

# DIGITAL POWER CORP

## FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 5/19/2000 For Period Ending 3/31/2000

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

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT**  
OF 1934 for the quarterly period ended March 31, 2000

☐ **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 x No

Number of shares of common stock outstanding as of March 31, 2000: 2,804,435

**DIGITAL POWER CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
MARCH 31, 2000

**ASSETS**

**CURRENT ASSETS:**

Cash	\$ 646,701
Accounts receivable - trade, net of allowance for doubtful accounts of \$210,485	3,167,176
Income tax refund receivable	70,988
Other receivables	109,557
Inventory, net	4,526,640
Prepaid expenses and deposits	50,466
Deferred income taxes	360,136
	-----
Total current assets	8,931,664
PROPERTY AND EQUIPMENT, net	1,184,817
EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED, net amortization of \$342,427	1,109,763
DEPOSITS	14,221
	-----
TOTAL ASSETS	\$ 11,240,465
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Notes payable	\$ 940,000
Current portion of capital lease obligations	44,582
Accounts payable	1,200,529
Income taxes payable	98,000
Accrued liabilities	1,121,262
	-----
Total current liabilities	3,404,373
CAPITAL LEASE OBLIGATIONS, less current portion	81,202
DEFERRED INCOME TAXES	9,344
	-----
Total liabilities	3,494,919
	-----

COMMITMENTS AND CONTINGENCIES

-

STOCKHOLDERS' EQUITY:

Preferred stock issuable in series, no par value, 2,000,000 shares authorized; no shares issued and outstanding	-
Common Stock, no par value, 10,000,000 shares authorized; 2,804,435 shares issued and outstanding	9,072,848
Additional paid-in capital	279,110
Accumulated deficit	(1,741,010)
Accumulated other comprehensive income	134,598
	-----
Total stockholders' equity	7,745,546
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,240,465
	=====

See accompanying notes to these condensed consolidated financial statements.

**DIGITAL POWER CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**THREE MONTHS ENDED**  
**MARCH 31,**

	2000 ----	1999 ----
REVENUES	\$ 4,238,275	\$ 3,216,463
COST OF GOODS SOLD	2,978,311	2,483,375
	-----	-----
Gross Margin	1,259,964	733,088
	-----	-----
OPERATING EXPENSES		
Engineering and product development	282,792	220,766
Marketing and selling	316,224	280,006
General and administrative	450,886	351,892
	-----	-----
Total operating expenses	1,049,902	852,664
	-----	-----
INCOME (LOSS) FROM OPERATIONS	210,062	(119,576)
	-----	-----
OTHER INCOME (EXPENSES):		
Interest income	6,491	4,034
Interest expense	(24,891)	(52,113)
Translation loss	(335)	(2,581)
	-----	-----
Other income (expense)	(18,735)	(50,660)
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	191,327	(170,236)
PROVISION (BENEFIT) FOR INCOME TAXES	100,000	(14,700)
	-----	-----
NET INCOME (LOSS)	91,327	(155,536)
	-----	-----
Other comprehensive income:		
Foreign currency translation adjustment	(58,158)	(84,115)
	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ 33,169	\$ (239,651)
	=====	=====
NET INCOME (LOSS) PER SHARE:		
BASIC	\$ 0.03	\$ (0.06)
	=====	=====
DILUTED	\$ 0.03	\$ (0.06)
	=====	=====

See accompanying notes to these condensed consolidated financial statements.

**DIGITAL POWER CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	THREE MONTHS ENDED	
	MARCH 31,	
	2000	1999
	----	----
Cash Flows from Operating Activities:		
Net income (loss)	\$ 91,327	\$ (155,536)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	101,450	125,557
Contribution to ESOP	-	22,774
Foreign currency translation adjustment	335	2,581
Changes in operating assets and liabilities:		
Accounts receivable	(354,096)	716,611
Other receivables	(9,682)	(53,465)
Income tax refund receivable	-	22,668
Inventory	4,621	142,818
Prepaid expenses	10,860	(24,369)
Deposits	(163)	9,678
Accounts payable	4,359	(48,393)
Accrued liabilities	(44,379)	(272,988)
Other long-term liabilities	25,000	(10,044)
	-----	-----
Net adjustments	(261,695)	633,428
	-----	-----
Net cash provided by (used in) operating activities	(170,368)	477,892
	-----	-----
Cash Flows from Investing Activities:		
Purchases of property and equipment	(23,235)	(19,948)
	-----	-----
Net cash used in investing activities	(23,235)	(19,948)
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	60,169	-
Payments on long-term debt	-	(22,774)
Principal payments on notes payable	-	(236,698)
Payments on capital lease obligations	(9,633)	(7,817)
	-----	-----
Net cash provided by (used in) financing activities	50,536	(267,289)
	-----	-----
Effect of Exchange Rate Changes on Cash	(34,940)	(86,698)
	-----	-----
Net Increase (Decrease) in cash	(178,007)	103,957
Cash and cash equivalents, beginning of period	824,708	867,607
	-----	-----
Cash and cash equivalents, end of period	\$ 646,701	\$ 971,564
	=====	=====

See accompanying notes to these condensed consolidated financial statements.

# DIGITAL POWER CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2000

(UNAUDITED)

### NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated 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, 1999.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company's financial position at March 31, 2000, the results of operations for the three month periods ended March 31, 2000 and 1999, and cash flows for the three months ended March 31, 2000 and 1999. The results for the period ended March 31, 2000, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2000.

### NOTE 2 - EARNINGS PER SHARE

The following represents the calculation of earnings (loss) per share:

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	1999
	----	----
<b>BASIC</b>		
-----		
Net Income (loss)	\$ 91,327	\$ (155,536)
Less - preferred stock dividends	-	-
	-----	-----
Net income (loss) applicable to common shareholders	\$ 91,327	\$ (155,536)
Weighted average number of common shares	2,783,347	2,771,435
	-----	-----
Basic earnings (loss) per share	\$ 0.03	\$ (0.06)
	=====	=====
<b>DILUTED</b>		
-----		
Net income (loss) applicable to common shareholders	\$ 91,327	\$ (155,536)
Preferred stock dividend	-	-
	-----	-----
Net income (loss) available to common shareholders plus assumed conversion	\$ 91,327	\$ (155,536)
	-----	-----
Weighted average number of common shares	2,783,347	2,771,435
Common stock equivalent shares representing shares issuable upon exercise of stock options	432,514	-
	-----	-----
Weighted average number of shares used in calculation of diluted income (loss) per share	3,215,861	2,771,435
	-----	-----
Diluted earnings (loss) per share	\$ 0.03	\$ (0.06)
	=====	=====

### NOTE 3 - SEGMENT INFORMATION

The company has identified its segments based upon its geographic operations. These segments are represented by each of the Company's individual legal Entities: Digital Power Corporation (DPC), Poder Digital, S.A. de C. V. (PD) and Digital Power Limited (DPL). Segment information is as follows:

For the Three Months Ended March 31, 2000

	DPC ---	PD --	DPL ---	Eliminations -----	Totals -----
Revenues	\$ 2,823,790	\$ 40	\$ 1,414,445	\$ -	\$ 4,238,275
Intersegment Revenues	\$ 102,818	\$ 547,160	\$ -	\$ (649,978)	\$ -
Interest Income	\$ 29,508	\$ 566	\$ 4,817	\$ (28,400)	\$ 6,491
Interest Expense	\$ 20,828	\$ 852	\$ 31,611	\$ (28,400)	\$ 24,891
Income Tax Expense (Benefit)	\$ 98,000	\$ -	\$ 2,000	\$ -	\$ 100,000
Income (Loss)	\$ 130,064	\$ 8,929	\$ (47,666)	\$ -	\$ 91,327

For the Three Months Ended March 31, 1999

	DPC ---	PD --	DPL ---	Eliminations -----	Totals -----
Revenues	\$ 1,931,973	\$ 27	\$ 1,284,463	\$ -	\$ 3,216,463
Intersegment Revenues	\$ 44,839	\$ 347,192	\$ -	\$ (392,031)	\$ -
Interest Income	\$ 30,692	\$ 1,430	\$ -	\$ (28,088)	\$ 4,034
Interest Expense	\$ 35,194	\$ 598	\$ 44,409	\$ (28,088)	\$ 52,113
Income Tax Expense (Benefit)	\$ -	\$ -	\$ (14,700)	\$ -	\$ (14,700)
Income (Loss)	\$ (70,397)	\$ (1,380)	\$ (83,759)	\$ -	\$ (155,536)

## **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 "Certain Considerations" section in the Company's Form 10-KSB for the year ended December 31, 1999. 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 MONTHS ENDED MARCH 31, 2000, COMPARED TO MARCH 31, 1999**

#### **REVENUES**

Revenues increased by 31.8% to \$4,238,275 for the first quarter ended March 31, 2000, from \$3,216,463 for the first quarter ended March 31, 1999. Revenues from the Company's United Kingdom's operations of Digital Power Ltd. increased 10.1% to \$1,414,455 for the first quarter ended March 31, 2000, from \$1,284,463 for the first quarter ended March 31, 1999. Revenues attributed to the United States operations increased by 46.2% from the same quarter of the prior year. The increase in revenues can be attributed primarily to significant increases in units shipped to five large OEM customers.

#### **GROSS MARGINS**

Gross margins were 29.7% for the three months ended March 31, 2000, compared to 22.8% for the three months ended March 31, 1999. The increase in gross margins can be attributed to the above mentioned increase in OEM business, which tends to have better gross margins, and cost reductions resulting from an increase in units manufactured in China.

#### **SELLING, GENERAL AND ADMINISTRATIVE**

Selling, general and administrative expenses were 18.1% of revenues for the three months ended March 31, 2000, compared to 19.7% for the three months ended March 31, 1999. In actual dollar terms, these expenses were up only 21.4%, while revenues were up 31.8%, resulting in the lower expense as a percentage of revenues.



## **ENGINEERING AND PRODUCT DEVELOPMENT**

Engineering and product development expenses were 6.7% of revenues for the three months ended March 31, 2000, and 6.9% for the three months ended March 31, 1999. While this percentage decreased slightly, actual dollar expenditures were up by 28.1%, reflecting the Company's continuing commitment to new product development.

## **INTEREST EXPENSE**

Interest expense, net of interest income, was \$18,400 for the three months ended March 31, 2000, compared to \$48,079 for the three months ended March 31, 1999. The decrease in interest expense is primarily due to reduced borrowings on the Company line of credit, which was reduced from \$1,515,000 at the end of March 1999, to \$940,000 at the end of March 2000, and replacement of Gresham receivables financing with a bank line of credit with a more favorable interest rate.

## **INCOME (LOSS) BEFORE INCOME TAXES**

For the three months ended March 31, 2000, the Company had income before income taxes of \$191,327 compared to a loss before income taxes of \$170,236 for the three months ended March 31, 1999. Gresham Power reported a loss before income taxes of \$45,666 for the three months ended March 31, 2000, compared to a loss before income taxes of \$98,459 for the three months ended March 31, 1999.

## **INCOME TAX**

Provision for income tax increased from a \$14,700 tax benefit for the three months ended March 31, 1999, to an income tax expense of \$100,000 for the first quarter of 2000. Gresham Power income tax benefit was \$14,700 in the first quarter of 1999 and income tax expense of \$2,000 in the first quarter of 2000.

## **NET INCOME (LOSS)**

Net income for the three months ended March 31, 2000, was \$91,327 compared to a net loss of \$155,536 for the three months ended March 31, 1999. The increase in net income was due to increased revenues during the first quarter ended March 31, 2000, primarily related to the Company's United States operations.

## **LIQUIDITY AND CAPITAL RESOURCES**

On March 31, 2000, the Company had cash of \$646,701 and working capital of \$5,527,291. This compares with cash of \$971,564 and working capital of \$4,886,483 at March 31, 1999. The increase in working capital was due to a decrease in accounts receivable and deposits and increase of accrued liabilities, offset by an increase in inventory, prepaid expenses and decrease in accounts payable, resulting in a decrease in cash and cash equivalents. Cash used in operating activities for the Company totaled \$170,368 for the three months ended March 31, 2000. Cash provided by operating activities for the Company totaled \$477,892 for the three months ended March 31, 1999. Cash used in investing activities was \$23,235 for the three months ended March 31, 2000, compared to \$19,948 for the three months ended March 31, 1999. Net cash provided by (used in) financing activities was \$50,536 for the three months ended March 31, 2000, compared to (\$267,289) for the three months ended March 31, 1999.

## **YEAR 2000 COMPLIANCE**

The Company has experienced no disruption in its operations that management can attribute to Year 2000 issues. In addition, the Company has seen no Year 2000-related problems itself or received any reports of such problems from entities with which it transacts business.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

There were no legal proceedings during the quarter ended March 31, 2000.

### **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**

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: May 19, 2000

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

Date: May 19, 2000

PHILIP G. SWANY  
Philip G. Swany  
Chief Financial Officer  
(Principal Financial Officer)

## ARTICLE 5

(Replace this text with the legend)

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD START	JAN 01 2000
PERIOD END	MAR 31 2000
CASH	646,701
SECURITIES	0
RECEIVABLES	3,167,176
ALLOWANCES	210,485
INVENTORY	4,526,640
CURRENT ASSETS	8,931,664
PP&E	2,754,104
DEPRECIATION	1,569,287
TOTAL ASSETS	11,240,465
CURRENT LIABILITIES	3,404,373
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	9,072,848
OTHER SE	(1,327,302)
TOTAL LIABILITY AND EQUITY	11,240,465
SALES	4,238,275
TOTAL REVENUES	4,238,275
CGS	2,978,311
TOTAL COSTS	2,978,311
OTHER EXPENSES	1,049,902
LOSS PROVISION	0
INTEREST EXPENSE	24,891
INCOME PRETAX	191,327
INCOME TAX	100,000
INCOME CONTINUING	91,327
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	91,327
EPS BASIC	0.03
EPS DILUTED	0.03

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**End of Filing**

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