

DIGITAL POWER CORP

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 5/15/2002 For Period Ending 3/31/2002

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, 2002

☐ **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 ☒ No ☐

Number of shares of common stock outstanding as of March 31, 2002: 4,510,680

DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2002	2001	DECEMBER 31, 2001 (1)
	-----	-----	-----
	(Unaudited)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,382,029	\$ 928,385	\$ 1,242,900
Accounts receivable, net of allowance for doubtful accounts of \$303,000, \$231,000 and \$370,000 at March 31, 2002 and 2001, and December 31, 2001 respectively	1,943,960	2,432,755	2,203,664
Income tax refund receivable	50,894	29,200	72,388
Other receivables	146,846	95,849	91,971
Inventories, net	1,618,084	5,363,822	1,999,168
Prepaid expenses and deposits	37,406	197,481	47,534
	-----	-----	-----
Total current assets	5,179,219	9,047,492	5,657,625
 PROPERTY AND EQUIPMENT, net	 738,609	 1,043,430	 820,318
EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED, net of amortization of \$469,927 at March 31, 2001	-	982,264	-
OTHER ASSETS	31,794	36,272	35,116
	-----	-----	-----
TOTAL ASSETS	\$ 5,949,622	\$ 11,109,458	\$ 6,513,059
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable	\$ 552,291	\$ 850,000	\$ 652,261
Current portion of capital lease obligation	34,200	39,732	35,856
Accounts payable	1,423,969	1,373,305	1,590,830
Accrued liabilities	1,451,522	1,170,757	1,510,719
	-----	-----	-----
Total current liabilities	3,461,982	3,433,794	3,789,666
 CAPITAL LEASE OBLIGATIONS, less current portion	 14,250	 49,665	 24,376
OTHER LONG TERM LIABILITIES	13,784	15,609	13,607
	-----	-----	-----
Total liabilities	3,490,016	3,499,068	3,827,649
	-----	-----	-----
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; 4,510,680 shares issued and outstanding at March 31, 2002 and December 31, 2001 and 3,260,680 shares issued and outstanding at March 31, 2001	11,036,251	9,786,251	11,036,251
Additional paid-in capital	733,256	733,256	733,256
Accumulated deficit	(8,967,528)	(2,511,961)	(8,771,654)
Accumulated other comprehensive loss	(342,373)	(397,156)	(312,443)
	-----	-----	-----
Total stockholders' equity	2,459,606	7,610,390	2,685,410
	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,949,622	\$ 11,109,458	\$ 6,513,059
	=====	=====	=====

(1) Condensed from December 31, 2001 audited financial statements included in the Company's Form 10-KSB.

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,
	2002	2001	2001 (1)
	(unaudited)		
REVENUES	\$ 2,182,849	\$ 3,259,347	\$ 10,329,857
COST OF GOODS SOLD	1,647,264	2,632,251	11,939,985
Gross margin (loss)	535,585	627,096	(1,610,128)
OPERATING EXPENSES			
Research and development	189,426	317,347	1,065,872
Marketing and selling	253,120	254,682	863,898
General and Administrative	250,101	460,849	2,177,611
Impairment of goodwill	-	-	946,263
Total operating expenses	692,647	1,032,878	5,053,644
LOSS FROM OPERATIONS	(157,062)	(405,782)	(6,663,772)
OTHER INCOME (EXPENSE)			
Interest income	2,758	7,168	12,829
Interest expense	(11,472)	(14,413)	(63,461)
Other (expense)	-	-	(4,364)
Loss on disposal of assets	(4,428)	-	(23,069)
Other (expense)	(13,142)	(7,245)	(78,065)
LOSS BEFORE INCOME TAXES	(170,204)	(413,027)	(6,741,837)
INCOME TAX PROVISION	25,670	368,000	298,883
NET LOSS	\$ (195,874)	\$ (781,027)	\$ (7,040,720)
Basic net loss per share	\$ (0.04)	\$ (0.24)	\$ (2.07)
Diluted net loss per share	\$ (0.04)	\$ (0.24)	\$ (2.07)

(1) Condensed from December 31, 2001 audited financial statements included in the Company's Form 10-KSB.

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL		ACCUMULATED	OTHER	TOTAL	
	SHARES	AMOUNT	PAID-IN	ACCUMULATED	COMPREHENSIVE	COMPREHENSIVE	STOCKHOLDERS'	COMPREHENSIVE
			CAPITAL	DEFICIT	(LOSS)		EQUITY	(LOSS)
BALANCES, January 1, 2001	3,260,680	\$ 9,786,251	733,256	\$ (1,730,934)	\$ (247,299)		\$ 8,541,274	
Issuance of common stock to Telkoor Telecom, Ltd pursuant to investment agreement	1,250,000	1,250,000	-	-	-		1,250,000	
Comprehensive loss:								
Net loss	-	-	-	(7,040,720)	-		(7,040,720)	\$ (7,040,720)
Foreign currency translation adjustment	-	-	-	-	(65,144)		(65,144)	(65,144)
Total comprehensive loss	-	-	-	-	-		-	\$ (7,105,864)
BALANCES, December 31, 2001 (1)	4,510,680	11,036,251	733,256	(8,771,654)	(312,443)		2,685,410	
Net loss (unaudited)	-	-	-	(195,874)	-		(195,874)	\$ (195,874)
Foreign currency translation adjustment	-	-	-	-	(29,930)		(29,930)	(29,930)
Total comprehensive loss	-	-	-	-	-		-	\$ (225,804)
BALANCES, March 31, 2002	4,510,680	\$ 11,036,251	\$ 733,256	\$ (8,967,528)	\$ (342,373)		\$ 2,459,606	
BALANCES, January 1, 2001	3,260,680	\$ 9,786,251	\$ 733,256	\$ (1,730,934)	\$ (247,299)		\$ 8,541,274	
Net loss (unaudited)	-	-	-	(781,027)	-		(781,027)	\$ (781,027)
Foreign currency translation adjustment	-	-	-	-	(149,857)		(149,857)	(149,857)
Total comprehensive loss	-	-	-	-	-		-	\$ (930,884)
BALANCES, March 31, 2001	3,680,680	\$ 9,786,251	\$ 733,256	\$ (2,511,961)	\$ (397,156)		\$ 7,610,390	

(1) Derived from the December 31, 2001 audited financial statements included in the Company's Form 10-KSB.

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,
	2002	2001	2001 (1)
	(unaudited)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (195,874)	\$ (781,027)	\$ (7,040,720)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	85,573	127,282	450,752
Loss on disposal of assets	-		23,069
Deferred income taxes		349,646	334,037
Inventory Reserve	(190,846)	(10,000)	(64,806)
Increase in provision for inventory obsolescence			2,714,941
Allowance for doubtful accounts	14,130		158,130
Impairment of goodwill			946,263
Severance accrual			658,000
Changes in operating assets and liabilities:			
Accounts receivable	245,574	823,326	894,288
Income tax refund receivable	21,494	150,000	106,812
Other receivables	(54,875)	(5,395)	(1,517)
Inventories	571,930	(210,198)	429,515
Prepaid expenses and deposits	10,128	16,217	166,164
Other assets	3,322	(7,721)	(6,565)
Accounts payable	(166,861)	(575,880)	(358,353)
Accrued liabilities	(59,197)	1,058	(252,177)
Other long-term liabilities	177	-	13,607
Net cash provided by (used in) operating activities	284,675	(122,692)	(828,560)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(3,864)	(39,979)	(133,281)
Proceeds from sale of assets	-	-	5,876
Net cash (used in) investing activities	(3,864)	(39,979)	(127,405)

(Continued)

DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,
	2002	2001	2001 (1)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options and warrants	\$ -	\$ -	\$ -
Proceeds received (payments made) on notes payable	(99,970)	450,000	252,261
Principal payments on capital lease obligations	(11,782)	(15,494)	(44,659)
Investment from Telkoor Telecom, Ltd.	-	-	1,250,000
Net cash provided by (used in) financing activities	(111,752)	434,506	1,457,602
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(29,930)	(149,857)	(65,144)
NET CHANGE IN CASH AND CASH EQUIVALENTS	139,129	121,978	436,493
CASH AND CASH EQUIVALENTS, beginning of period	1,242,900	806,407	806,407
CASH AND CASH EQUIVALENTS, end of period	\$ 1,382,029	\$ 928,385	\$ 1,242,900
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash payments for:			
Interest	\$ 13,813	\$ 19,093	\$ 67,009
Income taxes	\$ -	\$ -	\$ 97,918

(1) Derived from the December 31, 2001 audited financial statements included in the Company's Form 10-KSB.

See accompanying notes to these consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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, 2001.

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, 2002 and 2001, the results of operations, statement of shareholders' equity and cash flows for the three months then ended. The results for the period ended March 31, 2002, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2002.

2. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies applied in the preparation of these financial statements are identical to those followed in the preparation of the latest annual financial statements.

3. EARNINGS PER SHARE

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

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,
	2002	2001	2001
	-----	-----	-----
BASIC			
Net loss	\$ (195,874)	\$ (781,027)	\$ (7,040,720)
Less: preferred stock dividends	-	-	-
	-----	-----	-----
Net loss applicable to common shareholders	(195,874)	(781,027)	(7,040,720)
Weighted average number of common shares	4,510,680	3,260,680	3,407,930
Basic loss per share	\$ (0.04)	\$ (0.24)	\$ (2.07)
	=====	=====	=====
DILUTED			
Net loss	\$ (195,874)	\$ (781,027)	\$ (7,040,720)
Less: preferred stock dividends	-	-	-
	-----	-----	-----
Net loss applicable to common shareholders	(195,874)	(781,027)	(7,040,720)
Weighted average number of common shares	4,510,680	3,260,680	3,407,930
Common stock equivalent shares representing shares issuable upon exercise of stock	-	-	-
	-----	-----	-----
Weighted average number of shares used in calculation of diluted income (loss) per share	4,510,680	3,260,680	3,407,930
	=====	=====	=====
Diluted earnings (loss) per share	\$ (0.04)	\$ (0.24)	\$ (2.07)
	=====	=====	=====

DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

4. 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, 2002

	DPC	PD	DPL	Eliminations	Totals
	-----	-----	-----	-----	-----
Revenues	\$ 1,260,199	\$ -	\$ 922,650	\$ -	\$ 2,182,849
	=====	=====	=====	=====	=====
Intersegment Revenues	\$ -	\$ 239,813	\$ 98,438	\$ (338,251)	\$ -
	=====	=====	=====	=====	=====
Interest Income	\$ 4,324	\$ 16	\$ -	\$ (1,582)	\$ 2,758
	=====	=====	=====	=====	=====
Interest Expense	\$ 8,245	\$ 375	\$ 4,434	\$ (1,582)	\$ 11,472
	=====	=====	=====	=====	=====
Income Tax Expense	\$ -	\$ -	\$ 25,670	\$ -	\$ 25,670
	=====	=====	=====	=====	=====
Income (loss)	\$ (32,371)	\$ (192,948)	\$ 29,445	\$ -	\$ (195,874)
	=====	=====	=====	=====	=====

For the Three Months Ended March 31, 2001

	DPC	PD	DPL	Eliminations	Totals
	-----	-----	-----	-----	-----
Revenues	\$ 1,959,482	\$ 698	\$ 1,299,167	\$ -	\$ 3,259,347
	=====	=====	=====	=====	=====
Intersegment Revenues	\$ -	\$ 780,187	\$ 242,167	\$ (1,022,354)	\$ -
	=====	=====	=====	=====	=====
Interest Income	\$ 11,115	\$ 190	\$ 5,833	\$ (9,970)	\$ 7,168
	=====	=====	=====	=====	=====
Interest Expense	\$ 14,186	\$ 227	\$ 9,970	\$ (9,970)	\$ 14,413
	=====	=====	=====	=====	=====
Income Tax Expense	\$ 350,500	\$ -	\$ 17,500	\$ -	\$ 368,000
	=====	=====	=====	=====	=====
Income (loss)	\$ (877,414)	\$ 35,915	\$ 60,472	\$ -	\$ (781,027)
	=====	=====	=====	=====	=====

For the Year Ended December 31, 2001

	DPC	PD	DPL	Eliminations	Totals
Revenues	\$ 6,475,533	\$ -	\$ 3,854,324	\$ -	\$ 10,329,857
Intersegment Revenues	\$ -	\$ 778,450	\$ 599,848	\$ (1,378,298)	\$ -
Interest Income	\$ 24,350	\$ 310	\$ 12,519	\$ (24,350)	\$ 12,829
Interest Expense	\$ 56,874	\$ -	\$ 30,937	\$ (24,350)	\$ 63,461
Depreciation and amortization	\$ 196,555	\$ 139,526	\$ 114,671	\$ -	\$ 450,752
Income Tax Expense	\$ 350,523	\$ 11,356	\$ (62,996)	\$ -	\$ 298,883
Income (loss)	\$ (5,360,730)	\$ (1,596,321)	\$ (207,140)	\$ 123,471	\$ (7,040,720)
Expenditures for Segment Assets	\$ 104,257	\$ 5,424	\$ 23,600	\$ -	\$ 133,281
Segment Assets	\$ 6,833,699	\$ 409,601	\$ 2,562,562	\$ (3,292,803)	\$ 6,513,059

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Stockholders and Board of Directors Digital Power Corporation and Subsidiaries Fremont, California

We have reviewed the accompanying consolidated balance sheets of Digital Power Corporation and subsidiaries as of March 31, 2002 and 2001, and related consolidated statements of operations, stockholders' equity, and cash flows for the three month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards established by the American Institute of Certified Public Accountants. A review of interim financial statements consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

HEIN + ASSOCIATES LLP
Certified Public Accountants

Orange, California
May 13, 2002

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 the Guadalajara, Mexico facility and manufacturer in China, and other risks factors detailed in the Company's Form 10-KSB for the year ended December 31, 2001. 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's filings with the securities agencies in Israel.

THREE MONTHS ENDED MARCH 31, 2002, COMPARED TO MARCH 31, 2001

REVENUES

Total revenues decreased by 33.0% to \$2,182,849 for the first quarter ended March 31, 2002, from \$3,259,347 for the first quarter ended March 31, 2001. Revenues from the Company's United Kingdom's operations of Digital Power Ltd. decreased 29% to \$922,650 for the first quarter ended March 31, 2002, from \$1,299,167 for the first quarter ended March 31, 2001. Revenues attributed to the United States operations decreased by 36% from the same quarter of the prior year. The decrease in revenues was attributed primarily to the continued softness in the telecommunications industry.

GROSS MARGINS

Gross margins were 24.5% for the three months ended March 31, 2002, compared to 19.2% for the three months ended March 31, 2001. The increase in gross margins can be attributed primarily to utilization of inventory which was fully reserved in the amount of \$191,000 and the reversal of accrued cancellation charges of approximately \$100,000 which the supplier will not require.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were 23.1% of revenues for the three months ended March 31, 2002, compared to 22.0% for the three months ended March 31, 2001. In actual dollar terms, these expenses were down 29.7%, while revenues were down 33.0%, resulting in higher expense as a percentage of revenues. Reduced selling, general and administrative expenses can be attributed primarily to a decreased commissions paid and decreased salary for administrative staff by a 20% pay cut beginning in fourth quarter of 2001.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 8.7% of revenues for the three months ended March 31, 2002, and 9.7% for the three months ended March 31, 2001. Actual dollar expenditures were down by 40.3% mainly due to the reduced labor cost by laying off engineers and reducing the cost of outside services.

INTEREST EXPENSE

Interest expense, net of interest income, was \$8,714 for the three months ended March 31, 2002, compared to \$7,245 for the three months ended March 31, 2001.

LOSS BEFORE INCOME TAXES

For the three months ended March 31, 2002, the Company had a loss before income taxes of \$170,204 compared to a loss before income taxes of \$413,027 for the three months ended March 31, 2001. Digital Power Limited reported income before income taxes of \$55,115 for the three months ended March 31, 2002, compared to an income before income taxes of \$77,972 for the three months ended March 31, 2001.

INCOME TAX

Provision for income tax decreased from a \$368,000 for the three months ended March 31, 2001, to \$25,670 for the first quarter of 2002. Due to the net loss, DPC has no income tax provisions. The \$25,670 income tax provision in the first quarter of 2002 was solely for Gresham Power.

NET LOSS

Net loss for the three months ended March 31, 2002, was \$195,874 compared to net loss of \$781,027 for the three months ended March 31, 2001. Reduced labor expenses resulting from last year's lay off and the increase in our gross margin percentage contributed to our smaller loss.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2002, the Company had cash of \$1,382,029 and working capital of \$1,717,237. This compares with cash of \$928,385 and working capital of \$5,613,698 at March 31, 2001. The decrease in working capital was primarily due to a net decrease in raw materials generated by a provision for inventory obsolescence and excess of \$2,7000,000 and a decrease in accounts receivable and prepaid expenses and increase in accounts payable. Cash provided in operating activities for the Company totaled \$284,675 for the three months ended March 31, 2002. Cash used in operating activities for the Company totaled \$122,692 for the three months ended March 31, 2001. Cash used in investing activities was \$3,864 for the three months ended March 31, 2002, compared to \$39,979 for the three months ended March 31, 2001. Net cash used by financing activities was \$111,752 for the three months ended March 31, 2002, compared to the net cash provided by financing activities of \$434,506 for the three months ended March 31, 2001.

The Company has a \$750,000 line of credit with San Jose National Bank ("SJNB"). Due, in part, to a change in business direction at SJNB, the Company and SJNB have agreed to terminate their relationship May 31, 2002. The Company is currently in negotiations with Silicon Valley Bank to seek a new credit facility. No assurance can be given that the Company will successfully enter into a new relationship with Silicon Valley Bank. Because the Company incurred a loss for the quarter ended March 31, 2002, the Company is currently not in compliance with one of its loan covenants with SJNB.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 25, 2002, Celetron USA, Inc. filed a complaint against the Company in the Superior Court of the State of California for the County of Alameda (Case No. 2002-047625). Celetron is alleging breach of contract, among other claims, in connection with the purchase of power supplies by the Company from Celetron. Celetron is seeking damages of approximately \$126,000.

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

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 14 2002

/s/ David Amitai

*David Amitai
Chief Executive Officer
(Principal Executive Officer)*

Date: May 14 2002

/s/ Uri Friedlander

*Uri Friedlander
Chief Financial Officer
(Principal Financial Officer)*

End of Filing

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