

DIGITAL POWER CORP

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 8/21/2000 For Period Ending 6/30/2000

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 June 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
(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 o

Number of shares of common stock outstanding as of June 30, 2000: 2,812,435

DIGITAL POWER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

JUNE 30, 2000

(unaudited)

ASSETS

CURRENT ASSETS:

Cash	\$ 605,853
Accounts receivable - trade, net of allowance for doubtful accounts of \$210,454	3,211,352
Income tax refund receivable	19,556
Other receivables	125,534
Inventory, net	4,836,375
Prepaid expenses and deposits	129,280
Deferred income taxes	360,136

Total current assets	9,288,086

PROPERTY AND EQUIPMENT, net	1,161,782
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EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED net of amortization of \$432,428	1,019,762
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DEPOSITS	13,909
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TOTAL ASSETS	\$ 11,483,539
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Notes payable	\$ 940,000
Current portion of capital lease obligations	43,877
Accounts payable	1,456,550
Income taxes payable	120,000
Accrued liabilities	1,250,897

Total current liabilities	3,811,324

CAPITAL LEASE OBLIGATIONS, less current portion	63,546
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DEFERRED INCOME TAXES	9,344

Total liabilities	3,884,214

COMMITMENTS AND CONTINGENCIES	-
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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; 2,812,435 shares issued and outstanding	9,091,348
Additional paid-in capital	279,110
Accumulated deficit	(1,724,965)
Accumulated other comprehensive loss	(46,168)

Total stockholders' equity	7,599,325

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,483,539
	=====

See accompanying notes to these condensed consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
REVENUES	\$ 4,287,433	\$ 4,332,948	\$ 8,525,708	\$ 7,549,411
COST OF GOODS SOLD	3,038,070	3,279,891	6,016,381	5,763,266
Gross Margin	1,249,363	1,053,057	2,509,327	1,786,145
OPERATING EXPENSES				
Engineering and product development	267,120	210,516	549,912	431,282
Marketing and selling	387,418	317,978	703,642	597,984
General and administrative	522,801	363,582	973,687	715,474
Total operating expenses	1,177,339	892,076	2,227,241	1,744,740
INCOME FROM OPERATIONS	72,024	160,981	282,086	41,405
OTHER INCOME (EXPENSES):				
Interest income	2,969	3,474	9,460	7,508
Interest expense	(25,893)	(46,775)	(50,784)	(98,888)
Translation loss	(4,622)	(3,679)	(4,957)	(6,260)
Gain (loss) on disposal of assets	1,568	-	1,568	-
Other income (expense)	(25,978)	(46,980)	(44,713)	(97,640)
INCOME (LOSS) BEFORE INCOME TAXES	46,046	114,001	237,373	(56,235)
PROVISION FOR INCOME TAXES	30,000	53,500	130,000	38,800
NET INCOME (LOSS)	16,046	60,501	107,373	(95,035)
Other comprehensive loss:				
Foreign currency translation adjustment	(180,765)	(85,562)	(238,923)	(169,677)
COMPREHENSIVE LOSS	\$ (164,719)	\$ (25,061)	\$ (131,550)	\$ (264,712)
NET INCOME (LOSS) PER SHARE				
BASIC	\$ 0.01	\$ 0.02	\$ 0.04	\$ (0.03)
DILUTED	\$ 0.01	\$ 0.02	\$ 0.03	\$ (0.03)

See accompanying notes to these condensed consolidated financial statements.

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

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
	-----	-----
Cash Flows from Operating Activities:		
Net income (loss)	\$ 107,373	\$ (95,035)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	194,946	267,816
Contribution to ESOP	-	46,003
Foreign currency translation adjustment	335	6,260
Changes in operating assets and liabilities:		
Accounts receivable	(398,914)	426,025
Other receivables	(25,017)	(48,945)
Income tax refund receivable	51,432	215,917
Inventory	(305,114)	454,976
Prepaid expenses	(67,954)	(44,739)
Deposits	150	(42,427)
Accounts payable	260,380	314,872
Accrued liabilities	157,256	(341,975)
Other long-term liabilities	(25,000)	19,957
	-----	-----
Net adjustments	(157,500)	1,273,740
	-----	-----
Net cash provided by (used in) operating activities	(50,127)	1,178,705
Cash Flows from Investing Activities:		
Purchases of property and equipment	(97,138)	(37,234)
	-----	-----
Net cash used in investing activities	(97,138)	(37,234)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options including related tax benefits	78,669	-
Payments on long-term debt	-	(46,002)
Payments on capital lease obligations	(25,094)	(19,637)
Principal payments on notes payable	-	(677,209)
	-----	-----
Net cash provided by (used in) financing activities	53,575	(742,848)
Effect of Exchange Rate Changes on Cash	(125,165)	(175,938)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(218,855)	222,685
Cash and cash equivalents, beginning of period	824,708	867,607
	-----	-----
Cash and cash equivalents, end of period	\$ 605,853	\$ 1,090,292
	=====	=====
Supplemental Cash Flow Information:		
Cash payments for:		
Interest	\$ 107,011	\$ 99,807
	=====	=====
Income taxes	\$ 15,480	\$ 36,957
	=====	=====

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 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 June 30, 2000, the results of operations for the three month and six month periods ended June 30, 2000 and 1999, and cash flows for the six months ended June 30, 2000 and 1999. The results for the period ended June 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 JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	-----	-----	-----	-----
BASIC				
Net Income (loss)	\$ 16,046	\$ 60,501	\$ 107,373	\$ (95,035)
Less - preferred stock dividends	-	-	-	-
	-----	-----	-----	-----
Net income (loss) applicable to common shareholders	16,046	60,501	107,373	(95,035)
Weighted average number of common shares	2,805,754	2,771,435	2,794,550	2,771,435
	-----	-----	-----	-----
Basic earnings (loss) per share	\$ 0.01	\$ 0.02	\$ 0.04	\$ (0.03)
	=====	=====	=====	=====
DILUTED				
Net income (loss) applicable to common shareholders	\$ 16,046	\$ 60,501	\$ 107,373	\$ (95,035)
Preferred stock dividend	-	-	-	-
	-----	-----	-----	-----

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
BASIC				
Net income (loss) available to common Shareholders plus assumed conversion	16,046	60,501	107,373	(95,035)
Weighted average number of common shares	2,805,754	2,771,435	2,794,550	2,771,435
Common stock equivalent shares representing Shares issuable upon exercise of stock Options	400,865	65,150	417,242	65,350
Weighted average number of shares used in Calculation of diluted income (loss) per share	3,206,619	2,836,585	3,211,792	2,836,785
Diluted earnings (loss) per share	\$ 0.01	\$ 0.02	\$ 0.03	\$ (0.03)

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 June 30, 2000

	DPC	PD	DPL	Eliminations	Totals
Revenues	\$ 2,948,782	\$ 9,964	\$ 1,328,687	\$ --	\$ 4,287,433
Intersegment Revenues	\$ 163,574	\$ 594,720	\$ --	\$ (758,294)	\$ --
Interest Income	\$ 29,415	\$ 497	\$ 1,457	\$ (28,400)	\$ 2,969
Interest Expense	\$ 22,426	\$ 404	\$ 31,463	\$ (28,400)	\$ 25,893
Income Tax Expense (Benefit)	\$ 32,000	\$ --	\$ (2,000)	\$ --	\$ 30,000
Income (loss)	\$ 61,932	\$ (5,384)	\$ (40,502)	\$ --	\$ 16,046

For the Three Months Ended June 30, 1999

	DPC	PD	DPL	Eliminations	Totals
Revenues	\$ 2,501,309	\$ 9,625	\$ 1,822,014	\$ --	\$ 4,332,948
Intersegment Revenues	\$ 56,071	\$ 693,257	\$ --	\$ (749,328)	\$ --

	DPC	PD	DPL	Eliminations	Totals
Interest Income	\$ 31,705 =====	\$ 169 =====	\$ -- =====	\$ (28,400) =====	\$ 3,474 =====
Interest Expense	\$ 32,985 =====	\$ 2,591 =====	\$ 39,599 =====	\$ (28,400) =====	\$ 46,775 =====
Income Tax Expense	\$ -- =====	\$ -- =====	\$ 53,500 =====	\$ -- =====	\$ 53,500 =====
Income (loss)	\$ (24,772) =====	\$ (14,844) =====	\$ 100,117 =====	\$ -- =====	\$ 60,501 =====

For the Six Months Ended June 30, 2000

	DPC	PD	DPL	Eliminations	Totals
Revenues	\$ 5,772,572 =====	\$ 10,004 =====	\$ 2,743,132 =====	\$ -- =====	\$ 8,525,708 =====
Intersegment Revenues	\$ 266,392 =====	\$ 1,141,880 =====	\$ -- =====	\$ (1,408,272) =====	\$ -- =====
Interest Income	\$ 58,923 =====	\$ 1,063 =====	\$ 6,274 =====	\$ (56,800) =====	\$ 9,460 =====
Interest Expense	\$ 43,254 =====	\$ 1,256 =====	\$ 63,074 =====	\$ (56,800) =====	\$ 50,784 =====
Income Tax Expense	\$ 130,000 =====	\$ -- =====	\$ -- =====	\$ -- =====	\$ 130,000 =====
Income (loss)	\$ 191,996 =====	\$ 3,545 =====	\$ (88,168) =====	\$ -- =====	\$ 107,373 =====

For the Six Months Ended June 30, 1999

	DPC	PD	DPL	Eliminations	Totals
Revenues	\$ 4,433,282 =====	\$ 9,652 =====	\$ 3,106,477 =====	\$ -- =====	\$ 7,549,411 =====
Intersegment Revenues	\$ 100,910 =====	\$ 1,040,449 =====	\$ -- =====	\$ (1,141,359) =====	\$ -- =====
Interest Income	\$ 62,397 =====	\$ 1,599 =====	\$ -- =====	\$ (56,488) =====	\$ 7,508 =====
Interest Expense	\$ 68,179 =====	\$ 3,189 =====	\$ 84,008 =====	\$ (56,488) =====	\$ 98,888 =====
Income Tax Expense	\$ -- =====	\$ -- =====	\$ 38,800 =====	\$ -- =====	\$ 38,800 =====
Income (loss)	\$ (95,169) =====	\$ (16,224) =====	\$ 16,358 =====	\$ -- =====	\$ (95,035) =====

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 SIX MONTH PERIODS ENDED JUNE 30, 2000, COMPARED TO JUNE 30, 1999

REVENUES

Revenues decreased by 1.1% to \$4,287,433 for the three months ended June 30, 2000, from \$4,332,948 for the three months ended June 30, 1999. Revenues from the Company's United Kingdom's operations of Digital Power Ltd. decreased 27.1% to \$1,328,687 for the second quarter ended June 30, 2000, from \$1,822,014 for the second quarter ended June 30, 1999. Revenues attributed to the United States operations increased by 17.9% from the same quarter during the prior year due primarily to increases in units shipped to five large United States OEM customers. The overall decrease in 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 six months ended June 30, 2000, revenues increased by 12.9% to \$8,525,708 from \$7,549,411 for the six months ended June 30, 1999. The increase in revenues during the six months ended June 30, 2000, can be attributed primarily to significant increases in units shipped to five large United States OEM customers. For the six months ended June 30, 2000, Digital Power Ltd. contributed \$2,743,132 to the Company's revenues compared to \$3,106,477 for the six months ended June 30, 1999.

GROSS MARGINS

Gross margins were 29.1% for the three months ended June 30, 2000, compared to 24.3% for the three months ended June 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 29.4% for the six months ended June 30, 2000, compared to 23.7% for the six months ended June 30, 1999. The increase in gross margins can primarily be attributed to increased OEM business and manufacturing in China, as noted above.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were 21.2% of revenues for the three months ended June 30, 2000, compared to 15.7% for the three months ended June 30, 1999. Selling, general and administrative expenses were 19.7% of revenues for the six months ended June 30, 2000, compared to 17.4% for the six months ended June 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 June 30, 2000, and 4.9% for the three months ended June 30, 1999. Engineering and product development expenses were 6.5% of revenues for the six months ended June 30, 2000, compared to 5.7% for the six months ended June 30, 1999. The 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 \$22,924 for the three months ended June 30, 2000, compared to \$43,301 for the three months ended June 30, 1999. Interest expense, net of interest income, was \$41,324 for the six months ended June 30, 2000, compared to \$91,380 for the six months ended June 30, 1999. The decrease in interest expense is primarily due to reduced borrowings on the Company line of credit, which was reduced from \$1,465,000 at the end of June 1999, to \$940,000 at the end of June 2000, and replacement of Digital Power Ltd. receivables financing with a bank line of credit with a more favorable interest rate.

INCOME (LOSS) BEFORE INCOME TAXES

For the three months ended June 30, 2000, the Company had an income before income taxes of \$46,046 compared to income before income taxes of \$114,001 for the three months ended June 30, 1999. For the six months ended June 30, 2000, the Company had income before income taxes of \$237,373 compared to a loss of \$56,235 for the six months ended June 30, 1999.

INCOME TAX

The provision for income tax decreased from a tax expense of \$53,500 for the three months ended June 30, 1999, to a tax expense of \$30,000 for the three months ended June 30, 2000, and increased from \$38,800 for the six months ended June 30, 1999, to \$130,000 for the six months ended June 30, 2000.

NET INCOME

Net income for the three months ended June 30, 2000, was \$16,046 compared to \$60,501 for the three months ended June 30, 1999. Net income for the six months ended June 30, 2000, was \$107,373, compared to a net loss of \$95,035 for the six months ended June 30, 1999. The decrease in net income for the three month period was due primarily to the previously mentioned soft market conditions for some of the Digital Power Ltd. older product lines, while the increase in net

income for the six month period is primarily related to increased revenues for the six month period, primarily related to the Company's United States operations.

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2000, the Company had cash of \$605,853 and working capital of \$5,476,762. This compares with cash of \$1,090,292 and working capital of \$4,919,002 at June 30, 1999. The increase in working capital was due to an increase in accounts receivable, inventory and prepaid expenses and decrease of notes payable, accounts payable and accrued liabilities, offset by a decrease in other receivables and increase in income taxes payable, resulting in a decrease in cash and cash equivalents. Cash provided by (used in) operating activities for the Company totaled (\$50,127) and \$1,178,705 for the six months ended June 30, 2000 and 1999.

Cash used in investing activities was \$97,138 for the six months ended June 30, 2000, compared to \$37,234 for the six months ended June 30, 1999. Net cash provided by (used in) financing activities was \$53,575 for the six months ended June 30, 2000, compared to (\$742,848).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On May 24, 2000, the Company held its annual meeting of shareholders for the election of directors as follows:

Election Of Directors -----	For ---	Votes Withheld -----
Robert O. Smith	1,958,954	36,300
Chris Schofield	1,948,954	46,300
Thomas W. O'Neil, Jr.	1,958,954	36,300
Scott C. McDonald	1,958,954	36,300
Robert J. Boschert	1,958,954	36,300

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: August 21, 2000

/s/ Robert O. Smith

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

Date: August 21, 2000

/s/ Philip G. Swany

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

ARTICLE 5

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PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD START	JAN 01 2000
PERIOD END	JUN 30 2000
CASH	605,863
SECURITIES	0
RECEIVABLES	3,421,806
ALLOWANCES	210,454
INVENTORY	4,836,375
CURRENT ASSETS	9,288,086
PP&E	2,777,838
DEPRECIATION	(1,615,854)
TOTAL ASSETS	11,483,539
CURRENT LIABILITIES	3,811,324
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	9,091,348
OTHER SE	(1,492,023)
TOTAL LIABILITY AND EQUITY	11,483,539
SALES	8,525,708
TOTAL REVENUES	8,525,708
CGS	6,016,381
TOTAL COSTS	6,016,381
OTHER EXPENSES	2,227,241
LOSS PROVISION	0
INTEREST EXPENSE	60,784
INCOME PRETAX	237,373
INCOME TAX	130,000
INCOME CONTINUING	107,373
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	107,373
EPS BASIC	0.04
EPS DILUTED	0.03

End of Filing

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