

DIGITAL POWER CORP

FORM 10QSB/A

(Amended Quarterly Report of Financial Condition)

Filed 11/19/1997 For Period Ending 9/30/1997

Address	41920 CHRISTY ST FREMONT, California 94538
Telephone	510-657-2635
CIK	0000896493
Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	12/31

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-QSB/A

(As filed on November 19, 1997)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES**
EXCHANGE ACT OF 1934 for the quarterly period ended September 30,
1997

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES**
EXCHANGE ACT OF 1934 for the transition period from _____ to

COMMISSION FILE NUMBER 1-12711

DIGITAL POWER CORPORATION

(Exact name of small business issuer as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

94-1721931
(IRS Employer Identification No.)

41920 Christy Street, Fremont, CA 94538-3158
(Address of principal executive offices)

(510) 657-2635
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such
reports), and (2) has been subject to such filing requirements for the past 90 days. Yes <CHECKED-BOX> No <square>

Number of shares of common stock outstanding as of September 30, 1997:
2,652,555

DIGITAL POWER CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 1997

ASSETS

CURRENT ASSETS:

Cash	\$ 1,940,602
Accounts receivable - trade, net of allowance for doubtful accounts of \$170,000	2,887,979
Other receivables	230,271
Inventory, net	3,185,021
Prepaid expenses and deposits	42,836
Deferred income taxes	120,700

Total current assets	8,407,409
PROPERTY AND EQUIPMENT, net	887,897
DEPOSITS	27,544

TOTAL ASSETS	\$ 9,322,850
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Current portion of long-term debt	\$ 98,641
Current portion of capital lease obligations	13,609
Accounts payable	1,263,607
Income taxes payable	79,735
Accrued Liabilities	767,035

Total current liabilities	2,222,627
LONG-TERM DEBT, less current portion	250,084
OBLIGATIONS UNDER CAPITAL LEASE, less current portion	8,043

Total liabilities	2,480,754

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY:

Series A cumulative redeemable convertible preferred stock, no par value, 2,000,000 shares authorized, 0 shares issued and outstanding -
Common stock, no par value, 10,000,000 shares authorized

2,652,555 shares issued and outstanding	8,805,147
Warrants	65,150
Accumulated deficit	(1,679,476)
Unearned employee stock ownership plan shares	(348,725)

Total stockholders' equity	6,842,096

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,322,850
	=====

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

**DIGITAL POWER CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME**

**THREE MONTHS ENDED NINE MONTHS ENDED
SEPTEMBER 30, SEPTEMBER 30,**

	1997	1996	1997	1996
REVENUES	\$ 5,185,938	\$ 3,517,971	\$ 14,008,640	\$ 10,071,347
COST OF GOODS SOLD	3,947,611	2,521,398	10,590,416	7,496,955
Gross Margin	1,238,327	996,573	3,418,224	2,574,392
OPERATING EXPENSES				
Engineering and product development	232,865	191,672	648,694	506,331
Marketing and selling	180,053	130,886	461,141	371,507
General and administrative	165,626	167,731	601,552	500,658
Total operating expenses	578,544	490,289	1,711,387	1,378,496
INCOME FROM OPERATIONS	659,783	506,284	1,706,837	1,195,896
OTHER INCOME (EXPENSES):				
Interest income	7,325	966	38,088	8,305
Interest expense	(14,509)	(49,177)	(57,859)	(108,714)
Translation loss	(908)	(5,674)	(15,015)	(5,880)
Other income (expense)	(8,092)	(53,885)	(34,786)	(106,289)
INCOME BEFORE INCOME TAXES	651,691	452,399	1,672,051	1,089,607
PROVISION FOR INCOME TAXES	242,905	120,000	661,800	414,000
NET INCOME	\$ 408,786	\$ 332,399	\$ 1,010,251	\$ 675,607
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	\$ 408,786	\$ 332,399	\$ 1,010,251	\$ 637,538
NET INCOME PER SHARE				
PRIMARY	\$ 0.11	\$ 0.17	\$ 0.30	\$ 0.41
FULLY DILUTED	\$ 0.11	\$ 0.17	\$ 0.29	\$ 0.38
WEIGHTED AVERAGE SHARES OUTSTANDING	3,570,679	1,937,556	3,411,354	1,573,954

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

**DIGITAL POWER CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

**NINE MONTHS ENDED
SEPTEMBER 30,**

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,010,251	\$ 675,607
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	104,446	71,394
Deferred income taxes	(67,700)	329,337
Warranty expense	-	119,125
Contribution to ESOP	112,403	19,109
Unrealized gain on temporary investment	-	(8,139)
Foreign currency translation adjustment	15,015	5,880
Changes in operating assets and liabilities:		
Accounts receivable	(448,456)	(802,598)
Other receivables	(80,149)	(93,519)
Inventory	(352,692)	(551,713)
Prepaid expenses	(14,100)	(23,804)
Other assets	(10,116)	6,881
Accounts payable	(157,162)	(38,792)
Other accrued liabilities	(354,043)	370,662
Net adjustments	(1,252,554)	(596,177)
Net cash provided by (used in) operating activities	(242,303)	79,430
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(338,989)	(322,584)
Net cash used in investing activities	(338,989)	(322,584)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Deferred offering costs	-	(121,035)
Proceeds from sale of common stock and warrants	951,278	-
Proceeds from exercise of stock options	85,500	4,011
Payments on preferred stock dividend	-	(41)
Proceeds from notes payable	-	50,000
Principal payments on notes payable	(247,883)	(49,771)
Principal payments on capital lease obligations	(9,955)	(8,815)
Payment of debenture	-	(5,000)
Proceeds from line of credit	1,990,000	9,195,000
Principal payments on line of credit	(3,187,330)	(8,830,148)
Net cash provided by (used in) financing activities	(418,390)	234,201
Effect of Exchange Rate Changes on Cash	(15,015)	(5,880)
Net (Decrease) In Cash	(1,014,697)	(14,833)
Cash and Cash Equivalents, beginning of period	2,955,299	202,917
Cash and Cash Equivalents, end of period	\$ 1,940,602	\$ 188,084
Supplemental Cash Flow Information:		
Cash payments for:		
Interest	\$ 66,727	\$ 105,521
Income taxes	\$ 847,402	\$ 69,500
Non-cash investing and financing transactions:		
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.

DIGITAL POWER CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 1997

(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 1996.

In the opinion of management, the unaudited condensed financial statements contain all adjustments consisting of normal recurring accruals considered necessary to present fairly the Company's financial position at September 30, 1997, the results of operations for the three month and nine month periods ended September 30, 1997 and 1996, and cash flows for the nine months ended September 30, 1997 and 1996. The results for the period ended September 30, 1997, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 1997.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - IMPACT OF RECENTLY ISSUED STANDARDS

In February 1997, the Financial Accounting Standards Board issued a new statement titled "Earnings per Share" ("FAS 128"). The new statement is effective for both interim and annual periods ending after December 15, 1997. FAS 128 replaces the presentation of primary and fully diluted earnings per share with the presentation of basic and diluted earnings per share. Basic earnings per share excludes dilution and is calculated by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Had this new statement been in effect for the periods presented, the Company would report basic earnings per share for the three month period ended September 30, 1997 and 1996 of \$0.16 and \$0.21, respectively, and \$0.40 and \$0.51 for the nine month period ended September 30, 1997 and 1996, respectively. Diluted earnings per share for the three month period ended September 30, 1997 and 1996 would be \$0.12 and \$0.17, respectively, and \$0.29 and \$0.38 for the nine month period ended September 30, 1997 and 1996, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

With the exception of historical facts stated herein, the matters discussed in this report are "forward looking" statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such "forward looking" statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Factors that could cause actual results to differ materially include, in addition to other factors identified in this report, a high degree of customer concentration, dependence on the computer and other electronic equipment industry, competition in the power supply industry, dependence on the Guadalajara, Mexico facility, and other risks factors detailed in the Company's Securities and Exchange Commission ("SEC") filings including the risk factors set forth in Company's Registration Statement on Form SB-2, SEC File No. 333-14199. Readers of this report are cautioned not to put undue reliance on "forward looking" statements which are, by their nature, uncertain as reliable indicators of future performance. The Company disclaims any intent or obligation to publicly update these "forward looking" statements, whether as a result of new information, future events, or otherwise.

THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 1997, COMPARED TO SEPTEMBER 30, 1996

REVENUES

Revenues increased by 47.4% to \$5,185,938 for the three months ended September 30, 1997, from \$3,517,971 for the three months ended September 30, 1996. Of this \$1,667,967 increase in sales, one OEM customer accounted for \$1,358,717, or 81.5%. The largest single OEM customer for the current quarter accounted for 34.3% of total revenues compared to 11.9% for the three months ended September 30, 1996. The large OEM accounting for 34.3% of three months ended September 30, 1997 revenues has decreased the number of power supplies it purchased from the Company. Further, this OEM indicated that it will require a higher wattage power supply for its new products and that the OEM intends to use a power supply manufacturer other than the Company to manufacture such new higher wattage power supply. Management believes that this OEM will cease purchasing power supplies from the Company after the fourth quarter of 1997. This OEM has given verbal notice of intent to cancel unshipped orders. The Company is trying to resolve the issue with the OEM. If the Company is unable to resolve the issue, management believes that the fourth quarter revenues and earnings will be adversely effected. The Company is seeking to design a new higher wattage power supply to satisfy the needs of this OEM. No assurance can be given, however, that even if the Company is able to design a new higher wattage power supply that satisfies the needs of the OEM, that it will purchase such power supply from the Company, or that the Company will be able to increase sales of power supplies to other OEM's to offset the loss in sales.

For the nine months ended September 30, 1997, revenues increased by 39.1% to \$14,008,640 from \$10,071,347 in the nine months ended September 30, 1996. Of this \$3,937,293 increase in sales, one OEM customer accounted for \$2,052,279, or 52.1%. The largest single OEM customer for the nine months ended September 30, 1997, accounted for 29.6% of total revenues compared to 20.8% for the nine months ended September 30, 1996.

GROSS MARGINS

Gross margins were 23.9% for the three months ended September 30, 1997, compared to 28.3% for the three months ended September 30, 1996. The decrease in gross margins can primarily be attributed to a significant increase in the sale of one model to a large OEM customer. The gross margins on such high volume orders is typically less than the margins on multiple smaller orders.

Gross margins were 24.4% for the nine months ended September 30, 1997, compared to 25.6% for the nine months ended September 30, 1996. The decrease in gross margins can primarily be attributed to a significant increase in the sale of one model to a large OEM customer. The gross margins on such high volume orders is typically less than the margins on multiple smaller orders.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were 6.7% of revenues for the three months ended September 30, 1997, compared to 8.5% for the three months ended September 30, 1996. Selling, general and administrative expenses were 7.6% of revenues for the nine months ended September 30, 1997, compared to 8.7% for the nine months ended September 30, 1996. The decrease in selling, general and administrative expenses, as a percentage of revenues, was due to greater utilization of these resources with modest increases when compared to the 47.4% and 39.1% increases in revenues.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 4.5% of revenues for the three months ended September 30, 1997, and 5.4% for the three months ended September 30, 1996. Engineering and product development expenses were 4.6% of revenues for the nine months ended September 30, 1997, compared to 5.0% for the nine months ended September 30, 1996. This decrease in expenses, as a percentage of revenues, was due primarily to greater utilization of these resources.

INTEREST EXPENSE

Interest expense, net of interest income, was \$7,184 for the three months ended September 30, 1997, compared to \$48,211 for the three months ended September 30, 1996. Interest expense, net of interest income, was \$19,771 for the nine months ended September 30, 1997, compared to \$100,409 for the nine months ended September 30, 1996. The decrease in interest was due to reduced borrowings and greater interest income from invested proceeds from the Company's initial public offering.

INCOME BEFORE INCOME TAXES

Income before income taxes increased by \$199,292 from \$452,399 for the three months ended September 30, 1996, to \$651,691 for the three months ended September 30, 1997. Income before income taxes increased by \$582,444 from \$1,089,607 for the nine months ended September 30, 1996, to \$1,672,051 for the nine months ended September 30, 1997. This increase can be attributed to increased revenues and gross margin which more than offset the increases in the Company's operating expenses.

INCOME TAX

Provision for income tax increased from \$120,000 for the three months ended September 30, 1996, to \$242,905 for the three months ended September 30, 1997, and from \$414,000 for the nine months ended September 30, 1996, to \$661,800 for the nine months ended September 30, 1997, as a result of the increase in Income Before Income Taxes.

NET INCOME

Net income for the three months ended September 30, 1997, was \$408,786 compared to \$332,399 for the three months ended September 30, 1996, an increase of 23%. Net income for the nine months ended September 30, 1997, was \$1,010,251 compared to \$675,607 for the nine months ended September 30, 1996, an increase of 49.5%. The increase in net income was due to increased revenues and gross margins which more than offset increases in operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

Through September 30, 1997, the Company funded its operations primarily through revenues generated from operations, and proceeds from its December 1996 Initial Public Offering. On September 30, 1997, the Company had cash and cash equivalents of month period ended September 30, 1997 and 1996, respectively. Diluted earnings per share for the three month period ended September 30, 1997 and 1996 would be \$0.11 and \$0.17, respectively, and \$0.29 and \$0.38 for the nine month period ended September 30, 1997 and 1996, respectively.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) 11.1 Computation of Per Share Earnings

27.1 Financial Data Schedule

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIGITAL POWER CORPORATION

(Registrant)

Date: November 19, 1997

ROBERT O. SMITH
Robert O. Smith
Chief Executive Officer
(Principal Executive and
Financial Officer)

EXHIBIT 11.1

DIGITAL POWER CORPORATION AND SUBSIDIARY

COMPUTATION OF NET INCOME PER SHARE

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
PRIMARY				
Net income	\$ 408,786	\$ 332,399	\$ 1,010,251	\$ 675,607
Less - preferred stock dividends	-	\$ -	-	\$ 38,069
Net income applicable to common shareholders	\$ 408,786	\$ 332,399	\$ 1,010,251	\$ 637,538
Weighted average number of common shares	2,596,054	1,603,275	2,540,996	1,251,461
Add - common stock equivalent shares (determined using the treasury stock method) representing shares issuable upon exercise of stock options	531,683	334,281	491,853	322,493
Add - common stock equivalent shares (determined using the treasury stock method) representing shares issuable upon exercise of warrants	442,942	-	378,505	-
Weighted average number of shares used in calculation of primary income per share	3,570,679	1,937,556	3,411,354	1,573,954
Primary net income per common share	\$ 0.11	\$ 0.17	\$ 0.30	\$ 0.41
FULLY DILUTED				
Net income for primary income per share	\$ 408,786	\$ 332,399	\$ 1,010,251	\$ 637,538
Add - preferred stock dividend	\$ -	\$ -	\$ -	\$ 38,069
Net income used for fully diluted income per share	\$ 408,786	\$ 332,399	\$ 1,010,251	\$ 675,607
Weighted average number of shares used in calculation of primary income per share	3,570,679	1,937,556	3,411,354	1,573,954
Add - weighted average number of shares using closing stock value In diluted eps calculation	-	-	86,532	-
Add - weighted average number of shares issuable upon conversion of preferred stock	-	-	-	224,709
Weighted average number of shares used in calculation of fully diluted income per share	3,570,679	1,937,556	3,497,886	1,798,663
Fully diluted net income per common share	\$ 0.11	\$ 0.17	\$ 0.29	\$ 0.38

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE 10-QSB FOR THE QUARTER ENDED SEPTEMBER 30, 1997, FOR DIGITAL POWER CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD END	SEP 30 1997
CASH	1,940,602
SECURITIES	0
RECEIVABLES	3,057,979
ALLOWANCES	(170,000)
INVENTORY	3,185,021
CURRENT ASSETS	8,407,409
PP&E	1,809,719
DEPRECIATION	(921,822)
TOTAL ASSETS	9,322,850
CURRENT LIABILITIES	2,222,627
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	8,805,147
OTHER SE	(1,963,051)
TOTAL LIABILITY AND EQUITY	9,322,850
SALES	14,008,640
TOTAL REVENUES	14,008,640
CGS	(10,590,416)
TOTAL COSTS	(10,590,416)
OTHER EXPENSES	(1,711,387)
LOSS PROVISION	0
INTEREST EXPENSE	(57,859)
INCOME PRETAX	1,672,051
INCOME TAX	(661,800)
INCOME CONTINUING	1,010,251
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,010,251
EPS PRIMARY	0.30
EPS DILUTED	0.29

End of Filing

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