

DIGITAL POWER CORP

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 5/21/2001 For Period Ending 3/31/2001

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, 2001

☐ **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, 2001: 3,260,680

DIGITAL POWER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 31, 2001
(UNAUDITED)

ASSETS

CURRENT ASSETS:

Cash	\$ 928,385
Accounts receivable - trade, net of allowance for doubtful accounts of \$231,397	2,432,755
Income tax refund receivable	29,200
Other receivables	95,849
Inventory, net	5,363,822
Prepaid expenses and deposits	197,481

Total current assets	9,047,492
PROPERTY AND EQUIPMENT, net	1,043,430
EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED, net amortization of \$469,927	982,264
DEPOSITS	36,272

TOTAL ASSETS	\$ 11,109,458
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Notes payable	\$ 850,000
Current portion of capital lease obligations	39,732
Accounts payable	1,373,305
Income taxes payable	166,783
Accrued liabilities	1,003,974

Total current liabilities	3,433,794
CAPITAL LEASE OBLIGATIONS, less current portion	49,665
DEFERRED INCOME TAXES	15,609

Total liabilities	3,499,068

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; 3,260,680 shares issued and outstanding	9,786,251
Additional paid-in capital	733,256
Accumulated deficit	(2,511,961)
Accumulated other comprehensive income	(397,156)

Total stockholders' equity	7,610,390

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,109,458
	=====

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UnAUDITED)

THREE MONTHS ENDED
MARCH 31,

	2001	2000
	-----	-----
REVENUES	\$ 3,259,347	\$ 4,238,275
COST OF GOODS SOLD	2,632,251	2,978,311
	-----	-----
Gross Margin	627,096	1,259,964
	-----	-----
OPERATING EXPENSES		
Engineering and product development	317,347	282,792
Marketing and selling	254,682	316,224
General and administrative	460,849	450,886
	-----	-----
Total operating expenses	1,032,878	1,049,902
	-----	-----
INCOME (LOSS) FROM OPERATIONS	(405,782)	210,062
	-----	-----
OTHER INCOME (EXPENSES):		
Interest income	7,168	6,491
Interest expense	(14,413)	(24,891)
	-----	-----
Other income (expense)	(7,245)	(18,400)
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(413,027)	191,662
PROVISION FOR INCOME TAXES	368,000	100,000
	-----	-----
NET INCOME (LOSS)	(781,027)	91,662
	-----	-----
Other comprehensive income:		
Foreign currency translation adjustment	(149,857)	(58,492)
	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ (930,884)	\$ 33,170
	=====	=====
NET INCOME (LOSS) PER SHARE		
BASIC	\$ (0.24)	\$ 0.03
	=====	=====
DILUTED	\$ (0.24)	\$ 0.03
	=====	=====

See accompanying notes to these condensed consolidated financial statements.

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

THREE MONTHS ENDED
MARCH 31,

	2001	2000
	-----	-----
Cash Flows from Operating Activities:		
Net income (loss)	\$ (781,027)	\$ 91,662
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	127,282	115,057
Change in allowance of deferred income taxes	349,646	-
Inventory Reserve	(10,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	823,326	(354,096)
Other receivables	(5,395)	(9,682)
Income tax refund receivable	150,000	-
Inventory	(210,198)	4,621
Prepaid expenses	16,217	10,860
Other assets	(7,721)	-
Deposits	-	(163)
Accounts payable	(575,880)	4,359
Accrued liabilities	1,058	5,621
Other long-term liabilities	-	(25,000)
	-----	-----
Net cash used in operating activities	(122,692)	(156,761)
	-----	-----
Cash Flows from Investing Activities:		
Purchases of property and equipment	(39,979)	(11,392)
	-----	-----
Net cash used in investing activities	(39,979)	(11,392)
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	-	60,169
Proceeds from notes payable	450,000	-
Payments on capital lease obligations	(15,494)	(11,531)
	-----	-----
Net cash provided by financing activities	434,506	48,638
	-----	-----
Effect of Exchange Rate Changes on Cash	(149,857)	(58,492)
	-----	-----
Net Increase (Decrease) in cash	121,978	(178,007)
	-----	-----
Cash and cash equivalents, beginning of period	806,407	824,708
	-----	-----
Cash and cash equivalents, end of period	\$ 928,385	\$ 646,701
	=====	=====

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2001

(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, 2000.

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, 2001, the results of operations for the three month periods ended March 31, 2001 and 2000, and cash flows for the three months ended March 31, 2001 and 2000. The results for the period ended March 31, 2001, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2001.

NOTE 2 - EARNINGS PER SHARE

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

	FOR THE THREE MONTHS ENDED MARCH 31, (Unaudited)	
	2001	2000
	-----	-----
BASIC		
Net Income (loss)	\$ (781,027)	\$ 91,662
Less - preferred stock dividends	-	-
	-----	-----
Net income (loss) applicable to common shareholders	\$ (781,027)	\$ 91,662
Weighted average number of common shares	3,260,680	2,783,347
Basic earnings (loss) per share	\$ (0.24)	\$ 0.03
	-----	-----
DILUTED		
Net income (loss) applicable to common shareholders	\$ (781,027)	\$ 91,662
Preferred stock dividend	-	-
	-----	-----
Net income (loss) available to common shareholders plus assumed conversion	\$ (781,027)	\$ 91,662
	-----	-----
Weighted average number of common shares	3,260,680	2,783,347
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	3,260,680	3,215,861
	-----	-----
Diluted earnings (loss) per share	\$ (0.24)	\$ 0.03
	-----	-----

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, 2001
(Unaudited)

	DPC	PD	DPL	Eliminations	Totals
	-----	-----	-----	-----	-----
Revenues	\$ 1,959,482	\$ 698	\$ 1,299,167	\$ -	\$ 3,259,347
	=====	=====	=====	=====	=====
Intersegment Revenues	\$ 242,187	\$ 780,167	\$ -	\$ (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 (Benefit)	\$ 350,500	\$ -	\$ 17,500	\$ -	\$ 368,000
	=====	=====	=====	=====	=====
Income (Loss)	\$ (877,414)	\$ 35,915	\$ 60,472	\$ -	\$ (781,027)
	=====	=====	=====	=====	=====

For the Three Months Ended March 31, 2000
(Unaudited)

	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	\$ 9,264	\$ (47,666)	\$ -	\$ 91,662
	=====	=====	=====	=====	=====

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

With the exception of historical facts stated herein, the matters discussed in this report are "forward looking" statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such "forward looking" statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Factors that could cause actual results to differ materially include, in addition to other factors identified in this report, a high degree of customer concentration, dependence on the computer and other electronic equipment industry, competition in the power supply industry, dependence on the Guadalajara, Mexico facility, and other risks factors detailed in the Company's Securities and Exchange Commission ("SEC") filings including the risk factors set forth in the Company's Registration Statement on Form SB-2, SEC File No. 333-14199, and "Certain Considerations" section in the Company's Form 10-KSB for the year ended December 31, 2000. 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, 2001, COMPARED TO MARCH 31, 2000

REVENUES

Revenues decreased by 23.1% to \$3,259,347 for the first quarter ended March 31, 2001, from \$4,238,275 for the first quarter ended March 31, 2000. Revenues from the Company's United Kingdom's operations of Digital Power Ltd. decreased 8.2% to \$1,299,167 for the first quarter ended March 31, 2001, from \$1,414,445 for the first quarter ended March 31, 2000. Revenues attributed to the United States operations decreased by 30.6% from the same quarter of the prior year. The decrease in revenues can be attributed primarily to the significant and sudden downturn in demand from virtually all of the Company's customers.

GROSS MARGINS

Gross margins were 19.2% for the three months ended March 31, 2001, compared to 29.7% for the three months ended March 31, 2000. The decrease in gross margins can be attributed primarily to the overcapacity in our Mexican manufacturing operations. Included in cost of sales for the first quarter of 2001 were one time charges of \$110,217 reflecting severance pay for 116 employees laid off in the Mexican operations.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were 22.0% of revenues for the three months ended March 31, 2001, compared to 18.1% for the three months ended March 31, 2000. In actual dollar terms, these expenses were down 6.7%, while revenues were down 23.1%, resulting in the higher expense as a percentage of revenues.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 9.7% of revenues for the three months ended March 31, 2001, and 6.7% for the three months ended March 31, 2000. Actual dollar expenditures were up by 12.2%, reflecting the Company's continuing commitment to new product development.

INTEREST EXPENSE

Interest expense, net of interest income, was \$7,245 for the three months ended March 31, 2001, compared to \$18,400 for the three months ended March 31, 2000. The decrease in interest expense is primarily due to reduced borrowings on the Company line of credit, which was reduced from \$940,000 at the end of March 2000, to \$850,000 at the end of March 2001, 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, 2001, the Company had a loss before income taxes of \$413,027 compared to income before income taxes of \$191,662 for the three months ended March 31, 2000. Gresham Power reported income before income taxes of \$77,972 for the three months ended March 31, 2001, compared to a loss before income taxes of \$45,666 for the three months ended March 31, 2000.

INCOME TAX

Provision for income tax increased from a \$100,000 income tax expense for the three months ended March 31, 2000, to an income tax expense of \$368,000 for the first quarter of 2001, due primarily to the management decision to increase the allowance against the DPC deferred income tax asset of \$350,500. Gresham Power income tax expense was \$2,000 in the first quarter of 2000 and \$17,500 in the first quarter of 2001.

NET INCOME (LOSS)

Net loss for the three months ended March 31, 2001, was \$781,027 compared to net income of \$91,662 for the three months ended March 31, 2000. Contributing to the loss were the one time charges of \$110,217 for severance pay, plus \$350,500 deferred income tax.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2001, the Company had cash of \$928,385 and working capital of \$5,613,698. This compares with cash of \$646,701 and working capital of \$5,527,291 at March 31, 2000. The increase in working capital was due to a decrease in accounts receivable, tax refund receivable and deferred income tax and increase in accounts payable, offset by an increase in inventory and prepaid expenses and a decrease in notes payable and accrued liabilities, resulting in an increase in cash and cash equivalents. Cash used in operating activities for the Company totaled \$122,692 for the three months ended March 31, 2001. Cash used in operating activities for the Company totaled \$156,761 for the three months ended March 31, 2000. Cash used in investing activities was \$39,979 for the three months ended March 31, 2001, compared to \$11,392 for the three months ended March 31, 2000. Net cash provided by financing activities was \$434,506 for the three months ended March 31, 2001, compared to \$48,638 for the three months ended March 31, 2000.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDS

None.

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 21, 2001

/s/ ROBERT O. SMITH

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

Date: May 21, 2001

/s/ PHILIP G. SWANY

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

End of Filing

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