

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,
2004

☐ **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 May 1, 2004: 5,700,703.

ITEM 1. FINANCIAL STATEMENTS

DIGITAL POWER CORPORATION

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2004

IN U.S. DOLLARS

UNAUDITED

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[GRAPHIC OMITTED]

The Board of Directors
Digital Power Corporation

Re: Review report of unaudited interim consolidated financial statements
as of and for the three-month period ended March 31, 2004

We have reviewed the accompanying consolidated balance sheet of Digital Power Corporation ("the Company") and its subsidiary as of March 31, 2004, and the related consolidated statements of operations, and cash flows for the three-month period ended March 31, 2004 and 2003 and changes in shareholders' equity for the three month period ended March 31, 2004 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Company's management.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements at March 31, 2004, and the three-month period then ended in order for them to be in conformity with accounting principles generally accepted in the United States.

*Tel-Aviv, Israel
May 11, 2004*

*s/KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global*

DIGITAL POWER CORPORATION

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	March 31, 2004
	Unaudited
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,164
Restricted cash	296
Trade receivables, net of allowance for doubtful accounts of \$ 44 at March 31, 2004	1,515
Prepaid expenses and other current assets	247
Inventories	1,671
Total current assets	4,893
LEASE DEPOSITS	18
PROPERTY AND EQUIPMENT, NET	303
Total assets	\$ 5,214

The accompanying notes are an integral part of the consolidated financial statements.

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 Ltd. filings with the securities agencies in Israel.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share data

	March 31, 2004
	Unaudited
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	\$ 891
Other current liabilities	1,275
Total current liabilities	2,166
-----	-----
SHAREHOLDERS' EQUITY:	
Series A redeemable, convertible preferred shares no par value: 500,000 shares authorized, 0 shares issued and outstanding at March 31, 2004	-
Preferred shares, no par value: 1,500,000 shares authorized, 0 shares issued and outstanding at March 31, 2004	-
Common shares, no par value: 10,000,000 shares authorized; 5,700,703 shares issued and outstanding at March 31, 2004	11,036
Additional paid-in capital	1,708
Deferred stock compensation	(19)
Accumulated deficit	(9,697)
Accumulated other comprehensive income	20
Total shareholders' equity	3,048
-----	-----
Total liabilities and shareholders' equity	\$ 5,214
-----	=====

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA

	Three months ended March 31,	
	2004	2003
	Unaudited	
Revenues	\$ 1,829	\$ 2,133
Cost of revenues	1,393	1,538
Gross profit	436	595
Operating expenses:		
Engineering and product development	137	145
Selling and marketing	303	259
General and administrative	280	310
Total operating expenses	720	714
Operating loss	(284)	(119)
Financial income (expenses), net	32	(4)
Loss before tax benefit	(252)	(123)
Tax benefit	-	8
Net loss	\$ (252)	\$ (115)
Basic and diluted loss per share	\$ (0.04)	\$ (0.03)
Weighted average number of shares used in computing basic and diluted loss per share	5,663,281	4,510,680

The accompanying notes are an integral part of the consolidated financial statements.

DIGITAL POWER CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

	Common shares		Additional	Deferred		Accumulated	Accumulated	Total other	Total
	Number	Amount	paid-in	stock	Accumulated	other	comprehensive	comprehensive	shareholders'
			capital	compensation	deficit	comprehensive	income (loss)	shareholders'	equity
						Loss			
Balance as of January 1, 2004	5,410,680	\$11,036	\$ 1,437	\$ -	\$ (9,445)	\$ (6)			\$ 3,022
Issuance of Common shares, net	290,023	-	246	-	-	-			246
Deferred stock compensation related to options granted to an employee	-	-	25	(25)	-	-			-
Amortization of deferred stock compensation related to options granted to an employee	-	-	-	6	-	-			6
Comprehensive loss:									
Net loss									
Foreign currency translation adjustments	-	-	-	-	(252)	-	(252)	(252)	(252)
	-	-	-	-	-	26	26	26	26
Total other comprehensive loss							\$ 226		
							=====		
Balance as of March 31, 2004 (Unaudited)	5,700,703	\$11,036	\$ 1,708	\$ (19)	\$ (9,697)	\$ 20			\$ 3,048
	=====	=====	=====	=====	=====	=====	=====		=====

The accompanying notes are an integral part of the consolidated financial statements.

DIGITAL POWER CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Three months ended March 31,	
	2004	2003
	Unaudited	
Cash flows from operating activities:		
Net loss	\$ (252)	\$ (115)
Adjustments required to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	25	37
Compensation related to options granted to an employee	6	-
Decrease in deferred income taxes	-	342
Decrease in trade receivables	121	204
Increase in prepaid expenses and other current assets	(105)	(14)
Decrease in inventories	28	3
Decrease in accounts payables	(190)	(178)
Increase (decrease) in other current liabilities	233	(213)
Net cash provided by (used in) operating activities	(134)	66
Cash flows from investing activities:		
Purchase of property and equipment	(4)	(19)
Proceeds from long-term loan	-	6
Net cash used in investing activities	(4)	(13)
Cash flows from financing activities:		
Proceeds from short-term bank credit	-	40
Principal payments on capital lease obligations	-	(10)
Issuance of shares pursuant to an investment by Telkoor Telecom Ltd.	246	-
Net cash provided by financing activities	246	30
Effect of exchange rate changes on cash and cash equivalents	6	(15)
Increase in cash and cash equivalents	114	68
Cash and cash equivalents at the beginning of the period	1,050	616
Cash and cash equivalents at the end of the period	\$ 1,164	\$ 684
Supplemental disclosure of cash flows activities:		
Cash paid during the period for interest	\$ -	\$ 5

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1:- GENERAL

Digital Power Corporation ("the Company" or "DPC") was incorporated in 1969, under the General Corporation Law of the state of California. The Company has a wholly-owned subsidiary, Digital Power Limited ("DPL"), located in the United Kingdom. The Company and its subsidiary are currently engaged in the design, manufacture and sale of switching power supplies and converters. The Company has two reportable geographic segments - North America (sales through DPC) and Europe (sales through DPL).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2003, are applied consistently in these financial statements. In addition the following accounting policy is applied:

The accompanying unaudited consolidated financial statements as of March 31, 2004 and for the three months ended March 31, 2004 and 2003 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of the financial condition and results of operations, contained in the Company Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2004.

b. Accounting for stock-based compensation:

The Company and its subsidiary have elected to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB No. 25") in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Company's share options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized.

The Company and its subsidiary apply SFAS No. 123, and Emerging Issues Task Force No. 96-18 "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18"), with respect to options issued to non-employees SFAS No. 123 requires use of an option valuation model to measure the fair value of the options at the grant date.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Under Statement of Financial Accounting Standard No. 123 "Accounting for Stock Based compensation ("SFAS No. 123") SFAS No. 123, proforma information regarding net earnings (loss) and net earnings (loss) per share is required and has been determined as if the Company had accounted for its employee options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes Option Valuation Model, with the following weighted-average assumptions for March 31, 2004 and 2003. Expected volatility of 113% and 46% respectively, risk-free interest rates of 4.7% and 1.5%, respectively, dividend yield of 0% for each period, and a weighted-average expected life of the option of 4 years for each period. Stock compensation, for pro-forma purposes, is amortized over the vesting period.

The following table illustrates the effect on net loss and loss per share as if the fair value method had been applied to all outstanding and unvested awards in each period:

	Three months ended March 31,	
	2004	2003
	Unaudited	
Net loss available to Ordinary shares - as reported	\$ (252)	\$ (115)
Deduct - stock-based employee compensation - intrinsic value	6	-
Add - stock-based employee compensation -fair value	(81)	(620)
	-----	-----
Pro forma net loss	\$ (327)	\$ (735)
	=====	=====
Earning per share:		
Basic and diluted net loss, as reported	\$ (0.04)	\$ (0.03)
	=====	=====
Pro forma basic and diluted net loss	\$ (0.06)	\$ (0.16)
	=====	=====

NOTE 3:- SHARE CAPITAL

On January 12, 2004, the Company entered into an agreement to sell 290,023 shares of Common Stock to Telkooor Telecom Ltd. in consideration of \$246, net of issuance expenses. Additionally under the abovementioned agreement, Telkooor may purchase additional shares of Common Stock for an aggregate consideration of \$250 prior to or on June 30, 2004, as determined in the agreement.

NOTE 4:- PENDING LITIGATION

On April 2, 2003, a claim was filed against the Company by Tek-Tron Enterprises Inc. in state court of Pennsylvania, specifically, the Court of Common Pleas of Bucks County, at Case No. 0302116-24-1. Tek-Tron Enterprises Inc. is seeking damages of approximately \$300,000. This case is a complaint for breaking of contract and conversion of parts and infrastructure owned by Tek-Tron Enterprises Inc. located in the Company's former subsidiary, Poder Digital S.A.'s, Mexico manufacturing plant. The Company accrued \$ 102,000 including expenses related to the lawsuit.

NOTE 5:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHICAL INFORMATION

The Company has two reportable geographic segments, see Note 1 for a brief description of the Company's business. The data is presented in accordance with Statement of Financial Accounting Standard No.131, "Disclosure About Segments of an Enterprise and Related Information" ("SFAS No. 131").

The following data presents the revenues, expenditures and other operating data of the Company's geographic operating segments:

	Three months ended March 31, 2004 (Unaudited)			
	DPC	DPL	Eliminations	Total
Revenues	\$ 784	\$ 1,045	\$ -	\$ 1,829
Intersegment revenues	138	-	(138)	-
Total revenues	\$ 922	\$ 1,045	\$ (138)	\$ 1,829
Depreciation expense	\$ 7	\$ 18	\$ -	\$ 25
Operating loss	\$ (233)	\$ (51)	\$ -	\$ (284)
Financial income, net				\$ 32
Net loss	\$ (237)	\$ (15)	\$ -	\$ (252)
Expenditures for segment assets as of March 31, 2004	\$ -	\$ 4	\$ -	\$ 4
Identifiable assets as of March 31, 2004	\$ 2,242	\$ 2,972	\$ -	\$ 5,214

	Three months ended March 31, 2003 (unaudited)			
	DPC	DPL	Eliminations	Total
Revenues	\$ 994	\$ 1,139	\$ -	\$ 2,133
Intersegment revenues	203	-	(203)	-
Total revenues	\$ 1,197	\$ 1,139	\$ (203)	2,133
Depreciation expenses	\$ 8	\$ 29	\$ -	\$ 37
Operating loss	\$ (109)	\$ (10)	\$ -	\$ (119)
Financial expenses, net				\$ (4)
Loss before tax benefit				\$ (123)
Tax benefit	\$ -	\$ 8	\$ -	\$ 8
Net income (loss)	\$ (117)	\$ 2	\$ -	\$ (115)
Expenditures for segment assets as of March 31, 2003	\$ -	\$ 19	\$ -	\$ 19
Identifiable assets as of March 31, 2003	\$ 2,145	\$ 2,853	\$ -	\$ 4,998

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 electronic equipment industry, competition in the power supply industry, dependence on manufacturers in Mexico, China and other risks factors detailed in the Company's Form 10-KSB for the year ended December 31, 2003. 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.

GENERAL

We are engaged in the business of designing, developing, manufacturing, marketing and selling switching power supplies to telecommunications, data communication , test and measurement equipment, office and factory automation and instrumentation equipment manufacturers. Revenues are generated from sales to distributors, OEMs in the telecommunication, data communication, test and measurements equipment, office and factory automation and instrumentation manufacturers' equipment in North America, Europe, and the United Kingdom.

We have continued our efforts to increase sales to existing and new customers, and continue our strategy to manufacture our product in the Far East. Until revenues increase to a sufficient amount to offset our expenses, we anticipate that we will continue to experience net losses for the near future. We believe that our cash will be sufficient to fund those losses.

The Company entered into a securities purchase agreement on January 12, 2004 to sell 290,023 shares of Common stock to Telkoor Telecom Ltd. for the aggregate consideration of \$250,000. Telkoor may purchase additional shares of Common stock for an aggregate consideration of \$250,000 prior to or on June 30, 2004, as determined in the agreement.

On January 19, 2004, the Company hired Jonathan Wax as president and CEO.

THREE MONTHS ENDED MARCH 31, 2004, COMPARED TO MARCH 31, 2003

REVENUES

Total revenues decreased by 14.3% to \$1,829,000 for the first quarter ended March 31, 2004, from \$2,133,000 for the first quarter ended March 31, 2003. Revenues from the domestic operation of DPC decreased 21.1% to \$784,000 for the first quarter ended March 31, 2004, from \$994,000 for the first quarter ended March 31, 2003. Revenues from the Company's European operations of DPL decreased 8.3% to \$1,045,000 for the first quarter ended March 31, 2004, from \$1,139,000 for the first quarter ended March 31, 2003. The revenue decrease in the first quarter of 2004 is mainly due to a reduction in sales of our mature products and slower than anticipated ramp up in sales of our new products.

GROSS MARGINS

Gross margins were 23.8% for the three months ended March 31, 2004, compared to 27.9% for the three months ended March 31, 2003. The decrease in gross margins can be primarily attributed to the shift in product mix, fixed cost and decrease in revenues.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 7.5% of revenues for the three months ended March 31, 2004 and 6.8 % for the three months ended March 31, 2003. Actual dollar expenditures remained at approximately the same level.

SELLING AND MARKETING

Selling and marketing expenses were 16.6 % of revenues for the three months ended March 31, 2004, compared to 12.1% for the three months ended March 31, 2003. The increase in sales and marketing expenses were primarily due to new hires as part of our efforts to increase sales in the future.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were 15.3% of revenues for the three months ended March 31, 2004, compared to 14.5% for the three months ended March 31, 2003. In actual dollars, general and administrative expenditures decreased by \$30,000, which was mainly due to recovery of bad debt allowance.

FINANCIAL INCOME AND OTHER EXPENSES

Financial income net was \$32,000 for the three months ended March 31, 2004, compared to financial expenses net of \$4,000 for the three months ended March 31, 2003. The financial income resulted mainly from a favorable exchange rate.

LOSS BEFORE INCOME TAXES

For the three months ended March 31, 2004, the Company had a loss before income taxes of \$252,000 compared to a loss before income taxes of \$123,000 for the three months ended March 31, 2003. The loss increase is mainly due to the decrease in revenues and gross margin.

TAX BENEFIT

The tax benefit of \$8,000 for the first quarter of 2003 was from DPL. No tax benefit was recorded for the first quarter of 2004.

NET LOSS

Net loss for the three months ended March 31, 2004, was \$252,000 compared to net loss of \$115,000 for the three months ended March 31, 2003. The net loss increase is mainly due to the decrease in revenues and gross margin. The Company intends to reduce costs by transitioning the manufacture of our newer commercial product lines to the Far East.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2004, the Company had cash, cash equivalent and a short-term bank deposit of \$1,164,000 and working capital of \$2,727,000. This compares with cash and cash equivalent of \$684,000 and working capital of \$2,701,000 at March 31, 2003. The increase in working capital is mainly from the Telkoor Telecom investment of \$246,000, offset partially by the operating loss.

Cash used in operating activities for the Company totaled \$134,000 for the three months ended March 31, 2004, compared to cash provided of \$66,000 for the three months ended March 31, 2003. Cash used in investing activities was \$4,000 for the three months ended March 31, 2004, compared to \$13,000 for the three months ended March 31, 2003. Net cash provided by financing activities was \$246,000 for the three months ended March 31, 2004, compared to the net cash provided of \$30,000 for the three months ended March 31, 2003.

The Company has available a line of credit with Silicon Valley Bank ("SVB"). The Company can borrow up to \$1,200,000 against eligible accounts receivable and other financial covenants. The rate for this line of credit would be at Silicon Valley Bank's prime rate plus 1.75%. In order to utilize the line of credit, the Company is required to maintain certain ratios and be in compliance with other covenants. As of March 31, 2004, the Company has not utilized its line of credit.

The Company's subsidiary has a \$548,000 line of credit with Lloyds TSB Bank. Borrowing under this line of credit bears interest of 1.75% per annum over the bank's base rate. As of March 31, 2004, there is no outstanding balance on this line of credit.

The Company believes it has adequate resources at this time to continue its promotional efforts to increase sales in the electronic industry market. However, if the Company does not meet those goals, it may have to raise money through debts or equity, which may dilute shareholder's equity.

ITEM 3. CONTROLS AND PROCEDURES

The Company's management with the participation of the Company's principal executive and financial officers evaluated the effectiveness of the Company's disclosure controls and procedures (as defined Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. The Company's

disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act are recorded, processed, summarized and reported on a timely basis. Based upon their evaluation, the Company's principal executive and financial officers concluded that the Company's disclosure controls and procedures are effective to accumulate and communicate to the Company's management as appropriate to allow timely decisions regarding disclosure.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company is subject to exposure to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to any such current actions will not materially affect the financial position or results of operations of the Company.

ITEM 2. CHANGES IN SECURITIES

On January 12, 2004, the Company sold 290,023 shares of common stock for \$0.862 per share to Telkooor Telecom Ltd. Under the terms of the stock purchase agreement, Telkooor may invest an additional \$250,000 on or before June 30, 2004. The purchase price per share for the additional investment is the average closing price of the Company's common stock twenty (20) trading days prior to notice of intent to invest. There was no broker or placement agent in this transaction.

The sales and issuance of common stock was made by us in reliance upon the exemptions from registration provided under Section 4(2) and 4(6) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D, promulgated by the SEC under federal securities laws and comparable exemptions for sales to "accredited" investors under state securities laws. The offers and sales were made to accredited investors as defined in Rule 501(a) under the Securities Act, no general solicitation was made by us or any person acting on our behalf; the securities sold were subject to transfer restrictions, and the certificates for those shares contained an appropriate legend stating that they had not been registered under the Securities Act and may not be offered or sold absent registration or pursuant to an exemption there from.

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

(a)	Exhibits -----
3(ii)	Bylaws as Amended
31.1	Certification of the CEO under the Sarbanes-Oxley Act
31.2	Certification of the CFO under the Sarbanes-Oxley Act
32	Certification of the CEO & CFO under the Sarbanes-Oxley Act
(b)	Reports on Form 8-K

The Company filed the following reports:

Date of Report -----	Date of Event -----	Item reported -----
March 17, 2004	March 11, 2004	Press release announcing fourth quarter results, Mark Thum's resignation from the Board and elimination of Executive CEO position
January 14, 2004	January 11, 2004	Press release announcing securities purchase agreement with Telkoor Telecom Ltd.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIGITAL POWER CORPORATION (Registrant)

Date: May 12, 2004

/s/ JONATHAN WAX

*Jonathan Wax
Chief Executive Officer
(Principal Executive Officer)*

Date: May 12, 2004

/s/ HAIM YATIM

*Haim Yatim
Chief Financial Officer
(Principal Financial and
Accounting Officer)*

**AMENDED BY-LAWS OF
DIGITAL POWER CORPORATION**

**ARTICLE I
CORPORATE OFFICES**

1.1 PRINCIPAL OFFICE.

The board of directors shall fix the location of the principal executive office of the corporation at any place within or outside the State of California. If the principal executive office is located outside such state, and the corporation has one or more business offices in such state, the board of directors shall fix and designate a principal business office in the State of California.

1.2 OTHER OFFICES.

The board of directors may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

**ARTICLE II
MEETINGS OF SHAREHOLDERS**

2.1 PLACE OF MEETINGS.

Meetings of shareholders shall be held at any place within or outside the State of California designated by the board of directors. In the absence of any such destination, shareholders' meetings shall be held at the principal executive office of the corporation.

2.2 ANNUAL MEETING.

The annual meetings of shareholders shall be held on the second Friday in May of each year at 10:00 a.m., or such other date or such other time as may be fixed by the board of directors; provided, however, that should said day fall upon a legal holiday, then any such annual meeting of shareholders shall be held at the same time and place on the next date thereafter ensuing which is not a legal holiday; provided, further, that if the board of directors wishes to set an annual meeting date by resolution, then such resolution must be passed by the board of directors not less than eighty (80) days prior to the date adopted in the resolution. At such meetings, directors shall be elected, reports of the affairs of the corporation shall be considered, and any other business may be transacted which is within the powers of the shareholders.

At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, or (b) or otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a shareholder's notice must be delivered or mailed and received at the principal executive offices of the corporation, not less than 40 days nor more than 60 days prior to the meeting; provided, however, that in the event that less than 50 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business of the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation's books, of the shareholder proposing such business, (c) the class and number of the shares of the corporation which are beneficially owned by the shareholder, and (d) any material interest of the shareholder in such business. Notwithstanding anything in the by-laws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Article 2.2. The Chairman of the annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Article 2.2, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

2.3 SPECIAL MEETING.

A special meeting of the shareholders may be called at anytime by the board of directors, or by the chairman of the board, or by the president, or by one or more shareholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes at that meeting.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, any vice president or the secretary of the corporation. The officer receiving the request shall cause notice to be promptly given to the shareholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5 of these by-laws, that a meeting will be held at the time requested by the person or persons calling the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, the person or persons requesting

the meeting may give the notice. Nothing contained in this paragraph of this

Section 2.3 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the board of directors may be held.

2.4 NOTICE OF SHAREHOLDERS' MEETINGS.

All notices of meetings of shareholders shall be sent, or otherwise given in accordance with Section 2.5 of these by-laws, not less than ten (10) nor more than sixty (60) days before the date of the meeting to each shareholder entitled to vote thereat. The notice shall specify the place, date, and hour of the meeting.

In the case of a special meeting the notice shall specify the general nature of the business to be transacted and no other business may be transacted at said meeting.

In the case of the annual meeting the notice shall specify those matters which the board of directors, at the time of the mailing of the notice, intends to present for action by the shareholders, but any proper matter may be presented at the meeting. The notice shall also state the general nature of the business or proposal to be considered or acted upon at such meeting before action may be taken at such meeting for approval of (i) any transaction governed by Section 310 of the California Corporations Code including a proposal to enter into a contract or other transaction between the corporation and one or more of its directors, or between the corporation and any corporation, firm, or association in which one or more of the corporation's directors has a material financial interest or in which one or more of its directors are directors; or

(ii) a proposal to amend the articles of incorporation in any manner other than may be accomplished by the board of directors alone as permitted by subsections

(b) through (d) of Section 902 of that Code; or (iii) a proposal to reorganize the corporation under Section 1201 of that Code; or (iv) a proposal to wind up and dissolve the corporation under Section 1900 of that Code; or (v) if the corporation is in the process of winding up and has both preferred and common shares outstanding, a proposal for a plan of distribution of the shares, obligations, or security of any other corporation, domestic or foreign, or assets other than money which is not in accordance with the liquidation rights of the preferred shares as specified in the articles of incorporation of this corporation.

The notice of any meeting at which directors are to be elected shall include the name of any candidates intended at the time of the notice to be presented by the board of directors for election. Shareholders who intend to present their own slate of candidates must give notice to the board of directors of the name(s), address(es), and telephone number(s) of such candidate(s) not less than seventy (70) days prior to the meeting date as set forth in these by-laws or by resolution of the board. Only nominees approved by the board of directors will be included on the proxy statement and proxy solicited by the board of directors. Notice shall be deemed submitted to the board if it is delivered to the Secretary of the corporation personally or by first-class mail, by telegraph, facsimile, or other form of written communication, charges prepaid, addressed to the corporation's principal executive office. Notice shall be deemed to have been given at the time delivered personally, deposited in the mail, delivered to a common carrier for transmission to the recipient, or actually transmitted by facsimile or electronic means to the recipient by the person giving the notice.

2.5 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE.

Notice of any meeting of shareholders shall be given either personally or by first-class mail or telegraphic or other written communication, charges prepaid, addressed to the shareholder at the address of that shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or is given, notice shall be deemed to have been given if sent to that shareholder by first-class mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

If any notice addressed to a shareholder at the address of that shareholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at that address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the shareholder on written demand of the shareholder at the principal executive office of the corporation for a period of one (1) year from the date of the giving of the notice.

An affidavit of the mailing or other means of giving any notice of any shareholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be PRIMA FACIE evidence of the giving of such notice.

2.6 QUORUM.

The presence in person or by proxy of the holders of a majority of the shares entitled to vote there at constitutes a quorum for the transaction of business at all meetings of shareholders. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

2.7 ADJOURNED MEETING; NOTICE.

Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy, but in the absence of a quorum, no other business may be transacted at that meeting, except as provided in Section 2.6 of these by-laws.

When any meeting of shareholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at the meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than forty-five (45) days from the date set for the original meeting, in which case notice of the adjourned meeting shall be given.

Notice of any such adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 2.4 and 2.5 of these by-laws. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

2.8 VOTING.

The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with the provisions of Section 2.11 of these by-laws, subject to the provisions of Sections 702 to 704, inclusive, of the Code (relating to voting shares held by a fiduciary, in the name of a corporation or in joint ownership).

The shareholders' vote may be by voice vote or by ballot; provided, however, that any election for directors must be by ballot if demanded by any shareholder before the voting has begun.

On any matter other than the election of directors, any shareholder may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, but, if the shareholder fails to specify the number of shares which the shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares which the shareholder is entitled to vote.

If a quorum is present, the affirmative vote of the majority of the shares represented and voting at a duly-held meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number, or voting by classes, is required by the Code or by the articles of incorporation.

At a shareholders' meeting at which directors are to be elected, no shareholder shall be entitled to cumulate votes (i.e. cast for any candidate a number of votes greater than the number of votes which such shareholder normally is entitled to cast) unless the candidates' names have been placed in nomination prior to commencement of the voting and a shareholder has given notice prior to commencement of the voting of the shareholder's intention to cumulate votes. If any shareholder has given such a notice, then every shareholder entitled to vote may cumulate votes for candidates placed in nomination and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which that shareholder's shares are entitled, or distribute the shareholder's votes on the same principle among any or all of the candidates, as the shareholder thinks fit. The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

2.9 VALIDATION OF MEETINGS: WAIVER OF NOTICE; CONSENT.

The transactions of any meeting of shareholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each

person entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in Section 2.4 of these by-laws, the waiver of notice or consent shall state the general nature of the proposal. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of that meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of a matter not included in the notice of the meeting, if that objection is expressly made at the meeting.

2.10 SHAREHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

Any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted.

In the case of election of directors, such a consent shall be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors.

All such consents shall be maintained in the corporate records. Any shareholder giving a written consent, or the shareholder's proxy holders, or a transferee of the shares, or a personal representative of the shareholder, or their respective proxy holders, may revoke the consent by a writing received by the secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been filed with the secretary.

If the consents of all shareholders entitled to vote have not been solicited in writing, and if the unanimous written consent of all such shareholders shall not have been received, the secretary shall give prompt notice of the corporate action approved by the shareholders without a meeting. Such notice shall be given in the manner specified in Section 2.5 of these by-laws. In the case of approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Code, (ii) indemnification of a corporate "agent", pursuant to Section 317 of the Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of the Code, and (iv) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of the Code, the notice shall be given at least ten (10) days before the consummation of any action authorized by that approval.

2.11 RECORD DATE FOR SHAREHOLDER NOTICE, VOTING AND GIVING CONSENTS.

For purposes of determining the shareholders entitled to notice of any meeting or to vote thereat or entitled to give consent to corporate action without a meeting, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting nor more than sixty (60) days before any such action without a meeting, and in such event only shareholders of record on the date so fixed are entitled to notice and to vote or to give consents, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the Code.

If the board of directors does not so fix a record date:

(a) the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held; and

(b) the record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the board has been taken, shall be the day on which the first written consent is given or (ii) when prior action by the board has been taken, shall be the day on which the board adopts the resolution relating to that action, or the sixtieth (60th) day before the date of such other action, whichever is later.

The record date for any other purpose shall be as provided in Article VIII of these by-laws.

2.12 PROXIES.

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the shareholder's name is placed on the proxy whether by manual signature, typewriting, telegraphic transmission or otherwise) by the shareholder or the shareholder's attorney-in-fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, before the vote pursuant to that proxy, by a writing delivered to the corporation stating that the proxy is revoked, or by a subsequent proxy executed by the person executing the prior proxy and presented to the meeting, or as to any meeting by attendance at such meeting and voting in person by the person executing the proxy or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Sections 705(e) and 705(f) of the Code.

2.13 INSPECTORS OF ELECTION.

Before any meeting of shareholders, the board of directors may appoint an inspector or inspectors of election to act at the meeting or its adjournment. If no inspector of election is so appointed, the chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint an inspector or inspectors of election to act at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting pursuant to the request of one (1) or more shareholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy, shall, appoint a person to fill that vacancy.

Such inspectors shall:

- (a) Determine the number of shares outstanding and the voting power of each of the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies;
- (b) Receive votes, ballots or consents;
- (c) Hear and determine all challenges and questions in any way arising in connection with the right to vote;
- (d) Count and tabulate all votes or consents;
- (e) Determine when the polls shall close;
- (f) Determine the result; and
- (g) Do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

ARTICLE III

DIRECTORS

3.1 POWERS.

Subject to the provisions of the Code and any limitations in the articles of incorporation and these by-laws relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

Any director may resign effective on giving written notice to the chairman

of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.2 NUMBER AND QUALIFICATION OF DIRECTORS.

The authorized number of directors shall be not less than five (5) not more than nine (9) with the exact number of directors to be fixed, within the limited specified, by approval of the board or the shareholders in the manner provided in the by-laws and section 204(a) of the California Corporations Code.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS.

Directors shall be elected at each annual meeting of shareholders to hold office until the next such annual meeting. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

3.4 VACANCIES.

Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, except that a vacancy created by the removal of a director by the vote or written consent of the shareholders or by court order may be filled only by the vote of a majority of the outstanding shares entitled to vote thereon represented at a duly held meeting at which a quorum is present, or by the unanimous written consent of all shares entitled to vote thereon. Each director so elected shall hold office until the next annual meeting of the shareholders and until a successor has been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist in the event of the death, resignation or removal of any director, or if the board of directors by resolution declares vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony, or if the authorized number of directors is increased, or if the shareholders fail, at any meeting of shareholders at which any director or directors are elected, to elect the number of directors to be elected at that meeting.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors, but any such election other than to fill a vacancy created by removal, if by written consent, shall require the consent of the holders of a majority of the outstanding shares entitled to vote thereon.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE.

Regular meetings of the board of directors may be held at any place within or outside the State of California that has been designated from time to time by resolution of the board. In the absence of such a designation regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of California that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another; and all such directors shall be deemed to be present in person at the meeting.

3.6 REGULAR MEETINGS.

Regular meetings of the board of directors may be held without notice if the times of such meetings are fixed by the board of directors.

3.7 SPECIAL MEETINGS.

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally, or by telephone, including a system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail, or other electronic means, it shall be delivered personally or by telephone, including a designed to record and communicate messages, facsimile, electronic mail, or other electronic means or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

3.8 QUORUM.

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.10 of these by-laws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorums present shall be regarded as the act of the board of directors, subject to the provisions of

Section 310 of the Code (as to approval of contracts or transactions in which a director has a direct or indirect material financial interest), Section 311 of the Code (as to appointment of committees) and Section 317(e) of the Code (as to indemnification of directors).

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 WAIVER OF NOTICE.

The transactions of any meeting of the board of directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. The waiver of notice or consent need not specify the purpose of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting, before or at its commencement, the lack of notice to that director.

3.10 ADJOURNMENT.

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

3.11 NOTICE OF ADJOURNMENT.

Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case notice of the time and place shall be given before the time of the adjourned meeting, in the manner specified in Section 3.7 of these by-laws, to the directors who were not present at the time of the adjournment.

3.12 ACTION WITHOUT MEETING.

Any action required or permitted to be taken by the board of directors may be taken without a meeting, if all members of the board shall individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board.

3.13 FEES AND COMPENSATION OF DIRECTORS.

Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement of expenses, as may be fixed or determined by resolution of the board of directors. This Section 3.13 shall not

be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS.

The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one (1) or more committees, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

- (a) the approval of any action which, under the Code, also requires shareholders' approval or approval of the outstanding shares;
- (b) the filling of vacancies in the board of directors or in any committee;
- (c) the fixing of compensation of the directors for serving on the board or any committee;
- (d) the amendment or repeal of these by-laws or the adoption of new by-laws;
- (e) the amendment or repeal of any resolution of the board of directors which by its express terms is not so amendable or repealable;
- (f) a distribution to the shareholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the board of directors; or
- (g) the appointment of any other committees of the board of directors or the members of such committees.

4.2 MEETINGS AND ACTION OF COMMITTEES.

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these by-laws, Section 3.5 (place of meetings), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment), Section 3.11 (notice of adjournment) and Section 3.12 (action without meeting), with such changes in the context of those by-laws as are necessary to substitute the committee and its members for the board of directors and its members, except that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee; special meetings of committees may also be

called by resolution of the board of directors; and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these by-laws.

ARTICLE V

OFFICERS

5.1 OFFICERS.

The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these by-laws. Any number of offices may be held by the same person.

5.2 ELECTION OF OFFICERS.

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these by-laws, shall be chosen by the board, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS.

The board of directors may appoint, or may empower the president to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these by-laws or as the board of directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS.

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the board of directors at any regular or special meeting of the board or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES.

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these by-laws for regular appointments to that office.

5.6 CHAIRMAN OF THE BOARD.

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may be from time to time assigned to him by the board of directors or prescribed by these by-laws. If there is no president, the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these by-laws.

5.7 PRESIDENT.

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction and control of the business and the officers of the corporation. He shall preside at all meetings of the shareholders and, in the absence of the chairman of the board, or if there be none, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the board of directors or these by-laws.

5.8 VICE PRESIDENTS.

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these by-laws, the president or the chairman of the board.

5.9 SECRETARY.

The secretary shall keep or cause to be kept, at the principal executive office of the corporation, or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and shareholders, with the time and place of holding, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all shareholders

and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the board of directors required by these by-laws or by law to be given, and he shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these by-laws.

5.10 CHIEF FINANCIAL OFFICER.

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these by-laws.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, AND OFFICERS, EMPLOYEES AND OTHER AGENTS

The corporation shall, to the maximum extent and in the manner permitted by the Code, indemnify each of its agents against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact any such person is or was an agent of the corporation. For purposes of this Article VI, an "agent" of the corporation includes any person who is or was a director, officer, employee or other agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or was a director, officer, employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF SHARE REGISTER.

The corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed and as determined by resolution of the board of directors, a record of its shareholders, giving the names and addresses of all shareholders and the number and class of shares held by each shareholder.

A shareholder or shareholders of the corporation holding at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation or who holds at least one percent (1%) of such voting shares and has filed a Schedule 14B with the Securities and Exchange Commission relating to the election of directors, may (i) inspect and copy the records of shareholders' names and addresses and shareholdings during usual business hours on five (5) days' prior written demand on the corporation, (ii) obtain from the transfer agent of the corporation, on written demand and on the tender of such transfer agent's usual charges for such list, a list of the names and addresses of the shareholders who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which that list has been compiled or as of a date specified by the shareholder after the date of demand. Such list shall be made available to any such shareholder by the transfer agent on or before the later of five (5) days after the demand is received or five (5) days after the date specified in the demand as the date as of which the list is to be compiled.

The record of shareholders shall also be open to inspection on the written demand of any shareholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate.

Any inspection and copying under this Section 7.1 may be made in person or by an agent or attorney of the shareholder or holder of a voting trust certificate making the demand.

7.2 MAINTENANCE AND INSPECTION OF BY-LAWS.

The corporation shall keep at its principal executive office, or if its principal executive office is not in the State of California, at its principal business office in such state, the original or a copy of these by-laws as amended to date, which by-laws shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office of the corporation is outside the State of California and the corporation has no principal business office in such state, the secretary shall, upon the written request of any shareholder, furnish to that shareholder a copy of these by-laws as amended to date.

7.3 MAINTENANCE AND INSPECTION OF OTHER CORPORATE RECORDS.

The accounting books and records, and the minutes of proceedings of the shareholders and the board of directors and any committee or committees of the board of directors, shall be kept at such place or places designated by the board of directors or, in absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form.

The minutes and accounting books and records shall be open to inspection upon the written demand of any shareholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate. The inspection may be made in person or by an agent or attorney, and shall include the right to copy and make extracts. Such rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

7.4 INSPECTION BY DIRECTORS.

Every director shall have the absolute right at any reasonable time to inspect all books, records and documents of every kind and the physical properties of the corporation and each of its subsidiary corporations. Such inspection by a director may be made in person or by an agent or attorney, and the right of inspection includes the right to copy and make extracts of documents.

7.5 ANNUAL REPORT TO SHAREHOLDERS; WAIVER.

The board of directors shall cause an annual report to be sent to the shareholders not later than one hundred twenty (120) days after the close of the fiscal year adopted by the corporation. Such report shall be sent at least fifteen (15) days before the annual meeting of shareholders to be held during the next fiscal year and in the manner specified in Section 2.5 of these by-laws for giving notice to shareholders of the corporation.

The annual report shall contain a balance sheet as of the end of the fiscal year and an income statement and statement of changes in financial position for the fiscal year, accompanied by any report of independent accountants or, if there is no such report, the certificate of an authorized officer of the corporation that the statements were prepared without audit from the books and records of the corporation.

The foregoing requirement of an annual report shall be waived so long as the shares of the corporation are held by less than one hundred (100) holders of record.

7.6 FINANCIAL STATEMENTS.

A copy of any annual financial statement and any income statement of the corporation for each quarterly period of each fiscal year, and any accompanying balance sheet of the corporation as of the end of each such period, that has been prepared by the corporation shall be kept on file in the principal executive office of the corporation for twelve (12) months; and each such statement shall be exhibited at all reasonable times to any shareholder demanding an examination of any such statement or a copy shall be mailed to any such shareholder.

If a shareholder or shareholders holding at least five percent (5%) of the outstanding shares of any class of stock of the corporation makes a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the then current fiscal year

ended more than thirty (30) days before the date of the request, and for a balance sheet of the corporation as of the end of that period, the chief financial officer shall cause that statement to be prepared, if not already prepared, and shall deliver personally or mail that statement or statements to the person making the request within thirty (30) days after the receipt of the request. If the corporation has not sent to the shareholders its annual report for the last fiscal year, such report shall likewise be delivered or mailed to the shareholder or shareholders within thirty (30) days after the request.

The corporation shall also, on the written request of any shareholder, mail to the shareholder a copy of the last annual, semi-annual or quarterly income statement which it has prepared, and a balance sheet as of the end of that period.

The quarterly income statements and balance sheets referred to in this section shall be accompanied by the report, if any, of any independent accountants engaged by the corporation or the certificate of an authorized officer of the corporation that the financial statements were prepared without audit from the books and records of the corporation.

ARTICLE VIII

GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING.

For purposes of determining the shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action (other than action by shareholders by written consent without a meeting), the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action, and in that case only shareholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the Code.

If the board of directors does not so fix a record date, the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution or the sixtieth (60th) day before the date of that action, whichever is later.

8.2 CHECKS, DRAFTS, EVIDENCES OF INDEBTEDNESS.

All checks, drafts, or other orders for payment of money, notes, or other evidences of indebtedness, issued in the name of or payable to the corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the board of directors.

8.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED.

The board of directors, except as otherwise provided in these by-laws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific

instances; and, unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.4 CERTIFICATES FOR SHARES.

A certificate or certificates for shares of the corporation shall be issued to each shareholder when any of such shares are fully paid, and the board of directors may authorize the issuance of certificates or shares as partly paid provided that these certificates shall state the amount of the consideration to be paid for them and the amount paid. All certificates shall be signed in the name of the corporation by the chairman of the board or vice chairman of the board or the president or a vice president and by the chief financial officer or an assistant treasurer or the secretary or an assistant secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be by facsimile.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on a certificate shall have ceased to be that officer, transfer agent or registrar before that certificate is issued, it may be issued by the corporation with the same effect as if that person were an officer, transfer agent or registrar at the date of issue.

8.5 LOST CERTIFICATES.

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of replacement certificates on such terms and conditions as the board may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

8.6 CONSTRUCTION AND DEFINITIONS.

Unless the context requires otherwise, the general provisions, rules of construction and definitions in the Code shall govern the construction of these by-laws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE IX

AMENDMENTS

9.1 AMENDMENT BY SHAREHOLDERS.

New by-laws may be adopted or these by-laws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that if the articles of incorporation of the corporation set forth the number of authorized directors of the corporation, the authorized number of directors may be changed only by an amendment as required by applicable law.

9.2 AMENDMENT BY DIRECTORS.

Subject to the rights of the shareholders as provided in Section 9.1 of these by-laws, by-laws, other than a by-law or an amendment of a by-law changing the authorized number of directors (except to fix the authorized number of directors pursuant to a by-law providing for a variable number of directors), may be adopted, amended, or repealed by the board of directors.

CERTIFICATIONS

I, Jonathan Wax, certify that:

1. I have reviewed this quarterly report for the quarter ended March 31, 2004 of Digital Power Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) omitted;
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: May 12, 2004

/s/ JONATHAN WAX

Jonathan Wax
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Haim Yatim, certify that:

1. I have reviewed this quarterly report for the quarter ended March 31, 2004 of Digital Power Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) omitted;
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: May 12, 2004

/s/ HAIM YATIM

*Haim Yatim
Chief Financial Officer
(Principal Accounting and Financial
Officer)*

CERTIFICATION PURSUANT TO

**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Digital Power Corporation (the "Company") on Form 10-QSB for the period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), We, Jonathan Wax, Chief Executive Officer and Haim Yatim, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge and belief:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: May 12, 2004

/s/ JONATHAN WAX

*Jonathan Wax,
Chief Executive Officer
(Principal Executive Officer)*

Dated: May 12, 2004

/s/ HAIM YATIM

*Haim Yatim,
Chief Financial Officer
(Principal Financial and Accounting
Officer)*