the manner set forth above.

11. GOVERNING LAW.

This Underwriter's Warrant and any dispute, disagreement, or issue of construction or interpretation arising hereunder whether relating to its execution, its validity, the obligations provided herein, or performance, shall be governed or interpreted according to the internal laws of the State of California without regard to conflicts of law.

DATED: November __, 1996.

DIGITAL POWER CORPORATION

Robert O. Smith, President

SUBSCRIPTION

Mr. Philip G. Swany
Corporate Secretary
DIGITAL POWER CORPORATION
41920 Christy Street
Fremont, California 94538

Dear Mr. Swany:

WERBEL-ROTH SECURITIES, INC., for itself or for the benefit of one or more of its officers, directors, shareholders, employees, or other related persons, hereby elects to purchase, pursuant to the provisions of the foregoing Underwriter's Warrant held by the undersigned, _____ (_____) shares of the Common Stock of Digital Power Corporation ("Digital") and _____ (_____) Stock Purchase Warrants.

Payment of the total Stock Purchase Price and Warrant Purchase Price required under such Underwriter's Warrant accompanies this Subscription.

DATED: _____, 1996.

By: _____ Its: _____

WERBEL-ROTH SECURITIES, INC.
150 East Palmetto Park Road
Suite 380
Boca Raton, FL 33432

TRANSFER OF UNDERWRITER'S WARRANT

Mr. Philip G. Swany
Corporate Secretary
DIGITAL POWER CORPORATION
41920 Christy Street
Fremont, California 94538

Dear Mr. Swany:

For value received, WERBEL-ROTH SECURITIES, INC. (or one of its officers, directors, shareholders, employees, or related persons, as applicable), hereby assigns this Underwriter's Warrant to _____, whose address is _____.

DATED: _____, 1996.

By: _____ Its: _____

WERBEL-ROTH SECURITIES, INC.
150 East Palmetto Park Road
Suite 380
Boca Raton, FL 33432

EXHIBIT "A"

DIGITAL POWER CORPORATION **(A CALIFORNIA CORPORATION)**

WARRANT TO PURCHASE **SHARES OF COMMON STOCK**

NEITHER THIS WARRANT NOR THE SHARES ISSUABLE UPON ITS EXERCISE HAVE BEEN REGISTERED UNDER EITHER THE SECURITIES ACT OF 1933 AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED, ASSIGNED, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT WITH RESPECT TO THE SECURITIES UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

THIS CERTIFIES THAT, for value received, WERBEL-ROTH SECURITIES, INC. or its registered assigns (the "Underwriter"), is entitled to purchase at any time or from time to time during the Exercise Period (as defined in Subsection 1.2 below): (i) up to a maximum of Fifty Thousand (50,000) shares of fully paid and non-assessable common stock of DIGITAL POWER CORPORATION, a California corporation (the "Company"), no par value (the "Shares" and/or the "Common Stock, as applicable). The Shares shall be purchased at the per Share purchase price set forth in Subsection 1.1 below, subject to the further provisions of this Warrant and that certain "Underwriter's Warrant To Purchase Shares Of Common Stock And Common Stock Purchase Warrants" to which this form of Warrant is an Exhibit. The term "Warrant" as used herein shall mean this Warrant instrument and the rights granted hereunder.

1. EXERCISE OF WARRANT.

The terms and conditions under which this Warrant may be exercised and the Common Stock subject hereto may be purchased are as follows:

1.1 SHARE PURCHASE PRICE. The Share purchase price shall be equal to 120% of the per Share public offering price of the Common Stock offered for sale by the Company in or around November 1996, subject to adjustment as provided in Section 4, below, and this Section 1 (the "Purchase Price").

1.2 METHOD OF EXERCISE. The holder of this Warrant, on or after the date hereof shown at the end of this instrument (the "Effective Date") and from time to time until four (4) years from the Effective Date (the "Exercise Period"), may exercise in whole or in part the purchase rights evidenced by this Warrant, provided that the holder exercises the purchase rights evidenced by this Warrant with respect to at least One Thousand (1,000) Shares of Common Stock, unless the remaining balance of such Shares is less than One Thousand (1,000). Such exercise shall be effected by:

(a) the surrender of the Warrant, together with a duly executed copy of the form of Subscription attached hereto, to the Secretary of the Company at its principal offices;

(b) the payment to the Company in U.S. funds, by certified check or bank draft payable to its order, of an amount equal to the aggregate Purchase Price for the number of Shares for which the purchase rights hereunder are being exercised; and

(c) the delivery to the Company, if necessary, to assure compliance with federal and state securities laws, of an instrument executed by the holder certifying that the Shares are being acquired for the sole account of the holder and not with a view to any resale or distribution prior to the filing of a registration statement.

1.3 SATISFACTION WITH REQUIREMENTS OF SECURITIES ACT OF 1933. Notwithstanding the provisions of Subsection 1.2(c) and Section 7, each and every exercise of this Warrant is contingent upon the Company's satisfaction that the issuance of Common Stock upon the exercise is exempt from the requirements of the Securities Act and all applicable state securities laws at the relevant time(s). The holder of this Warrant agrees to execute any and all documents deemed necessary by the Company to effect the exercise of this Warrant.

1.4 ISSUANCE OF SHARES AND NEW WARRANT. In the event the purchase rights evidenced by this Warrant are exercised in whole or in part, one or more certificates for the purchased Shares shall be issued as soon as practicable thereafter to the person exercising such rights. Such holder shall also be issued at such time a new Warrant representing the number of Shares for which the purchase rights under this Warrant remain unexercised and continuing in force and effect.

2. TRANSFERS.

2.1 TRANSFERS. Subject to Section 7 hereof, this Warrant and all rights hereunder are transferable in whole or in part by the holder with the same effect as with a negotiable instrument. To transfer rights, the transfer form below must be completed. The transfer shall be recorded on the books of the Company upon the surrender of this Warrant, properly endorsed, to the Secretary of the Company at its principal offices and the payment to the Company of all transfer taxes and other governmental charges imposed on such transfer. In the event of a partial transfer, the Company shall issue to the several holders one or more appropriate new forms of Warrant.

2.2 REGISTERED HOLDER. Each holder agrees that until such time as any transfer pursuant to Subsection 2.1 is recorded on the books of the Company, the Company may treat the registered holder of this Warrant as the absolute owner; provided that nothing herein affects any requirement that the transfer of any Share of Common Stock issued or issuable upon the exercise hereof be subject to securities law compliance.

2.3 FORM OF NEW WARRANT. All new forms of Warrant issued in connection with transfers of this Warrant shall bear the same date as this Warrant and shall be substantially identical in form and provision to this Warrant except for the number of Shares and Warrants purchasable thereunder.

3. FRACTIONAL SHARES.

Notwithstanding that the number of Shares purchasable upon the exercise of this Warrant may have been adjusted pursuant to the terms hereof, the Company shall nonetheless not be required to issue fractions of Shares upon the exercise of this Warrant or to distribute certificates that evidence fractional Shares nor shall the Company be required to make any cash payments in lieu thereof upon exercise of this Warrant. Holder hereby waives any right to receive fractional Shares.

4. ANTI-DILUTION PROVISIONS.

4.1 STOCK SPLITS AND COMBINATIONS. If the Company shall at any time subdivide or combine its outstanding Shares of Common Stock, this Warrant shall, after that subdivision or combination, evidence the right to purchase the number of Shares of Common Stock that would have been issuable as a result of that change with respect to the Shares of Common Stock that were purchasable under this Warrant immediately before that subdivision or combination. If the Company shall at any time subdivide the outstanding shares of Common Stock, the Purchase Price then in effect immediately before that subdivision shall be proportionately decreased, and, if the Company shall at any time combine the outstanding shares of Common Stock, the Purchase Price then in effect immediately before that combination shall be proportionately increased. Any adjustment under this Section shall become effective at the close of business on the date the subdivision or combination becomes effective.

4.2 RECLASSIFICATION, EXCHANGE, AND SUBSTITUTION. If the Common Stock issuable upon exercise of this Warrant shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification, or otherwise (other than a subdivision or combination of shares provided for above), the holder of this Warrant shall, on its exercise, be entitled to purchase for the same aggregate consideration, in lieu of the Common Stock that the holder would have become entitled to purchase but for such change, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock that would have been subject to purchase by the holder on exercise of this Warrant immediately before that change.

4.3 REORGANIZATIONS, MERGERS, CONSOLIDATIONS, OR SALE OF ASSETS. If at any time there shall be a capital reorganization of the Company's Common Stock (other than a subdivision, stock split, combination, reclassification, exchange, or substitution of shares provided for elsewhere above) or merger or consolidation of the Company with or into another corporation, or the sale of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as a part of such reorganization, merger, consolidation, or sale, lawful provision shall be made so that the holder of this Warrant shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified in this Warrant and upon payment of the Purchase Price then in effect, the number of shares of Common Stock or other securities or property of the Company, or of the successor corporation resulting from such merger or consolidation, to which a holder of the Common Stock deliverable upon exercise of this Warrant would have been entitled in such capital reorganization, merger, consolidation, or sale if this Warrant had been exercised immediately before that capital reorganization, merger, consolidation, or sale. In any such case, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the holder of this Warrant after the reorganization, merger, consolidation, or sale to the end that the provisions of this Warrant (including adjustment of the Purchase Price then in effect and number of Shares purchasable upon exercise of this Warrant) shall be applicable after that event, as near as reasonably may be, in relation to any Shares or other property deliverable after that event upon exercise of this Warrant. The Company shall, within thirty (30) days after making such adjustment, give written notice (by first class mail, postage prepaid) to the registered holder of this Warrant at the address of that holder shown on the Company's books. That notice shall set forth, in reasonable detail, the event requiring the adjustment and the method by which the adjustment was calculated and specify the Purchase Price then in effect after the adjustment and the increased or decreased number of Shares purchasable upon exercise of this Warrant. When appropriate, that notice may be given in advance and include as part of the notice required under other provisions of this Warrant.

4.4 COMMON STOCK DIVIDENDS; DISTRIBUTIONS. In the event the Company should at any time prior to the expiration of this Warrant fix a record date for the determination of the holders of Common Stock entitled to receive a dividend or other distribution (excluding a cash dividend or distribution) payable in additional shares of Common Stock or other securities or rights convertible into or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock (hereinafter referred to as the "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then, as of such record date (or the date of such distribution, split, or subdivision if no record date is fixed), the Purchase Price shall be appropriately decreased and the number of shares of Common Stock issuable upon exercise of the Warrant shall be appropriately increased in proportion to such increase of outstanding shares.

4.5 ADJUSTMENTS OF OTHER DISTRIBUTIONS. In the event the Company shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by the Company or other persons, assets (excluding cash dividends), or options or rights not referred to in Subsection 4.4, then, in each such case for the purpose of this Subsection 4.5, upon exercise of this Warrant, the holder hereof shall be

entitled to a proportionate share of any such distribution as though such holder was the holder of the number of Shares of Common Stock of the Company into which this Warrant may be exercised as of the record date fixed for the determination of the holders of Common Stock of the Company entitled to receive such distribution.

4.6 CERTIFICATE AS TO ADJUSTMENTS. In the case of each adjustment or readjustment of the Stock Purchase Price pursuant to this Section 4, the Company will promptly compute such adjustment or readjustment in accordance with the terms hereof and cause a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, to be delivered to the holder of this Warrant. The Company will, upon the written request at any time of the holder of this Warrant, furnish or cause to be furnished to such holder a certificate setting forth:

- (a) Such adjustments and readjustments;
- (b) The Purchase Price at the time in effect; and
- (c) The number of Shares of Common Stock issuable upon exercise of the Warrant and the amount, if any, of other property at the time receivable upon the exercise of the Warrant.

4.7 RESERVATION OF STOCK ISSUABLE UPON EXERCISE. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the exercise of this Warrant such number of its shares of Common Stock as shall from time to time be sufficient to effect the exercise of this Warrant, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the exercise of this Warrant, in addition to such other remedies as shall be available to the holder of this Warrant, the Company will use its best efforts to take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

5. RIGHTS PRIOR TO EXERCISE OF WARRANT.

This Warrant does not entitle the holder to any of the rights of a stockholder of the Company, including, without limitation, the right to receive dividends or other distributions, to exercise any preemptive rights, to vote, or to consent or to receive notice as a stockholder of the Company. If, however, at any time prior to the expiration of this Warrant and prior to its exercise, any of the following events shall occur:

- (a) the Company shall declare any dividend payable in any securities upon its shares of Common Stock or make any distribution (other than a regular cash dividend) to the holders of its shares of Common Stock; or
- (b) the Company shall offer to the holders of its shares of Common Stock any additional shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock or any right to subscribe for or purchase any thereof; or
- (c) a dissolution, liquidation, or winding up of the Company (other than in connection with a consolidation, merger, sale, transfer, or lease of all or substantially all of its property, assets, and business as an entirety) shall be proposed and action by the Company with respect thereto has been approved by the Company's Board of Directors,

then in any one or more of said events the Company shall give notice in writing of such event to the holder at his last address as it shall appear on the Company's records at least twenty (20) days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the stockholders entitled to such dividends, distribution, or subscription rights, or for the determination of stockholders entitled to vote on such proposed dissolution, liquidation, or winding up. Such notice shall specify such record date or the date of closing the transfer books, as the case may be. Failure to publish, mail, or receive such notice or any defect therein or in the publication or mailing thereof shall not affect the validity of any action taken in connection with such dividend, distribution, or subscription rights, or such proposed dissolution, liquidation, or winding up. Each person in whose name any certificate for Shares of Common Stock is to be issued shall for all purposes be deemed to have become the holder of record of such shares on the date on which this instrument was surrendered and payment of the Purchase Price was made, irrespective of the date of delivery of such stock certificate, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares of Common Stock at the close of business on the next succeeding date on which the stock transfer books are open.

6. COMPANY'S RIGHT TO REDEEM WARRANTS.

The Company shall not have the right to redeem the Warrant at any time during the Exercise Period.

7. RESTRICTED SECURITIES.

In order to enable the Company to comply with the Securities Act and applicable state laws, the Company may require the holder as a condition of the transfer or exercise of this Warrant to give written assurances satisfactory to the Company that the Warrant is being acquired, or in the case of an exercise hereof, that the Shares subject to this Warrant are being acquired, for its own account, for investment only, with no view to the distribution of the same, and that any disposition of all or any portion of this Warrant or the Shares issuable upon the due exercise of this Warrant shall not be made, unless and until:

(a) There is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

(b) (i) The holder has notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (ii) the holder has furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such securities under the Securities Act and applicable state law.

The holder acknowledges that this Warrant is, and each of the Shares of Common Stock issuable upon the due exercise hereof will be, restricted securities, that it understands the provisions of Rule 144 of the Securities and Exchange Commission, and that the certificate or certificates evidencing such shares of Common Stock will bear a legend substantially similar to the following:

"The Shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or under the securities laws of any state. They may not be sold, transferred, or otherwise disposed of in the absence of an effective registration statement covering these securities under the said Act or laws, or an opinion of counsel satisfactory to the Company and its counsel that registration is not required thereunder."

8. SUCCESSORS AND ASSIGNS.

The terms and provisions of this Warrant shall inure to the benefit of, and be binding upon, the Company and the holder hereof and their respective successors and permitted assigns.

9. LOSS OR MUTILATION.

Upon receipt by the Company of satisfactory evidence of the ownership of and the loss, theft, destruction, or mutilation of any Warrant, and (i) in the case of loss, theft, or destruction, upon receipt by the Company of indemnity satisfactory to it, or (ii) in the case of mutilation, upon receipt of such Warrant and upon surrender and cancellation of such Warrant, the Company shall execute and deliver in lieu thereof a new Warrant representing the right to purchase an equal number of shares of Common Stock.

10. NOTICES.

All notices, requests, demands, and other communications under this Warrant shall be in writing and shall be deemed to have been duly given on the date of service if served personally on the party to whom notice is to be given, or on the date of mailing if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid, and properly addressed as follows: if to the holder, at his address as shown in the Company records; and if to the Company, at its principal office. Any party may change its address for purposes of this Section by giving the other party written notice of the new address in the manner set forth above.

11. GOVERNING LAW.

This Warrant and any dispute, disagreement, or issue of construction or interpretation arising hereunder whether relating to its execution, its validity, the obligations provided herein, or performance, shall be governed or interpreted according to the internal laws of the State of California without regard to conflicts of law.

12. CONSTRUCTION.

This Warrant shall be governed and construed in accordance with the terms and conditions of that certain "Underwriter's Warrant To Purchase Shares Of Common Stock And Common Stock Purchase Warrants" (the "Underwriter's Warrant"), of which instrument this Warrant is an integral part. In the event of a conflict between the terms of this Warrant and the terms of the Underwriter's Warrant, the terms of the Underwriter's Warrant shall govern and control.

DATED: November __, 1996.

DIGITAL POWER CORPORATION

Robert O. Smith, President

SUBSCRIPTION

Mr. Philip G. Swany
Corporate Secretary
DIGITAL POWER CORPORATION
41920 Christy Street
Fremont, California 94538

Dear Mr. Swany:

WERBEL-ROTH SECURITIES, INC., hereby elects to purchase, pursuant to the provisions of the foregoing Warrant held by the undersigned, _____ (_____) shares of the Common Stock of Digital Power Corporation.

Payment of the total Purchase Price required under such Warrant accompanies this Subscription.

DATED: _____, 1996.

By: _____ Its: _____
WERBEL-ROTH SECURITIES, INC.
150 East Palmetto Park Road
Suite 380
Boca Raton, FL 33432

TRANSFER OF WARRANT

Mr. Philip G. Swany
Corporate Secretary
DIGITAL POWER CORPORATION
41920 Christy Street
Fremont, California 94538

Dear Mr. Swany:

For value received, WERBEL-ROTH SECURITIES, INC., hereby assigns this Warrant to
_____, whose address is
_____.

DATED: _____, 1996.

By: _____ Its: _____
WERBEL-ROTH SECURITIES, INC.
150 East Palmetto Park Road
Suite 380
Boca Raton, FL 33432

PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No.	Call	Collateral	Account	Officer	Initials
\$1,500,000.00	08/12/1996	10/15/1997	1071513796R	50/75	UCC	1071513796R	SLS	

References in the table area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

BORROWER: DIGITAL POWER CORPORATION 94-1721931) 41920 CHRISTY STREET FREMONT, CA 94538	(TIN: LENDER: SAN JOSE NATIONAL BANK P.O. BOX 1957 ONE NORTH MARKET STREET SAN JOSE, CA 95113
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Principal Amt: \$1,500,000.00 Initial Rate: 9.250% Date of Note: 08/12/96

PROMISE TO PAY. DIGITAL POWER CORPORATION ("Borrower") promises to pay to SAN JOSE NATIONAL BANK ("Lender"), or order, in lawful money of the United States of America, the principal amount of One Million Five Hundred Thousand & 00/100 Dollars (\$1,500,000.00) or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance.

PAYMENT. Borrower will pay this loan on demand, or if no demand is made, in one payment of all outstanding principal plus all accrued unpaid interest on October 15, 1997. In addition, Borrower will pay regular monthly payments of accrued unpaid interest beginning September 15, 1996, and all subsequent interest payments are due on the same day of each month after that. Interest on this Note is computed on a 365/360 simple Interest basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an index which is Lender's Prim Rate (the "Index"). This is the rate Lender charges, or would charge, on 90-day unsecured loans to the most creditworthy corporate customers. This rate may or may not be the lowest rate available from Lender at any given time. Lender will tell Borrower the current Index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each DAY. The Index currently is 8.250% per annum. The interest rate to be applied to the unpaid principal balance of this Note will be at a rate of 1.000 percentage point over the Index, resulting in an initial rate of 9.250% per annum. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

PREPAYMENT; MINIMUM INTEREST CHARGE. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. In any event, even upon full prepayment of this Note, Borrower understands that Lender is entitled to a minimum interest charge of \$100.00. Other than Borrower's obligation to pay any minimum interest charge, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, they will reduce the principal balance due.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment or \$25.00, whichever is greater. **DEFAULT.** Borrower will be in default if any of the following happens: (a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender. (c) Any representation or statement made or furnished to Lender by Borrower or on Borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (d) Borrower becomes insolvent, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws. (e) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender. (f) Any guarantor dies or any of the other events described in this default section occurs with respect to any guarantor of this Note. (g) A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the indebtedness is impaired.

If any default, other than a default in payment, is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured (and no event of default will have occurred) if Borrower, after receiving written notice from Lender demanding cure of such default: (a) cures the default within fifteen (15) days; or (b) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then Borrower will pay that amount. Upon Borrower's failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, do one or both of the following: (a) increase the variable interest rate on this Note to 6.000 percentage points over the Index, and (b) add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the rate provided in this Note (including any increased rate). Lender

may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees, and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law. This Note has been delivered to Lender and accepted by Lender in the State of California. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of SANTA CLARA County, the State of California. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other. This Note shall be governed by and construed in accordance with the laws of the State of California.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of \$15.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays later dishonored.

RIGHT OF SETOFF. Borrower grants to Lender a contractual possessory security interest in, and hereby assigns, conveys, delivers, pledges, and transfers to Lender all Borrower's right, title and interest in and to, Borrower's accounts with Lender (whether checking, savings, or some other account), including without limitation all accounts held jointly with someone else and all accounts Borrower may open in the future, excluding however all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on this Note against any and all such accounts.

COLLATERAL. This Note is secured by a SECURITY AGREEMENT OF EVEN DATE HERewith AND A UCC FILING DATED April 28, 1994, RECORDED AS INSTRUMENT #94106664 ON MAY 27, 1994, WITH THE SECRETARY OF STATE IN SACRAMENTO.

LINE OF CREDIT. This Note evidences a revolving line of credit. Advances under this Note, as well as directions for payment from Borrower's accounts, may be requested orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. The following party or parties are authorized to request advances under the line of credit until Lender receives from Borrower at Lender's address shown above written notice of revocation of their authority: CLAUDE ADKINS, PRESIDENT; ROBERT SMITH, CEO/SECRETARY; JOSEPHINE JACKEWICZ, CONTROLLER; and PHILIP G. SWANY. Borrower agrees to be liable for all sums either: (a) advanced in accordance with the instructions of an authorized person or (b) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; or (d) Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender.

LETTER AGREEMENT. THIS NOTE IS SUBJECT TO, AND SHALL BE GOVERNED BY, ALL THE TERMS AND CONDITIONS OF THE LETTER AGREEMENT DATED AUGUST 9, 1996, BETWEEN THE BORROWER(S) AND SAN JOSE NATIONAL BANK, WHICH LETTER AGREEMENT IS INCORPORATED HEREIN BY REFERENCE.

GENERAL PROVISIONS. This Note is payable on demand. The inclusion of specific default provisions or rights of Lender shall not preclude Lender's right to declare payment of this Note on its demand. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

DIGITAL POWER CORPORATION

By: /S/ ROBERT SMITH
ROBERT SMITH, CEO/PRESIDENT

By: /S/ PHILIP G. SWANY
PHILIP G. SWANY, SECRETARY

DIGITAL POWER CORPORATION

DESIGN ACQUISITION

THIS INITIAL AGREEMENT is made and entered into in San Jose, Santa Clara County, California, this 10th day of November, 1987, by and between DIGITAL POWER, INC., (hereinafter referred to as "DIGI-POWER") whose principal place of business is 686 E. Gish Road, San Jose, California 95112, and Mr. Ki Dong Kang of KDK ELECTRONICS, (hereinafter referred to as Mr. Kang) whose principal place of business is 15520 Orbit Drive, Saratoga, California 95070.

For the design rights and transfer of technical know-how, Digital Power will compensate Ki Dong Kang of KDK Electronics as follows:

1) \$10,000 upon signing of an agreement and \$10,000 on the 1st of each of the following nine months.

2) Royalties are as follows:

5% on First	\$ 20,000,000 sales.
4% on Next	\$ 25,000,000 sales.
3% on Next	\$ 33,333,333 sales.
2% on Next	\$ 50,000,000 sales.
1% on Next	\$100,000,000 sales.

At this point royalties cease.

3) Stock option:

Option on 135,000 shares of Digital Power Stock at 3.50 per share. Optionable when the 1st \$20,000,000 in sales has been reached. Digital Power will pay in the \$472,500.00 to cover the purchase of shares for Mr. Kang.

In return for the above compensation Digital Power owns all rights to the following products developed by Mr. Kang. See: Appendix "A"

Mr. Kang will give the necessary assistance to get technology and know-how on these products into Digital Power manufacturing. On an ongoing basis Digital Power will have access to 20 hours per month of Mr. Kang's assistance, as long as the Royalty Agreement is in effect. Digital Power reserves the first right of refusal on any new products Mr. Kang develops in the future.

Mr. Kang promises not to sell or divulge to any other company any of the technology purchased by Digital Power. Digital Power will compensate Mr. Kang on any new projects which require Mr. Kang's assistance. The compensation will be determined on a job by job basis mutually agreed upon by both parties.

APPENDIX "A"

Products:

STANDARD PACKAGE (L or U Bracket)

1. 80-100W Family AC-DC 1.5 inch high 4 output
2. 150-200W Family AC-DC 1.5 inch high 4 output
3. 80-100W Family DC-DC 1.5 inch high
 - A. 12V input 4 outputs
 - B. 24V input 4 outputs
 - C. 48V input 4 outputs
4. 150-200W Family DC-DC 1.5 inch high
 - A. 12V input 4 outputs
 - B. 24V input 4 outputs
 - C. 48V input 4 outputs
5. Up to 500W Family-Natural progression

SLIM LINE

1. 100W 4 output 0.8 inch high AC-DC

- 2. 100W 4 output 0.8 inch high 12V input DC-DC Converter
- 3. 100W 4 output 0.8 inch high 24V input DC-DC Converter

SPECIAL

- 1) AC input module integrated P.S.
100W
- 2) 200W

/S/ KI DONG KANG

/S/ CLAUDE ADKINS

SUPPLEMENTARY AGREEMENT

This is to clarify and supplement our agreement entered on November 10, 1987.

KDK Electronics Inc. has no obligation to Digital Power Corp. for the two products group listed below.

1) New products developed after the agreement date, November 10, 1987.

2) Products already developed by KDK but not implemented to production line of Digital Power Corporation as of May 23, 1988.

May 23, 1988 /S/ KI DONG KANG

May 23, 1988 /S/ CLAUDE ADKINS

AGREEMENT

1. 5% royalty on net sales of KD100, KD150 and KD200 power supplies and any derivatives employing this base design.
2. 100,000 shares stock option when net sales of Item #1 reach \$20,000,000 (subject to terms and conditions of original agreement).
3. All past and future royalty payments paid out at 4% of total DPC net sales on a monthly basis (3% for the first 12 payments), the first payment due upon signing a new agreement.
4. This agreement applies only to designs incorporated by DPC as of June 22, 1990. It is our understanding that KDK has in development various features, enhancements or other products, the purchase of which would be the subject of a new agreement.
5. KDK agrees not to sell or license these products to a competing power supply manufacturer. However, KDK is free to manufacture these products for sale to end customers, or to license the manufacture of these products to an end customer who would employ them, not for resale, but as a part of their product. If DPC does not achieve \$3.5 million in net sales from July, 1990 through June, 1991, then KDK is free to sell or license these products to a competing power supply company.
6. DPC is developing new designs and KDK would inspect these designs prior to this agreement to assure that they are not KDK designs.
7. There will be a 1% per month penalty charge on any payments delayed over 10 days, plus an additional 1% per month interest charge for balances owing beyond 30 days.
8. DPC will provide two monthly reports to KDK as follows:

NEW ORDERS		SHIPMENTS	
KDK Designs	\$	KDK Designs	\$
Old DPC Designs	\$	Old DPC Designs	\$
New DPC Designs	\$	New DPC Designs	\$

9. If Digital Power Corporation is sold or merged, by the time of such events, unpaid royalty is due and prorated stock option may be exercised based on total accrued royalty.
10. Mutually dismiss all litigations.

Date 6/29/90 /S/ KI DONG KANG KDK ELECTRONICS, INC.
Ki Dong Kang, President

Date 6/29/90 /S/ ROBERT O. SMITH DIGITAL POWER CORPORATION
Robert O. Smith, CEO

[FORTRON/SOURCE LETTERHEAD]

MANUFACTURING/RESALE AGREEMENT

Between: Digital Power Corp. And Fortron/Source Corp.

PURPOSE:

Fortron/Source and Digital Power wish to capitalize on each other's strengths, which are respectively, high volume, cost-effective manufacturing, and development/marketing of new, innovative products. Accordingly, Fortron/Source agrees not to sell any Digital Power designs (or modifications of the base design) to any entity other than Digital Power, unless specifically agreed to, in advance, in writing.

INITIAL AGREEMENT:

Fortron/Source agrees (upon receipt of firm PO from Digital) to build a test run of 1000 units of a particular model to be determined by Digital Power, but in all likelihood, a US50-341. These units will be stocked locally and exclusively for Digital Power, and delivered, as required at a cost of \$22.00 (or less if similar power supply), FOB Fremont, California. Digital Power agrees to take delivery over a maximum of one year. from the date originally received at Fortron/Source's Fremont facility. Based upon the cost analysis provided by this initial test run, Fortron/Source will then provide Digital Power with a firm quote for volume production.

Digital Power agrees to allow Fortron/Source to manufacture and sell the model US155-201 (as F/S # SU150D23) to Standard MicroSystems, located in N.Y. with Engineering in Mass. The cost for the first 250 kits on this product, if purchased through Digital Power, will be \$35.00. Also, the Magnetic set will be available for \$5.00 each. Any other kits purchased through Digital Power will be available at \$38.00 up to a maximum of 1000 pieces. Digital Power agrees to maintain current safety agency requirements and multiple list Fortron/Source on the model. All agency listing cost for this will be paid by Fortron/Source. Digital Power agrees to ~protect~ Fortron/Source at this account for the duration of this agreement by : not quoting on this model at SMC and not allowing another Private label company to quote.

DESIGN OWNERSHIP:

This agreement does not constitute a transfer of ownership of the power supply designs or their derivatives or yet to be developed products. As such, Digital Power is authorizing only an alternate or secondary manufacturing location with respect to the appropriate safety agency certifications. Fortron/Source is not authorized to seek their own safety agency certifications on these designs.

[FORTRON/SOURCE LETTERHEAD]

Digital agrees to provide all BOM's (with individual component prices), AVL's, artwork, test procedure or any such documentation necessary to manufacture the product. Fortron/Source understands that this information is proprietary and will abide by the Nondisclosure Agreement previously signed.

NON-COMPETITIVE STRUCTURE:

Fortron agrees not to pursue any account with a Digital Power product without written authorization, in advance, to do so. If given, Fortron/Source will provide: Digital Power model number, price and volume quoted and the customer name and address.

Fortron agrees to an inspection of its China facility by a Digital Power representative when requested. Should any documents be needed to assure shipments or agency compliance, they will be provided then.

COMMISSIONS AND ROYALTIES:

Each party will be responsible for paying their own sales representatives, unless otherwise agreed upon.

Fortron/Source agrees to pay Digital Power \$13.80 per US155-201 sold to Standard MicroSystems. Once a cost analysis can be provide showing a reduction in raw material cost (presently \$35ea.), Fortron agrees to split this difference with Digital Power. This difference is figured from \$35 to actual finished goods cost. Royalties will accrue and be due immediately upon payment from third party customers.

TERMINATION:

Either party may terminate this agreement at will, effective any time, with or without cause by written notice given to the other party not less than one hundred and twenty (120) days prior to the effect of such notice. At that time, each party agrees to release any and all proprietary documents. Also, each party agrees to allow the other to minimize losses due to excess inventory.

[FORTRON/SOURCE LETTERHEAD]

SUMMARY:

This agreement is intended to be a start for future projects between Fortron/Source and Digital Power. Digital Power desires to cost reduce products, which Fortron/Source can provide. While Digital Power can provide Fortron/Source with an expanded product line. Any future products or agreements must be done in writing. May both parties enjoy mutual profit and benefit with this partnership.

X /S/ JACKSON WONG

X /S/

PRESIDENT

CEO

Date 10/7/94

Date 10/11/94

For: Fortron/Source Corp.
2925 Bayview Dr.
Fremont, CA 94538
510-440-0188

For: Digital Power Corp.
41920 Christy St.
Fremont, CA 94538
510-657-2635

**DIGITAL POWER CORPORATION
1996 STOCK OPTION PLAN**

1. PURPOSE; DEFINITIONS.

1.1 PURPOSE. The purpose of the Plan is to attract, retain, and motivate officers, employees, consultants, and directors of the Company by giving them the opportunity to acquire Stock ownership in the Company.

1.2 DEFINITIONS. For purposes of the Plan, the following terms shall have the following meanings:

1.2.1 "ADMINISTRATOR" shall mean the Compensation Committee referred to in Section 4 in its capacity as

administrator of the Plan in accordance with Section 4.

1.2.2 "BOARD" shall mean the Board of Directors of the Company.

1.2.3 "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.2.4 "COMPANY" shall mean Digital Power Corporation, a California corporation.

1.2.5 "DIRECTOR" shall mean a member of the Board.

1.2.6 "EFFECTIVE DATE" shall have the meaning set forth in Section 2.

1.2.7 "ELIGIBLE PERSON" shall mean, in the case of the grant of an Incentive Stock Option, all employees of the Company, and in the case of a Non-qualified Stock Option, any director (including a director who is also a member of the Compensation Committee), officer, or employee of the Company.

1.2.8 "FAIR MARKET VALUE" shall mean the value established by the Administrator for purposes of granting Options under the Plan.

1.2.9 "GRANT DATE" shall mean the date of grant of any Option.

1.2.10 "INCENTIVE STOCK OPTION" shall mean an option which is an option within the meaning of Section 422 of the Code, the award of which contains such provisions as are necessary to comply with that section.

1.2.11 "NON-QUALIFIED STOCK OPTION" shall mean an option which is designated a Non-qualified Stock Option.

1.2.12 "OPTION" shall mean an option to purchase Common Stock under this Plan. An Option shall be designated by the Committee as either an Incentive Stock Option or a Non-qualified Stock Option.

1.2.13 "OPTION AGREEMENT" shall mean the written option agreement with respect to an Option.

1.2.14 "OPTIONEE" shall mean the holder of an Option.

1.2.15 "PLAN" shall mean this Digital Power Corporation 1996 Stock Option Plan, as amended from time to time.

1.2.16 "STOCK" shall mean the Common Stock, no par value, of the Company, and any successor entity.

1.2.17 "TAX DATE" shall mean the date defined in Section 7.

1.2.18 "VESTING DATE" shall mean the date on which an Option becomes wholly or partially exercisable, as determined by the Administrator in its sole discretion.

2. EFFECTIVE DATE; TERM OF PLAN.

The Effective Date of this Plan shall be upon shareholder approval of this Plan pursuant to California Corporation Code <section>600, which shall occur within 12 months of the date of Board approval. This Plan, but not Options already granted, shall terminate automatically ten years

after its adoption by the Board, unless terminated earlier by the Board under Section

13. No Options shall be granted after termination of this Plan but all Options granted prior to termination shall remain in effect in accordance with their terms.

3. NUMBER AND SOURCE OF SHARES OF STOCK SUBJECT TO THE PLAN.

Subject to the provisions of Section 8, the total number of shares of Stock with respect to which Options may be granted under this Plan is [] shares of Stock. The shares of Stock covered by any canceled, expired, or terminated Option or the unexercised portion thereof shall become available again for grant under this Plan. The shares of Stock to be issued hereunder upon exercise of an Option may consist of authorized and unissued shares or treasury shares.

4. ADMINISTRATION OF THE PLAN.

This Plan shall be administered by a committee of at least two members of the Board to which administration of this Plan is delegated by the Board (the "Compensation Committee"). The "Administrator" shall mean the "Compensation Committee" referred to in this Section 4 in its capacity as administrator of the Plan in accordance with this Section 4. The Administrator may delegate nondiscretionary administrative duties to such employees of the Company as it deems proper. Each member of the Compensation Committee shall be a disinterested person within the meaning of Rule 16b-3(c)(2)(i) of the Securities Exchange Act of 1934.

Subject to the express provisions of this Plan, the Administrator shall have the authority to construe and interpret this Plan and any agreements defining the rights and obligations of the Company and Optionees under this Plan; to further define the terms used in this Plan; to prescribe, amend, and rescind rules and regulations relating to the administration of this Plan; to determine the duration and purposes of leaves of absence which may be granted to Optionees without constituting a termination of their employment for purposes of this Plan; and to make all other determinations necessary or advisable for the administration of this Plan.

Any decision or action of the Administrator in connection with this Plan or Options granted or shares of Stock purchased under this Plan shall be final and binding. The Administrator shall not be liable for any division, action, or omission respecting this Plan, or any Options granted or shares of Stock sold under this Plan. The Board at any time may abolish the Compensation Committee and reconstitute the Board the administration of the Plan.

To the extent permitted by applicable law in effect from time to time, no member of the Compensation Committee or the Board of Directors shall be liable for any action or omission of any other member of the Compensation Committee or the Board of Directors nor for any act or omission on the member's own part, excepting only the member's own willful misconduct or gross negligence, arising out of or related to the Plan. The Company shall pay expenses incurred by, and satisfy a judgment or fine rendered or levied against, a present or former director or member of the Compensation Committee or Board in any action against such person (whether or not the Company is joined as a party defendant) to impose liability or a penalty on such person for an act alleged to have been committed by such person while a director or member of the Compensation Committee or Board arising with respect to the Plan or administration thereof, or out of membership on the Compensation Committee or Board, or by the Company, or all or any combination of the preceding; provided, the director or Compensation Committee member was acting in good faith, within what such director or Compensation Committee member reasonably believed to be in the best interests of the Company or its shareholders. Payments authorized hereunder include amounts paid and expenses incurred in settling any such action or threatened action. The provisions of this section shall apply to the estate, executor, administrator, heirs, legatees, or devisees of a director or Compensation Committee member, and the term "person" as used in this section shall include the estate, executor, administrator, heirs, legatees, or devisees of such person.

5. GRANT OF OPTIONS; TERMS AND CONDITIONS OF GRANT.

5.1 GRANT OF OPTIONS. One or more Options may be granted to any Eligible Person. Subject to the express provisions of the Plan, the Administrator shall determine from the Eligible Persons those individuals to whom Options under the Plan may be granted. Each Option so granted shall be designated by the Administrator as either a Non-qualified Stock Option or an Incentive Stock Option.

Subject to the express provisions of this Plan, the Administrator shall specify the Grant Date, the number of shares of Stock covered by the Option, the exercise price, and the terms and conditions for exercise of the Options. If the Administrator fails to specify the Grant Date, the Grant Date shall be the date of the action taken by the Administrator to grant the Option. As soon as practicable after the Grant Date, the Company shall provide the Optionee with a written Option Agreement in the form approved by the Administrator, which sets out the Grant Date, the number of shares of Stock covered by the Option, the exercise price, and the terms and conditions for exercise of the Option.

The Administrator may, in its absolute discretion, grant Options under this Plan to an Eligible Person at any time and from time to time before the expiration of ten years from the Effective Date.

5.2 GENERAL TERMS AND CONDITIONS. Except as otherwise provided herein, the Options shall be subject to the following terms and conditions and such other terms and conditions not inconsistent with this Plan as the Administrator may impose.

5.3 EXERCISE OF OPTION. In order to exercise all or any portion of any Option granted under this Plan, an Optionee must remain as an

officer, employee, consultant, or director of the Company, until the Vesting Date. The Option shall be exercisable on or after each Vesting Date in accordance with the terms set forth in the Option Agreement.

5.4 OPTION TERM. Each Option and all rights or obligations thereunder shall expire on such date as shall be determined by the Administrator, but not later than 10 years after the grant of the Option (5 years in the case of an Incentive Stock Option when the Optionee owns more than 10% of the total combined voting power of all classes of stock of the Company), and shall be subject to earlier termination as hereinafter provided.

5.5 EXERCISE PRICE. The Exercise Price of any Option shall be determined by the Administrator, but in the case of Incentive Stock Options shall not be less than 100% (110% in the case of an Optionee who owns more than 10% of the total combined voting power of all classes of stock of the Company) of the Fair Market Value of the Stock on the date the Incentive Stock Option is granted, and [100% of the Fair Market Value of the Stock on the date the Non-qualified Stock Option is granted].

5.6 METHOD OF EXERCISE. To the extent the right to purchase shares of Stock has accrued, Options may be exercised, in whole or in part, from time to time in accordance with their terms by written notice from the Optionee to the Company stating the number of shares of Stock with respect to which the Option is being exercised, and accompanied by payment in full of the exercise price. Payment may be made in cash, certified check or, at the absolute discretion of the Administrator, by non-certified check.

5.7 RESTRICTIONS ON STOCK; OPTION AGREEMENT. At the time it grants Options under this Plan, the Company may retain, for itself or others, rights to repurchase the shares of Stock acquired under the Option, or impose other restrictions on such shares. The terms and conditions of any such rights or other restrictions shall be set forth in the Option Agreement evidencing the Option. No Option shall be exercisable until after execution of the Option Agreement by the Company and the Optionee.

5.8 NON-ASSIGNABILITY OF OPTION RIGHTS. No Option shall be transferable other than by will or by the laws of descent and distribution. During the lifetime of an Optionee, only the Optionee may exercise an Option.

5.9 EXERCISE AFTER CERTAIN EVENTS.

5.9.1 TERMINATION AS AN EMPLOYEE, DIRECTOR, OR CONSULTANT. If for any reason other than permanent and total disability or death (as defined below) an Optionee ceases to be employed by or to be a consultant or director of the Company, Options held at the date of such termination (to the extent then exercisable) may be exercised, in whole or in part, at any time within three months after the date of such termination or such lesser period specified in the Option Agreement (but in no event after the earlier of (i) the expiration date of the Option as set forth in the Option Agreement, and (ii) ten years from the Grant Date).

If an Optionee granted an Incentive Stock Option terminates employment but continues as a consultant, advisor, or in a similar capacity to the Company, Optionee need not exercise the Option within three months of termination of employment but shall be entitled to exercise within three months of termination of services to the Company (one year in the event of permanent disability or death). However, if Optionee does not exercise within three months of termination of employment, the Option will not qualify as an Incentive Stock Option.

5.9.2 PERMANENT DISABILITY AND DEATH. If an Optionee becomes permanently and totally disabled (within the meaning of Section 22 (e)(3) of the Code), or dies while employed by the Company, or while acting as an officer, consultant, or director of the Company, (or, if the Optionee dies within the period that the Option remains exercisable after termination of employment or affiliation), Options then held (to the extent then exercisable) may be exercised by the Optionee, the Optionee's personal representative, or by the person to whom the Option is transferred by will or the laws of descent and distribution, in whole or in part, at any time within one year after the disability or death or any lesser period specified in the Option Agreement (but in no event after the earlier of (i) the expiration date of the Option as set forth in the Option Agreement, and (ii) ten years from the Grant Date).

5.10 COMPLIANCE WITH SECURITIES LAWS. The Company shall not be obligated to issue any shares of Stock upon exercise of an Option unless such shares are at that time effectively registered or exempt from registration under the federal securities laws and the offer and sale of the shares of Stock are otherwise in compliance with all applicable securities laws. Upon exercising all or any portion of an Option, an Optionee may be required to furnish representations or undertakings deemed appropriate by the Company to enable the offer and sale of the shares of Stock or subsequent transfers of any interest in such shares to comply with applicable securities laws. Evidences of ownership of shares of Stock acquired upon exercise of Options shall bear any legend required by, or useful for purposes of compliance with, applicable securities laws, this Plan, or the Option Agreement evidencing the Option.

6. LIMITATIONS ON GRANT OF INCENTIVE STOCK OPTIONS.

6.1 ONE HUNDRED THOUSAND DOLLARS RULE. The aggregate Fair Market Value (determined as of the Grant Date) of the Stock for which Incentive Stock Options may first become exercisable by any Optionee during any calendar year under this Plan, together with that of Stock subject to Incentive Stock Options first exercisable (other than as a result of acceleration pursuant to Section 9(a)) by such Optionee under any other plan of the Company or any Subsidiary, shall not exceed \$100,000.

6.2 OPTION AGREEMENTS. There shall be imposed in the Option Agreement relating to Incentive Stock Options such terms and conditions

as are required in order that the Option be an "incentive stock option" as that term is defined in Section 422 of the Code.

6.3 TEN PERCENT RULE. No Incentive Stock Option may be granted to any person who, at the time the Incentive Stock Option is granted, owns shares of outstanding Stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, unless the exercise price of such Option is at least 110% of the Fair Market Value of the Stock (determined as of the Grant Date) subject to the Option, and such Option by its terms is not exercisable after the expiration of five years from the Grant Date.

6.4 NON-EMPLOYEES. No Incentive Stock Option may be granted to any person who is not an employee of the Company.

7. PAYMENT OF TAXES.

Upon the disposition by an Optionee or other person of shares of an Option prior to satisfaction of the holding period requirements of Section 422 of the Code, or upon the exercise of a Non-qualified Stock Option, the Company shall have the right to require such Optionee or such other person to pay by cash, or check payable to the Company, the amount of any taxes which the Company may be required to withhold with respect to such transactions. Any such payment must be made promptly when the amount of such obligation becomes determinable (the "Tax Date"). The Administrator may, in lieu of such cash payment, withhold that number of Shares sufficient to satisfy such withholding.

8. ADJUSTMENT FOR CHANGES IN CAPITALIZATION.

The existence of outstanding Options shall not affect the Company's right to effect adjustments, recapitalizations, reorganizations, or other changes in its or any other corporation's capital structure or business, any merger or consolidation, any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the Stock, the dissolution or liquidation of the Company's or any other corporation's assets or business, or any other corporate act, whether similar to the events described above or otherwise. Subject to Section 9, if the outstanding shares of the Stock are increased or decreased in number or changed into or exchanged for a different number or kind of securities of the Company or any other corporation by reason of a recapitalization, reclassification, stock split, combination of shares, stock dividend, or other event, an appropriate adjustment of the number and kind of securities with respect to which Options may be granted under this Plan, the number and kind of securities as to which outstanding Options may be exercised, and the exercise price at which outstanding Options may be exercised will be made.

9. DISSOLUTION, LIQUIDATION, MERGER.

9.1 COMPANY NOT THE SURVIVOR. In the event of a dissolution or liquidation of the Company, a merger, consolidation, combination, or reorganization in which the Company is not the surviving corporation, or a sale of substantially all of the assets of the Company, any outstanding Option shall become fully vested immediately upon the Company's public announcement of any one of the foregoing. The Board of Directors shall determine, in its sole and absolute discretion, when the Company shall be deemed to survive for purposes of this paragraph. If the Optionee does not exercise the entire Option within ninety (90) days, the Administrator, in its sole and absolute discretion, may, with respect to the unexercised portion of the Option:

9.1.1 cancel the Option upon payment to the Optionee in an amount equal to the difference between the closing price of the stock underlying the Option quoted the day before such liquidation, dissolution, merger, consolidation, combination, reorganization and the exercise price of the Option; or

9.1.2 assign the Option and all rights and obligations under it to the successor entity, with all such rights and obligations being assumed by the successor entity.

9.2 COMPANY IS THE SURVIVOR. In the event of a merger, consolidation, combination, or reorganization in which the Company is the surviving corporation, the Board of Directors shall determine the appropriate adjustment of the number and kind of securities with respect to which outstanding Options may be exercised, and the exercise price at which outstanding Options may be exercised. The Board of Directors shall determine, in its sole and absolute discretion, when the Company shall be deemed to survive for purposes of this Plan.

10. CHANGE OF CONTROL.

If there is a "change of control" in the Company, all outstanding Options shall fully vest immediately upon the Company's public announcement of such a change. A "change of control" shall mean an event involving one transaction or a related series of transactions, in which (i) the Company issues securities equal to 25% or more of the Company's issued and outstanding voting securities, determined as a single class, to any individual, firm, partnership, limited liability company, or other entity, including a "group" within the meaning of SEC Exchange Act Rule 13d-3, (ii) the Company issues voting securities equal to 25% or more of the issued and outstanding voting stock of the Company in connection with a merger, consolidation, or other business combination, (iii) the Company is acquired in a merger or other business combination transaction in which the bank is not the surviving company, or (iv) all or substantially all of the Company's assets are sold or transferred. See Section 9 with respect to Options vesting upon the occurrence of either of the events described in (iii) or (iv) of this Section 10 and the result upon the non-exercise of the Options.

11. SUSPENSION AND TERMINATION.

In the event the Board or the Administrator reasonably believes an Optionee has committed an act of misconduct specified below, the Administrator may suspend the Optionee's right to exercise any Option granted hereunder pending final determination by the Board or the Administrator. If the Administrator determines that an Optionee has committed an act of embezzlement, fraud, breach of fiduciary duty, or deliberate disregard of the Company rules resulting in loss, damage, or injury to the Company, or if an Optionee makes an unauthorized disclosure of any Company trade secret or confidential information, engages in any conduct constituting unfair competition, induces any Company customer to breach a contract with the Company, or induces any principal for whom the Company acts as agent to terminate such agency relationship, neither the Optionee nor his estate shall be entitled to exercise any Option hereunder. In making such determination, the Board or the Administrator shall act fairly and in good faith and shall give the Optionee an opportunity to appear and present evidence on the Optionee's behalf. The determination of the Board or the Administrator shall be final and conclusive.

12. NO RIGHTS AS SHAREHOLDER OR TO CONTINUED EMPLOYMENT.

An Optionee shall have no rights as a shareholder with respect to any shares of Stock covered by an Option. An Optionee shall have no right to vote any shares of Stock, or to receive distributions of dividends or any assets or proceeds from the sale of Company assets upon liquidation until such Optionee has effectively exercised the Option and fully paid for such shares of Stock. Subject to Sections 8 and 9, no adjustment shall be made for dividends or other rights for which the record date is prior to the date title to the shares of Stock has been acquired by the Optionee. The grant of an Option shall in no way be construed so as to confer on any Optionee the rights to continued employment by the Company.

13. TERMINATION; AMENDMENT.

The Board may amend, suspend, or terminate this Plan at any time and for any reason, but no amendment, suspension, or termination shall be made which would impair the right of any person under any outstanding Options without such person's consent not unreasonably withheld. Further, any amendment which materially increases the benefits accruing to participants under this Plan shall be subject to the approval of the Company's shareholders.

14. GOVERNING LAW.

This Plan and the rights of all persons under this Plan shall be construed in accordance with and under applicable provisions of the laws of the State of California.

Villanueva, Purcell & Co.

1550 The Alameda, Suite 204
San Jose, California 95126

October 4, 1996

Securities and Exchange Commission
450 5th Street, N.W.
Washington, D.C. 20549

Dear Sirs/Madams:

We have read and agree with the information contained in the section entitled "Change in Accountants" included in Digital Power Corporation's Registration Statement on Form SB-2 to be filed with the Commission on or about October 9, 1996, insofar as such comments relate to us.

Yours truly,

/s/ Villanueva, Purcell & Co.

Exhibit 16.1

Subsidiaries of Digital Power Corporation

Poder Digital, S.A. de C.V., a Corporation incorporated under the Laws of Mexico

Exhibit 21.1

CONSENT

We have read those portions of the Form SB-2 Registration Statement (the "Registration Statement") of Digital Power Corporation (the "Company") in which our name has been cited by the Company, and consent to the inclusion of our name in such capacity in the Registration Statement.

Micro-Tech Consultants

Date: October 10, 1996

*/s/ Mohan Mankikar
Mohan Mankikar*

Exhibit 23.3

ARTICLE 5

This schedule contains summary financial information extracted from the Form SB-2 as filed with the Commission on October 16, 1996 and is qualified in its entirety by reference to such financial statements.

CIK: 0000896493

NAME: DIGITAL POWER CORPORATION

PERIOD TYPE	6 MOS	YEAR
FISCAL YEAR END	DEC 31 1996	DEC 31 1995
PERIOD END	JUN 30 1996	DEC 31 1995
CASH	84,614	202,917
SECURITIES	107,173	100,000
RECEIVABLES	2,421,719	1,794,355
ALLOWANCES	120,000	120,000
INVENTORY	2,142,454	1,557,226
CURRENT ASSETS	4,837,440	3,803,146
PP&E	1,508,625	1,300,978
DEPRECIATION	962,612	943,298
TOTAL ASSETS	5,443,277	4,318,190
CURRENT LIABILITIES	2,411,418	1,591,788
BONDS	0	0
PREFERRED MANDATORY	0	0
PREFERRED	0	747,569
COMMON	5,539,115	4,398,322
OTHER SE	(4,005,356)	(3,459,310)
TOTAL LIABILITY AND EQUITY	5,443,277	4,318,190
SALES	6,553,376	10,037,502
TOTAL REVENUES	6,553,376	10,037,502
CGS	4,975,557	7,494,427
TOTAL COSTS	4,975,557	7,494,427
OTHER EXPENSES	888,207	1,515,303
LOSS PROVISION	1,286	90,974
INTEREST EXPENSE	59,537	119,146
INCOME PRETAX	637,208	826,484
INCOME TAX	294,000	277,400
INCOME CONTINUING	343,208	0
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	343,208	1,103,884
EPS PRIMARY	0.24	0.80
EPS DILUTED	0.20	0.66

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