

DIGITAL POWER CORP

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 11/16/2000 For Period Ending 9/30/2000

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 September 30, 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

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 ☒ No ☐

Number of shares of common stock outstanding as of September 30, 2000: 3,255,570

DIGITAL POWER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
 SEPTEMBER 30, 2000
 (unaudited)

ASSETS

CURRENT ASSETS:	
Cash	\$ 1,249,851
Accounts receivable - trade, net of allowance for doubtful accounts of \$210,444	3,458,544
Income tax refund receivable	19,556
Other receivables	145,562
Inventory, net	5,088,500
Prepaid expenses and deposits	279,572
Deferred income taxes	311,220

Total current assets	10,552,805
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$1,651,810	1,120,617
EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED	
net of amortization of \$432,428	964,112
DEPOSITS	16,956

TOTAL ASSETS	\$ 12,654,490
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Notes payable	\$ 940,000
Current portion of capital lease obligations	47,318
Accounts payable	1,791,262
Accrued liabilities	1,339,923

Total current liabilities	4,118,503
CAPITAL LEASE OBLIGATIONS, less current position	70,978
DEFERRED INCOME TAXES	9,344

Total liabilities	4,198,825

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; 3,255,570 shares issued and outstanding	9,766,622
Additional paid-in capital	430,194
Accumulated deficit	(1,611,062)
Accumulated other comprehensive income	(130,089)

Total stockholders' equity	8,455,665

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 12,654,490
	=====

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
REVENUES	\$ 5,118,412	\$ 4,424,676	\$ 13,644,120	\$ 11,974,087
COST OF GOODS SOLD	3,686,061	3,246,669	9,702,442	9,009,935
Gross Margin	1,432,351	1,178,007	3,941,678	2,964,152
OPERATING EXPENSES				
Engineering and product development	318,300	329,189	868,212	760,471
Marketing and selling	360,908	296,269	1,064,550	894,253
General and administrative	536,256	355,826	1,509,943	1,071,300
Total operating expenses	1,215,464	981,284	3,442,705	2,726,024
INCOME FROM OPERATIONS	216,887	196,723	498,973	238,128
OTHER INCOME (EXPENSES):				
Interest income	468	5,132	9,928	12,640
Interest expense	(24,475)	(41,474)	(75,259)	(140,362)
Translation (loss) gain	311	(2,958)	(4,646)	(9,218)
Gain (loss) on disposal of assets	6,111	--	7,679	--
Other income (expense)	(17,585)	(39,300)	(62,298)	(136,940)
INCOME BEFORE INCOME TAXES	199,302	157,423	436,675	101,188
PROVISION FOR INCOME TAXES	85,400	60,100	215,400	98,900
NET INCOME	113,902	97,323	221,275	2,288
Other comprehensive income (loss):				
Foreign currency translation adjustment	(83,921)	159,172	(322,844)	(10,505)
COMPREHENSIVE INCOME (LOSS)	\$ 29,981	\$ 256,495	\$ (101,569)	\$ (8,217)
NET INCOME PER SHARE				
BASIC	\$ 0.04	\$ 0.04	\$ 0.08	\$ *
DILUTED	\$ 0.03	\$ 0.03	\$ 0.06	\$ *

* Less than \$0.01

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	-----	-----
Cash Flows from Operating Activities:		
Net income	\$ 221,275	\$ 2,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	411,374	358,381
Gain on disposal of asset	(7,679)	--
Contribution to ESOP	--	117,113
Foreign currency translation adjustment	4,646	9,218
Inventory reserve	21,173	--
Warranty reserve	1,516	--
Income tax benefit from exercise of stock options	151,084	--
Changes in operating assets and liabilities:		
Accounts receivable	(645,464)	24,851
Other receivables	(45,687)	24,924
Income tax refund receivable	51,432	217,189
Inventory	(578,412)	650,110
Prepaid expenses	(218,246)	(35,836)
Deposits	(2,898)	26,319
Accounts payable	595,092	280,820
Accrued liabilities	173,681	(444,922)
Other long-term liabilities	(25,000)	(10,043)
	-----	-----
Net cash provided by operating activities	107,887	1,220,412
	-----	-----
Cash Flows from Investing Activities:		
Purchases of property and equipment	(76,291)	(123,893)
Proceeds from sale of asset	16,709	--
	-----	-----
Net cash used in investing activities	(59,582)	(123,893)
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	753,932	--
Payments on long-term debt	--	(117,114)
Payments on capital lease obligations	(49,616)	(32,466)
Principal payments on notes payable	--	--
Net cash provided by (used in) financing activities	--	(1,266,846)
	-----	-----
	704,316	(1,416,426)
	-----	-----
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(327,478)	(19,723)
	-----	-----
Net decrease in cash and cash equivalents	425,143	(339,630)
	-----	-----
Cash and cash equivalents, beginning of period	824,708	867,607
	-----	-----
Cash and cash equivalents, end of period	\$ 1,249,851	\$ 527,977
	=====	=====

See accompanying notes to these condensed consolidated financial statements

DIGITAL POWER CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 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 September 30, 2000, the results of operations for the three month and nine month periods ended September 30, 2000 and 1999, and cash flows for the nine months ended September 30, 2000 and 1999. The results for the period ended September 30, 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 per share:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
BASIC				
Net income	\$ 113,902	\$ 97,323	\$ 221,275	\$ 2,288
Weighted average number of common shares	2,904,480	2,771,435	2,831,461	2,771,435
Basic earnings per share	\$ 0.04	\$ 0.04	\$ 0.08	\$ *
DILUTED				
Net income	\$ 113,902	\$ 97,323	\$ 221,275	\$ 2,288
Weighted average number of common shares	2,904,480	2,771,435	2,831,461	2,771,435
Common stock equivalent shares representing shares issuable upon exercise of stock options	845,767	64,981	636,743	65,226
Common stock equivalent shares representing shares issuable upon exercise of warrants	32,272	--	--	--
Weighted average number of shares used in calculation of diluted income per share	3,782,519	2,836,416	3,468,204	2,836,661
Diluted earnings per share	\$ 0.03	\$ 0.03	\$ 0.06	\$ *
* Less than				
\$0.01				

NOTE 3 - SEGMENT REPORTING

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 September 30, 2000

	DPC	PD	DPL	Eliminations	Totals
	-----	-----	-----	-----	-----
Revenues	\$3,605,830	\$ 12	\$ 1,512,570	\$ --	\$5,118,412
	=====	=====	=====	=====	=====
Intersegment Revenues	\$ 114,560	\$ 663,862	\$ --	\$ (778,422)	\$ --
	=====	=====	=====	=====	=====
Interest Income	\$ 30,520	\$ 327	\$ (1,666)	\$ (28,713)	\$ 468
	=====	=====	=====	=====	=====
Interest Expense	\$ 24,372	\$ 234	\$ 28,582	\$ (28,713)	\$ 24,475
	=====	=====	=====	=====	=====
Income Tax Expense	\$ 70,000	\$ --	\$ 15,400	\$ --	\$ 85,400
	=====	=====	=====	=====	=====
Income (loss)	\$ 162,753	\$ (57,650)	\$ 8,799	\$ --	\$ 113,902
	=====	=====	=====	=====	=====

For the Three Months Ended September 30, 1999

	DPC	PD	DPL	Eliminations	Totals
	-----	-----	-----	-----	-----
Revenues	\$ 2,570,215	\$ 9,888	\$ 1,844,573	\$ --	\$4,424,676
	=====	=====	=====	=====	=====
Intersegment Revenues	\$ 68,109	\$ 544,757	\$ --	\$ (612,866)	\$ --
	=====	=====	=====	=====	=====
Interest Income	\$ 32,892	\$ 953	\$ --	\$ (28,713)	\$ 5,132
	=====	=====	=====	=====	=====
Interest Expense	\$ 32,662	\$ 2,277	\$ 35,248	\$ (28,713)	\$ 41,474
	=====	=====	=====	=====	=====
Income Tax Expense	\$ --	\$ --	\$ 60,100	\$ --	\$ 60,100
	=====	=====	=====	=====	=====
Income (loss)	\$ 14,324	\$ (18,155)	\$ 101,154	\$ --	\$ 97,323
	=====	=====	=====	=====	=====

For the Nine Months Ended September 30, 2000

	DPC	PD	DPL	Eliminations	Totals
	-----	-----	-----	-----	-----
Revenues	\$ 9,378,402	\$ 10,016	\$ 4,255,702	\$ --	\$13,644,120
	=====	=====	=====	=====	=====
Intersegment Revenues	\$ 380,952	\$ 1,805,742	\$ --	\$ (2,186,694)	\$ --
	=====	=====	=====	=====	=====
Interest Income	\$ 89,443	\$ 1,390	\$ 4,608	\$ (85,513)	\$ 9,928
	=====	=====	=====	=====	=====
Interest Expense	\$ 67,626	\$ 1,490	\$ 91,656	\$ (85,513)	\$ 75,259
	=====	=====	=====	=====	=====
Income Tax Expense	\$ 200,000	\$ --	\$ 15,400	\$ --	\$ 215,400
	=====	=====	=====	=====	=====
Income (loss)	\$ 354,749	\$ (54,105)	\$ (79,369)	\$ --	\$ 221,275
	=====	=====	=====	=====	=====

For the Nine Months Ended September 30, 1999

	DPC	PD	DPL	Eliminations	Totals
	-----	-----	-----	-----	-----
Revenues	\$ 7,003,497	\$ 19,540	\$ 4,951,050	\$ --	\$11,974,087
	=====	=====	=====	=====	=====
Intersegment Revenues	\$ 169,019	\$ 1,585,206	\$ --	\$ (1,754,225)	\$ --
	=====	=====	=====	=====	=====
Interest Income	\$ 95,289	\$ 2,552	\$ --	\$ (85,201)	\$ 12,640
	=====	=====	=====	=====	=====
Interest Expense	\$ 100,841	\$ 5,466	\$ 119,256	\$ (85,201)	\$ 140,362
	=====	=====	=====	=====	=====
Income Tax Expense	\$ --	\$ --	\$ 98,900	\$ --	\$ 98,900
	=====	=====	=====	=====	=====
Income (loss)	\$ (80,845)	\$ (34,379)	\$ 117,512	\$ --	\$ 2,288
	=====	=====	=====	=====	=====

NOTE 4 - INCOME TAXES

Income tax expense is comprised of the following

	For The Three Months Ending September 30,		For The Nine Months Ending September 30,	
	2000	1999	2000	1999
Federal	\$ 53,000	\$ --	\$ 155,000	\$ --
State	17,000	--	45,000	--
Foreign	15,400	60,100	15,400	98,900
Total	\$ 85,400	\$ 60,100	\$ 215,400	\$ 98,900

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 "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 AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2000, COMPARED TO SEPTEMBER 30, 1999

REVENUES

Revenues increased by 15.7% to \$5,118,412 for the three months ended September 30, 2000, from \$4,424,676 for the three months ended September 30, 1999. Revenues from the Company's United Kingdom's operations of Digital Power Ltd. decreased 18.0% to \$1,512,570 for the three months ended September 30, 2000, from \$1,844,573 for the three months ended September 30, 1999. Revenues attributed to the United States operations increased by 40.5% from the same quarter during the prior year due primarily to increases in units shipped to five large United States OEM customers. The decrease in UK revenues can be attributed primarily to the soft market conditions for some of Digital Power Ltd. older product lines, including military and defense products.

For the nine months ended September 30, 2000, revenues increased by 14.0% to \$13,644,120 from \$11,974,087 for the nine months ended September 30, 1999. The increase in revenues during the nine months ended September 30, 2000, can be attributed primarily to significant increases in units shipped to five large

United States OEM customers. For the nine months ended September 30, 2000, Digital Power Ltd. contributed \$4,255,702 to the Company's revenues compared to \$4,951,050 for the nine months ended September 30, 1999.

GROSS MARGINS

Gross margins were 28.0% for the three months ended September 30, 2000, compared to 26.6% for the three months ended September 30, 1999. The improvement in gross margins can primarily 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.

Gross margins were 28.9% for the nine months ended September 30, 2000, compared to 24.8% for the nine months ended September 30, 1999. The increase in gross margins can primarily be attributed to increased business and manufacturing in China, as noted above.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were 17.5% of revenues for the three months ended September 30, 2000, compared to 14.7% for the three months ended September 30, 1999. Selling, general and administrative expenses were 18.9% of revenues for the nine months ended September 30, 2000, compared to 16.4% for the nine months ended September 30, 1999. Increased selling, general and administrative expenses can be attributed primarily to an increased marketing staff, increased commissions paid and increased investor relations expenses.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 6.2% of revenues for the three months ended September 30, 2000, and 7.4% for the three months ended September 30, 1999. Engineering and product development expenses were 6.4% of revenues for the nine months ended September 30, 2000, compared to 6.4% for the nine months ended September 30, 1999. While actual dollars spent on engineering for the three months ended September 30, 2000 and 1999 remained flat, increased revenues for the three months ended September 30, 2000 caused engineering and product development expenses, as a percentage of revenues, to decrease. For the nine months ended September 30, 2000, increases in engineering and product development expenses reflect the Company's continuing commitment to new product development.

INTEREST EXPENSE

Interest expense, net of interest income, was \$24,007 for the three months ended September 30, 2000, compared to \$36,342 for the three months ended September 30, 1999. Interest expense, net of interest income, was \$65,331 for the nine months ended September 30, 2000, compared to \$127,722 for the nine months ended September 30, 1999. The decrease in interest expense is related primarily to payments made to reduce notes payable.

INCOME BEFORE INCOME TAXES

For the three months ended September 30, 2000, the Company had an income before income taxes of \$199,302 compared to income before income taxes of \$157,423 for the three months ended September 30, 1999. For the nine months ended September 30, 2000, the Company had income before income taxes of \$436,675 compared to income of \$101,188 for the nine months ended September 30, 1999.

INCOME TAX

The provision for income tax increased from \$60,100 for the three months ended September 30, 1999, to \$85,400 for the three months ended September 30, 2000, and increased from \$98,900 for the nine months ended September 30, 1999, to \$215,400 for the nine months ended September 30, 2000. The decrease in the effective tax rate for the nine months ended September 30, 2000, reflects an increased 1999 taxable income from the UK operations without a corresponding benefit from losses generated in the US operations, resulting in an unusually high effective tax rate for 1999.

NET INCOME

Net income for the three months ended September 30, 2000, was \$113,902 compared to \$97,323 for the three months ended September 30, 1999. Net income for the nine months ended September 30, 2000, was \$221,275, compared to \$2,288 for the nine months ended September 30, 1999. The increase in net income for the three month period was due to the reduction in operating and other expenses implemented to bring costs in line with revenue levels, while the increase in net income for the nine month period is related to increased revenues for the nine month period, primarily related to the Company's United States operations.

We do not believe that our business is seasonal. In the event inflation increases, this may have a negative effect on our sales or gross margin since we may be required to increase the cost of our products.

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2000, the Company had cash of \$1,249,851 and working capital of \$6,434,302. This compares with cash of \$527,977 and working capital of \$5,274,473 at September 30, 1999. The increase in working capital was due to an increase in inventory, other receivables and prepaid expenses and a decrease in the current portion of long term debt, offset by a decrease in accounts receivable and income tax refund receivable and increase in accounts payable and accrued liabilities, resulting in an increase in cash and cash equivalents. Cash provided by operating activities for the Company totaled \$107,887 and \$1,220,412 for the nine months ended September 30, 2000 and 1999.

Cash used in investing activities was \$59,582 for the nine months ended September 30, 2000, compared to \$123,893 for the nine months ended September 30, 1999. Net cash provided by (used in) financing activities was \$704,316 for the nine months ended September 30, 2000, compared to (\$1,416,426). The cash provided by financing activities in 2000 was primarily proceeds from the exercise of stock options. Cash used in financing activities in 1999 was primarily the payments on outstanding borrowings.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDS

None.

ITEM 2. CHANGES IN SECURITIES

(c) On October 25, 2000, we issued 5,000 shares of common stock and warrants to purchase 60,000 shares of common stock at \$3.88 per share to C.C.R.I. and Donner Corp. International for investment relation services. The Company believes that C.C.R.I. and Donner Corp. International are sophisticated investors and the issuances were exempt from registration under Section 4(2) of the 1933 Act. No commissions were paid. 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: November 15, 2000

/s/

ROBERT O. SMITH

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

Date: November 15, 2000

/s/

PHILIP G. SWANY

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

ARTICLE 5

(Replace this text with the legend)

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD END	SEP 30 2000
CASH	1,249,851
SECURITIES	0
RECEIVABLES	3,668,988
ALLOWANCES	(210,444)
INVENTORY	5,088,500
CURRENT ASSETS	10,552,805
PP&E	2,772,427
DEPRECIATION	(1,651,810)
TOTAL ASSETS	12,654,490
CURRENT LIABILITIES	4,118,503
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	9,766,622
OTHER SE	(1,310,957)
TOTAL LIABILITY AND EQUITY	12,654,490
SALES	13,644,120
TOTAL REVENUES	13,644,120
CGS	9,702,442
TOTAL COSTS	9,702,442
OTHER EXPENSES	3,442,705
LOSS PROVISION	0
INTEREST EXPENSE	75,259
INCOME PRETAX	436,675
INCOME TAX	215,400
INCOME CONTINUING	221,275
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	221,275
EPS BASIC	0.08
EPS DILUTED	0.06

End of Filing

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