# U.S. Securities and Exchange Commission

Washington, D.C. 20549

# FORM 10-QSB

**[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT**
OF 1934 for the quarterly period ended March 31, 2003

**[ ] 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 | 94-1721931 |
| ---------- | ---------- |
| (State or other jurisdiction of incorporation or organization) | (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 |X| No |_|

Number of shares of common stock outstanding as of March 31, 2003: 4,510,680

**DIGITAL POWER CORPORATION**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2003**

**IN U.S. DOLLARS**

**UNAUDITED**

**INDEX**



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[Graphic omitted]
ERNST & YOUNG

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The Board of Directors
Digital Power Corporation

Re: Review report of unaudited interim consolidated financial statements
as of and for the three-month period ended March 31, 2003

We have reviewed the accompanying consolidated balance sheet of Digital Power Corporation ("the Company") and its subsidiary as of March 31, 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the three-month period ended March 31, 2003, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Company's management. The interim consolidated financial statements of the Company and its subsidiaries for the three-month period ended March 31, 2002 were reviewed by other accountants, whose report dated May 13, 2002, stated that they were not aware of any material modification that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements at March 31, 2003, and the three-month period then ended in order for them to be in conformity with accounting principles generally accepted in the United States.

*/s/KOST FORER & GABBAY*

*Tel-Aviv, Israel*
*May 9, 2003*

*KOST FORER & GABBAY*
*A Member of Ernst & Young Global*

**DIGITAL POWER CORPORATION**

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | March 31, 2003 | March 31, 2002 | December 31, 2002 |
|---|---|---|---|
| | Unaudited | Unaudited | |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | $ 684 | $ 1,382 | $ 616 |
| Restricted short-term bank deposit | 600 | - | 600 |
| Trade receivables, net of doubtful accounts of $ 39, $ 303 and $ 39 at March 31, 2003, March 31, 2002 and December 31, 2002, respectively | 1,756 | 1,944 | 1,982 |
| Deferred income taxes | 307 | - | 649 |
| Other current assets | 147 | 235 | 134 |
| Inventories | 1,433 | 1,618 | 1,451 |
| Total current assets | 4,927 | 5,179 | 5,432 |
| OTHER LONG-TERM ASSETS | 37 | 32 | 43 |
| PROPERTY AND EQUIPMENT, NET | 341 | 739 | 364 |
| Total assets | $ 5,305 | $ 5,950 | $ 5,839 |

The accompanying notes are an integral part of the consolidated financial statements.

**DIGITAL POWER CORPORATION**

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share data

| | March 31, 2003 | March 31, 2002 | December 31, 2002 |
|---|---|---|---|
| | Unaudited | Unaudited | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Short-term bank credit | $ 290 | $ 552 | $ 250 |
| Current maturities of capital lease obligations | 17 | 35 | 27 |
| Accounts payable | 1,162 | 1,424 | 1,349 |
| Other current liabilities | 757 | 1,452 | 974 |
| Total current liabilities | 2,226 | 3,463 | 2,600 |
| LONG-TERM LIABILITIES | | | |
| Capital lease obligations, net of current maturities | - | 14 | - |
| Other long-term liabilities | - | 14 | - |
| | - | 28 | - |
| SHAREHOLDERS' EQUITY: | | | |
| Series A redeemable, convertible preferred shares no par value: 500,000 shares authorized, 0 shares issued and outstanding at March 31, 2003 and 2002 and December 31, 2002 | - | - | - |
| Preferred shares, no par value: 1,500,000 shares authorized, 0 shares issued and outstanding at March 31, 2003 and 2002 and December 31, 2002 | - | - | - |
| Common shares, no par value: 10,000,000 shares authorized; 4,510,680 shares issued and outstanding at March 31, 2003 and 2002 and December 31, 2002 | 11,036 | 11,036 | 11,036 |
| Additional paid-in capital | 837 | 733 | 837 |
| Accumulated deficit | (8,597) | (8,968) | (8,482) |
| Accumulated other comprehensive loss | (197) | (342) | (152) |
| Total shareholders' equity | 3,079 | 2,459 | 3,239 |
| Total liabilities and shareholders' equity | $ 5,305 | $ 5,950 | $ 5,839 |

The accompanying notes are an integral part of the consolidated financial statements.

## DIGITAL POWER CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

### U.S. DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2003 | 2002 | 2002 |
| | Unaudited | | |
| Revenues | $ 2,133 | $ 2,183 | $ 8,775 |
| Cost of revenues | 1,538 | 1,647 | 6,310 |
| Gross profit | 595 | 536 | 2,465 |
| Operating expenses: | | | |
| Engineering and product development | 145 | 190 | 749 |
| Selling and marketing | 259 | 253 | 1,014 |
| General and administrative | 310 | 250 | 1,228 |
| Total operating expenses | 714 | 693 | 2,991 |
| Operating loss | (119) | (157) | (526) |
| Capital gain from disposal of a subsidiary | - | - | 280 |
| Financial income (expenses), net | (4) | (9) | 6 |
| Other expenses | - | (4) | - |
| Loss before tax benefit (taxes on income) | (123) | (170) | (240) |
| Tax benefit (taxes on income) | 8 | (26) | 530 |
| Net income (loss) | $ (115) | $ (196) | $ 290 |
| Basic and diluted earnings (loss) per share | $ (0.03) | $ (0.04) | $ 0.06 |

The accompanying notes are an integral part of the consolidated financial statements.

# DIGITAL POWER CORPORATION

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

### U.S. DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

| | Common shares | | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive loss | Total comprehensive income (loss) | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| | Number | Amount | | | | | |
| Balance as of January 1, 2002 | 4,510,680 | $ 11,036 | $ 733 | $ (8,772) | $ (312) | | $ 2,685 |
| Stock compensation related to warrants issued to bank for financing transaction | - | - | 20 | - | - | | 20 |
| Stock compensation related to options granted to consultants and service providers | - | - | 84 | - | - | | 84 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | 290 | - | $ 290 | 290 |
| Foreign currency translation adjustments | - | - | - | - | 160 | 160 | 160 |
| Total comprehensive income | | | | | | $ 450 | |
| Balance as of December 31, 2002 | 4,510,680 | 11,036 | 837 | (8,482) | (152) | | 3,239 |
| Comprehensive income: | | | | | | | |
| Net loss | - | - | - | (115) | - | $ (115) | (115) |
| Foreign currency translation adjustments | - | - | - | - | (45) | (45) | (45) |
| Total comprehensive loss | | | | | | $ (160) | |
| Balance as of March 31, 2003 (unaudited) | 4,510,680 | $ 11,036 | $ 837 | $ (8,597) | $ (197) | | $ 3,079 |

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Three months ended March 31, 2003 | Three months ended March 31, 2002 | Year ended December 31, 2002 |
|---|---|---|---|
| | Unaudited | Unaudited | |
| **Cash flows from operating activities:** | | | |
| Net income (loss) | $ (115) | $ (196) | $ 290 |
| Adjustments required to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 37 | 86 | 298 |
| Capital gain from disposal of a subsidiary | - | - | (280) |
| Compensation related to options granted to consultants and service providers | - | - | 90 |
| Decrease in trade receivables | 204 | 261 | 358 |
| Decrease (increase) in deferred income taxes, net | 342 | - | (649) |
| Decrease (increase) in other current assets | (14) | (24) | 40 |
| Decrease in inventories | 3 | 381 | 634 |
| Increase in other long-term assets | - | 3 | 6 |
| Decrease in accounts payable | (178) | (167) | (242) |
| Decrease in other current liabilities | (213) | (59) | (15) |
| Other | - | - | (14) |
| Net cash provided by operating activities | 66 | 285 | 516 |
| **Cash flows from investing activities:** | | | |
| Restricted short-term bank deposit | - | - | (600) |
| Purchase of property and equipment | (19) | (4) | (37) |
| Proceeds from disposal of a subsidiary | - | - | (12) |
| Investment in long term loan | - | - | (50) |
| Proceeds from long-term loan | 6 | - | - |
| Net cash used in investing activities | (13) | (4) | (699) |
| **Cash flows from financing activities:** | | | |
| Proceeds from short term bank credit | 40 | - | 250 |
| Payments made on short-term bank credit | - | (100) | (652) |
| Principal payments on capital lease obligations | (10) | (12) | (21) |
| Net cash provided by (used in) financing activities | 30 | (112) | (423) |
| Effect of exchange rate changes on cash | (15) | (30) | (21) |
| Increase (decrease) in cash and cash equivalents | 68 | 139 | (627) |
| Cash and cash equivalents at the beginning of the period | 616 | 1,243 | 1,243 |
| Cash and cash equivalents at the end of the period | $ 684 | $ 1,382 | $ 616 |
| **Supplemental disclosure of cash flows activities:** | | | |
| Cash paid during the period for interest | $ 5 | $ 14 | $ 26 |

The accompanying notes are an integral part of the consolidated financial statements.

**NOTE 1:- GENERAL**

Digital Power Corporation ("the Company" or "DPC") was incorporated in 1969, under the General Corporation Law of the state of California. The Company has a wholly-owned subsidiary, Digital Power Limited ("DPL"), located in the United Kingdom. The Company and its subsidiary are currently engaged in the design, manufacture and sale of switching power supplies and converters. The Company has two reportable geographic segments - North America (sales through DPC) and Europe (sales through DPL).

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

a. The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2002, are applied consistently in these financial statements, in addition the following accounting policy is applied:

The accompanying unaudited consolidated financial statements as of March 31, 2003 and for the three months ended March 31, 2003 and 2002 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of the financial condition and results of operations, contained in the Company Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2003.

b. Accounting for stock-based compensation:

The Company and its subsidiary has elected to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB No. 25") in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Company's share options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized.

The Company and its subsidiary apply SFAS No. 123, and Emerging Issues Task Force No. 96-18 "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18"), with respect to options issued to non-employees SFAS No. 123 requires use of an option valuation model to measure the fair value of the options at the grant date.

Under Statement of Financial Accounting Standard No. 123 "Accounting for Stock Based compensation ("SFAS No. 123") SFAS No. 123, proforma information regarding net earnings (loss) and net earnings (loss) per share is required and has been determined as if the Company had accounted for its employee options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes Option Valuation Model, with the following weighted-average assumptions for March 31, 2003, March 31, 2002 and December 31, 2002. Expected volatility of 45.6%, and ranging from 55.0%, 125.9% and 33.8% respectively, risk-free interest rates of 1.5%, ranging from 4.23%, 5.6% and 1.5% respectively, dividend yield of 0% for each period, and a weighted-average expected life of the option of 4 years for each period. Stock compensation, for pro-forma purposes, is amortized over the vesting period.

The following table illustrates the effect on net income (loss) and earnings (loss) per share as if the fair value method had been applied to all outstanding and unvested awards in each period:

| | Three months ended March 31, 2003 | Three months ended March 31, 2002 | Year ended December 31, 2002 |
|---|---|---|---|
| | Unaudited | Unaudited | |
| Net income (loss), as reported | $ (115) | $ (196) | $ 290 |
| Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effect | (620) | (388) | (607) |
| Pro forma net loss | $ (735) | $ (584) | $ (317) |
| Basic and diluted net earnings (loss) per share, as reported | $ (0.03) | $ (0.04) | $ 0.06 |
| Basic and diluted net loss per share, pro forma | $ (0.16) | $ (0.13) | $ (0.07) |

**NOTE 3:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHICAL INFORMATION**

The Company has two reportable geographic segments, see Note 1 for a brief description of the Company's business. The data is presented in accordance with Statement of Financial Accounting Standard No.131, "Disclosure About Segments of an Enterprise and Related Information" ("SFAS No. 131").

The following data presents the revenues, expenditures and other operating data of the Company's geographic operating segments:

| | Three months ended March 31, 2003 (unaudited) | | | |
|---|---|---|---|---|
| | DPC | DPL | Eliminations | Total |
| Revenues | $ 994 | $ 1,139 | $ - | $ 2,133 |
| Intersegment revenues | 203 | - | (203) | - |
| Total revenues | $ 1,197 | $ 1,139 | $ (203) | 2,133 |
| Depreciation expenses | $ 8 | $ 29 | $ - | $ 37 |
| Operating loss | $ (109) | $ (10) | $ - | $ (119) |
| Financial expenses, net | | | | $ (4) |
| Loss before tax benefit | | | | $ (123) |
| Tax benefit | $ - | $ 8 | $ - | $ 8 |
| Net income (loss) | $ (117) | $ 2 | $ - | $ (115) |
| Expenditures for segment assets as of March 31, 2003 | $ - | $ 19 | $ - | $ 19 |
| Identifiable assets as of March 31, 2003 | $ 2,145 | $ 2,853 | $ - | $ 4,998 |

**NOTE 3:- SEGMENTS CUSTOMERS AND GEOGRAPHICAL INFORMATION (Cont.)**

| | Three months ended March 31, 2002 (unaudited) | | | |
|---|---|---|---|---|
| | DPC | DPL | Eliminations | Total |
| Revenues | $ 1,260 | $ 923 | $ - | $ 2,183 |
| Intersegment revenues | 98 | - | (98) | - |
| Total revenues | $ 1,358 | $ 923 | $ (98) | $ 2,183 |
| Depreciation expenses | $ 24 | $ 62 | $ - | $ 86 |
| Operating income (loss) | $ (217) | $ 60 | $ - | $ (157) |
| Financial expenses, net | | | | $ (9) |
| Loss before taxes on income | | | | $ (170) |
| Taxes on income | $ - | $ (26) | $ - | $ (26) |
| Net income (loss) | $ (225) | $ 29 | $ - | $ (196) |
| Expenditures for segment assets as of March 31, 2002 | $ 4 | $ - | $ - | $ 4 |
| Identifiable assets as of March 31, 2002 | $ 3,440 | $ 2,510 | $ - | $ 5,950 |

## NOTE 3:- SEGMENTS CUSTOMERS AND GEOGRAPHICAL INFORMATION (Cont.)

| | Year ended December 31, 2002 | | | |
|---|---|---|---|---|
| | DPC | DPL | Eliminations | Total |
| Revenues | $ 4,348 | $ 4,427 | $ - | $ 8,775 |
| Intersegment revenues | 383 | - | (383) | - |
| Total revenues | $ 4,731 | $ 4,427 | $ (383) | $ 8,775 |
| Depreciation expenses | $ 184 | $ 114 | $ - | $ 298 |
| Operating income (loss) | $ (761) | $ 235 | $ - | $ (526) |
| Capital gain from disposal of a subsidiary | $ 280 | $ - | $ - | $ 280 |
| Financial income, net | | | | $ 6 |
| Loss before tax benefit (taxes on income) | | | | $ (240) |
| Tax benefit (taxes on income) | $ 649 | $ (119) | $ - | $ 530 |
| Net income | $ 151 | $ 139 | $ - | $ 290 |
| Expenditures for segment assets as of December 31, 2002 | $ 13 | $ 24 | $ - | $ 37 |
| Identifiable assets as of December 31, 2002 | $ 2,292 | $ 2,898 | $ - | $ 5,190 |

**NOTE 4:- SUBSEQUENT EVENTS**

a. On March 31, 2003, the Company entered into an agreement to sell 900,000 shares of Common stock to Telkoor Telecom Ltd. in consideration of $ 600. As part of the transaction, Telkoor Telecom Ltd.'s warrant to purchase 900,000 shares was cancelled.

On April 3, 2003, the Company issued the 900,000 shares to Telkoor and received the total consideration of $ 600.

b. Subsequent to the balance sheet date, a claim was filed against the Company, by one of its former customers in the amount of $ 300.

Company's management believes that the fundamental allegations in the complaint are false and intends to vigorously defend itself.

At this point, management, after consulting with legal counsel, is of the opinion that it is not possible to predict the likelihood of an unfavorable outcome or the range of a potential verdict against the Company.

## 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, dependence on the computer and other electronic equipment industry, competition in the power supply industry, dependence on manufacturers in Mexico, China and other risks factors detailed in the Company's Form 10-KSB for the year ended December 31, 2002. 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.

The financial statements included in this report include additional information not otherwise required by regulations of the Securities and Exchange Commission. The Company is providing this additional information in connection with Telkoor Telecom Ltd. filings with the securities agencies in Israel.

### THREE MONTHS ENDED MARCH 31, 2003, COMPARED TO MARCH 31, 2002

**REVENUES**

Total revenues decreased by 2.3% to $2,133,000 for the first quarter ended March 31, 2003, from $2,183,000 for the first quarter ended March 31, 2002. Revenues from the Company's United Kingdom's operations of Digital Power Ltd. increased 23.4% to $1,139,000 for the first quarter ended March 31, 2003, from $923,000 for the first quarter ended March 31, 2002. Revenues attributed to the United States operations decreased by 21.0% to $994,000 for the first quarter ended March 31, 2003, from $1,260,000 for the first quarter ended March 31, 2002. The decrease in revenues was primarily attributed to the impact of continued weakness in the electronics industry.

**GROSS MARGINS**

Gross margins were 27.9% for the three months ended March 31, 2003, compared to 24.6% for the three months ended March 31, 2002. The increase in gross margins can be primarily attributed to cost control and the use of lower cost subcontractors in Mexico and China.

**ENGINEERING AND PRODUCT DEVELOPMENT**

Engineering and product development expenses were 6.8% of revenues for the three months ended March 31, 2003, and 8.7% for the three months ended March 31, 2002. Actual dollar expenditures were down by 23.7% mainly due to the reduced salaries as a result of lay offs.

**SELLING, GENERAL AND ADMINISTRATIVE**

Selling, general and administrative expenses were 26.7 % of revenues for the three months ended March 31, 2003, compared to 23.0% for the three months ended March 31, 2002. In actual dollar terms, these expenses increased by 13.1%, mainly due to salary related expenses.

**FINANCIAL EXPENSE**

Financial expense, net of interest income, was $4,000 for the three months ended March 31, 2003, compared to $9,000 for the three months ended March 31, 2002.

**LOSS BEFORE INCOME TAXES**
For the three months ended March 31, 2003, the Company had a loss before income taxes of $123,000 compared to a loss before income taxes of $170,000 for the three months ended March 31, 2002.

**INCOME TAX**
For the three months ended March 31, 2003 net tax benefit was $8,000 compared to provision for income tax of $26,000 for the three months ended March 31, 2002. Due to the net loss, the company has no income tax provisions. The tax benefit of $8,000 for the first quarter of 2003 was from Digital Power Ltd.

**NET LOSS**
Net loss for the three months ended March 31, 2003, was $115,000 compared to net loss of $196,000 for the three months ended March 31, 2002. The net loss reduction is contributed mainly by the cost reduction efforts including the sale of our Mexican subsidiary Poder Digital.

**LIQUIDITY AND CAPITAL RESOURCES**
On March 31, 2003, the Company had cash, cash equivalent and short-term bank deposit of $1,284,000 and working capital of $2,701,000. This compares with cash and cash equivalent of $1,382,000 and working capital of $1,716,000 at March 31, 2002. The increase in working capital was mainly due to deferred tax assets of $307,000, and decrease in accounts payable and other current liabilities of $957,000, partly offset by a decrease in inventory of $185,000 and trade receivable of $188,000.

Cash provided in operating activities for the Company totaled $66,000 for the three months ended March 31, 2003, compared to $285,000 for the three months ended March 31, 2002. Cash used in investing activities was $13,000 for the three months ended March 31, 2003, compared to $4,000 for the three months ended March 31, 2002. Net cash provided by financing activities was $30,000 for the three months ended March 31, 2003, compared to the net cash used in financing used of $112,000 for the three months ended March 31, 2002.

The Company opened a new line of credit with Silicon Valley Bank ("SVB") on May 31, 2002. The Company can borrow up to $600,000 at Silicon Valley Bank's prime rate (currently 4.75%) as long as the Company maintains a balance of $600,000 in a certificate of deposit ("CD"). As of March 31, 2003 the company used $290,000 from this line of credit. Also the Company can borrow up to $400,000 if it maintains certain ratios and is in compliance with other covenants. The rate for this line of credit would be at Silicon Valley Bank's prime rate plus 2.0%. In May 2002, Silicon Valley Bank was granted a warrant to purchase up to 40,000 shares of common stock. Those options vested immediately at an exercise price of $1.00 per share. The warrant is exercisable for ten years from the date of issuance.

On March 31, 2003, the Company entered into an agreement to sell 900,000 shares of Common stock to Telkoor Telecom Ltd. in consideration for $600,000. As part of the transaction, Telkoor telecom Ltd.'s warrant to purchase 900,000 shares was cancelled. On April 3, 2003, the Company issued the 900,000 shares to Telkoor and received the total consideration of $600,000.

The Company also has a $483,000 line of credit with Lloyds TSB Bank in the UK bearing interest of 1.75% per annum over the bank's base rate (currently 5.75%).

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On April 2, 2003, a claim was filed against the Company by Tek-Tron Enterprises Inc. in state court of Pennsylvania, specifically, the Court of Common Pleas of Bucks County, at Case No. 0302116-24-1. Tek-Tron Enterprises, Inc is seeking damages of approximately $300,000. This case is a complaint for breaking of contract and conversion of parts and infrastructure owned by Tek-Tron Enterprises, Inc. located in the Company's former subsidiary, Poder Digital S.A's, Mexico manufacturing plant.

The Company's management believes that the fundamental allegations in the complaint are false and intends to vigorously defend itself.

At this point, management, after consulting with legal counsel, is of the opinion that it is not possible to predict the liklihood of an unfavorable outcome or the range of a potential verdict against the Company.

### ITEM 2. CHANGES IN SECURITIES

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits
99.1 Certification of the CEO and CFO under the Sarbanes-Oxley Act.

(b) Reports on Form 8-K The Company filed the following reports

| Date of Report | Date of Event | Item reported |
|---|---|---|
| April 4th, 2003 | March 31, 2003 | Agreement to sell 900,000 shares to Telkoor Telecom Ltd. |

## SIGNATURES

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

**DIGITAL POWER CORPORATION**
(Registrant)

| | |
|---|---|
| *Date: 5/12/2003* | */s/David Amitai*<br>*David Amitai*<br>*Chief Executive Officer*<br>*(Principal Executive Officer)* |
| *Date: 5/12/2003* | */s/Haim Yatim*<br>*Haim Yatim*<br>*Chief Financial Officer*<br>*(Principal Financial Officer)* |

**CERTIFICATION**

I, David Amatai, Chief Executive Officer of Digital Power Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Digital Power Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

*Dated: 5/12/2003*

*/s/David Amatai*
*David Amatai*
*Chief Executive Officer*
*(Principal Executive Officer)*

## CERTIFICATION

I, Haim Yatim, Chief Financial Officer of Digital Power Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Digital Power Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

*Dated: 5/12/2003*

*/s/Haim Yatim*
*Haim Yatim*
*Chief Financial Officer*
*(Principal Accounting and Financial Officer)*

Exhibit 99.1

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Digital Power Corporation (the "Company") on Form 10-QSB for the period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), We, David Amitai, Chief Executive Officer and Haim Yatim, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge and belief:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

*Dated: 5/12/2003*

*/s/David Amitai*
*David Amitai,*
*Chief Executive Officer*
*(Principal Executive Officer)*

*Dated: 5/12/2003*

*/s/Haim Yatim*
*Haim Yatim,*
*Chief Financial Officer*
*(Principal Financial and Accounting Officer)*