DIGITAL POWER CORP
Form 10QSB
August 14, 2002

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2002

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _______ to _______

COMMISSION FILE NUMBER 1-12711

DIGITAL POWER CORPORATION
(Exact name of small business issuer as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	94-1721931 (IRS Employer Identification No.)

41920 Christy Street, Fremont, CA 94538-3158
(Address of principal executive offices)

(510) 657-2635
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Number of shares of common stock outstanding as of June 30, 2002: 4,510,680

DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

		JUNE 30, 2002	
		(Unaudited)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$	1,022,335	$
Accounts receivable, net of allowance for doubtful accounts of $284,318, $322,815 and $370,000 at June 30, 2002 and 2001, and December 31, 2001 respectively		1,987,374	
Income tax refund receivable		20,609	
Other receivables		85,758	
Inventories, net		1,583,776	
Prepaid expenses and deposits		100,358	
Total current assets		4,800,210	
PROPERTY AND EQUIPMENT, net		715,107	
OTHER ASSETS		29,432	
TOTAL ASSETS	$	5,544,749	$
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable	$	-	$
Current portion of capital lease obligation		36,588	
Accounts payable		1,473,137	
Accrued liabilities		1,442,061	
Total current liabilities		2,951,786	
CAPITAL LEASE OBLIGATIONS, less current portion		7,623	
OTHER LONG TERM LIABILITIES		12,488	
Total liabilities		2,971,897	
SHAREHOLDERS' EQUITY:			
Preferred stock issuable in series, no par value; 2,000,000 shares authorized, no shares issued and outstanding		-	
Common stock, no par value, 10,000,000 shares authorized; 4,510,680 3,260,680 and 4,510,680 shares issued and outstanding at June 30, 2002 and 2001 and December 31, 2001, respectively		11,036,251	
Additional paid-in capital		733,256	
Accumulated deficit		(8,961,918)	
Accumulated other comprehensive loss		(234,737)	
Total shareholders' equity		2,572,852	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	5,544,749	$

** Condensed from December 31, 2001 audited financial statements included in the Company's Form 10-KSB

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR T MONTHS JUN
	2002	2001	2002
	(unaudited)		(unau
REVENUES	$ 2,358,100	$ 2,489,748	$ 4,540,949
COST OF GOODS SOLD	1,637,234	6,105,266	3,284,498
Gross margin (loss)	720,866	(3,615,518)	1,256,451
OPERATING EXPENSES			
Research and development	183,383	313,729	372,809
Marketing and selling	268,996	222,805	522,116
General and administrative	278,554	509,370	528,655
Impairment of goodwill	-	948,263	-
Total operating expenses	730,933	1,994,167	1,423,580
LOSS FROM OPERATIONS	(10,067)	(5,609,685)	(167,129)
OTHER INCOME (EXPENSE)			
Interest income	25,940	2,748	28,698
Interest expense	(5,906)	(17,386)	(17,378)
Other income (expense)	9,689		9,689
Loss on disposal of assets	-	(22,769) -	(4,428)
Other income (expense)	29,723	(37,407)	16,581
INCOME (LOSS) BEFORE INCOME TAXES	19,656	(5,647,092)	(150,548)
INCOME TAX PROVISION	14,046	(88,000)	39,716
NET INCOME (LOSS)	$ 5,610	$ (5,559,092)	$ (190,264)
Basic net income (loss) per share	$ 0.01	$ (1.70)	$ (0.04)
Diluted net income (loss) per share	$ 0.01	$ (1.70)	$ (0.04)

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** Condensed from December 31, 2001 audited financial statements included in the Company's Form 10-KSB

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAIN-IN CAPITAL	ACCUMULATED DEFICIT	ACCUM OT COMPRE (LO
BALANCES, January 1, 2001	3,260,680	$ 9,786,251	$ 733,256	$ (1,730,934)	$ (247
Issuance of common stock to Telkoor Telecom, Ltd pursuant to investment agreement	1,250,000	1,250,000	-	-	
Comprehensive loss:					
Net loss	-	-	-	(7,040,720)	
Foreign currency translation adjustment	-	-	-	-	(65
Total comprehensive loss	-	-	-	-	
BALANCES, December 31, 2001	4,510,680	11,036,251	733,256	(8,771,654)	(31
Comprehensive loss:					
Net loss	-	-	-	(190,264)	
Foreign currency translation adjustment	-	-	-	-	7
Total comprehensive loss	-	-	-	-	
BALANCES, June 30, 2002	4,510,680	$11,036,251	$ 733,256	$(8,961,918)	$ (234
BALANCES, April 1, 2002	4,510,680	11,036,251	733,256	(8,967,528)	(342
Comprehensive loss:					
Net income	-	-	-	5,610	
Foreign currency translation adjustment	-	-	-	-	10
Total comprehensive income	-	-	-	-	
BALANCES, June 30, 2002	4,510,680	$11,036,251	$ 733,256	$(8,961,918)	(2

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See accompanying notes to these condensed consolidated financial statements.

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULA OTHER COMPREHEN (LOSS)
BALANCES, January 1, 2001	3,260,680	$ 9,786,251	$ 733,256	$ (1,730,934)	$ (247,299
Comprehensive loss:					
Net loss	-	-	-	(6,340,119)	-
Foreign currency translation adjustment	-	-	-	-	(138,671
Total comprehensive loss	-	-	-	-	-
BALANCES, June 30, 2001	3,680,680	$ 9,786,251	$ 733,256	$ (8,071,053)	$ (385,970
BALANCES, April 1, 2001	3,680,680	$ 9,786,251	$ 733,256	$ (2,511,961)	$ (397,156
Comprehensive loss:					
Net loss	-	-	-	(5,559,092)	-
Foreign currency translation adjustment	-	-	-	-	11,18
Total comprehensive loss	-	-	-	-	-
BALANCES, June 30, 2001	3,680,680	$ 9,786,251	$ 733,256	$ (8,071,053)	$ (385,970

See accompanying notes to these condensed consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE FOR THE SIX

	MONTHS ENDED JUNE 30,		MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 5,610	$ (5,559,092)	$ (190,264)	$ (6,340,119)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	73,707	89,308	159,280	216,590
Loss on disposal of assets	4,428	22,769	4,428	22,769
Deferred income taxes	-	(124)	-	349,522
	-	(40,000)		
Warranty Expense			-	(40,000)
Increase in provision for inventory obsolescence	-	3,250,560	-	3,250,560
Allowance for doubtful accounts	(99,812)	(91,397)	(85,682)	(91,397)
Impairment of goodwill	-	946,263	-	946,263
Severance accrual	-	658,000	-	658,000
Changes in operating assets and liabilities:				
Accounts receivable	56,398	699,603	301,972	1,522,929
Income tax refund receivable	(15,281)		6,213	150,000
Other receivables	106,654	20,886	51,779	15,491
Inventories	34,308	(408,800)	415,392	(629,000)
Prepaid expenses and deposits	(62,952)	85,071	(52,824)	101,288
Other assets	2,362	(869)	5,684	(8,590)
Accounts payable	49,168	291,216	(117,693)	(284,662)
Accrued liabilities	(9,461)	(95,670)	(68,658)	(94,612)
Other long-term liabilities	(1,298)		(1,121)	-
Net cash provided by (used in) operating activities	$ 143,831	$(132,276)	$ 428,506	$(254,968)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(54,632)	(34,528)	(58,496)	(74,507)
Proceeds from sale of assets	-	5,758	-	5,758
Net cash (used in) investing	(54,632)	(28,770)	(58,496)	(68,749)

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DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE THREE MONTHS ENDED JUNE 30		FO MO
	2002	2001	2002
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds received (payments made) on notes payable	(552,290)		(652,2
Principal payments on capital lease obligations	(4,239)	(13,381)	(16,0
Investment from Telkoor Telecom, Ltd.	-	-	-
Net cash provided by (used in) financing activities	(556,529)	(13,381)	(668,2
EFFECT OF EXCHANGE RATE CHANGES ON CASH	107,636	11,186	77,70
NET CHANGE IN CASH AND CASH EQUIVALENTS	(359,694)	(163.241)	(220,56
CASH AND CASH EQUIVALENTS, beginning of period	1,382,029	928,385	1,242,9
CASH AND CASH EQUIVALENTS, end of period	$ 1,022,335	$ 765,144	$ 1,022,3
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash payments for:			
Interest	$ 3,268	$ 17,081	$ 17,0
Income taxes	$ -	$ -	$ -

(Continued)

See accompanying notes to these consolidated financial statements.

DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 2001.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company's financial position at June 30, 2002 and 2001, the results of operations, statement of shareholders' equity and cash flows for the three and six months then ended. The results for the period ended June 30, 2002, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2002.

2. SIGNIFICANT ACCOUNTING POLICIES:

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

3. EARNINGS PER SHARE

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MON ENDED JUNE 30,	
	2002	2001	2002	
BASIC & DILUTED				
Net income (loss)	$ 5,610	$ (5,559,092)	$ (190,264)	$
Less: Preferred stock dividends	-	-	-	
Net income (loss) applicable to common shareholders	$ 5,610	$ (5,559,092)	$ (190,264)	$
Weighted average number of common shares	4,510,680	3,260,680	4,510,680	
Basic income (loss) per share	$ 0.01	$ (1.70)	$ (0.04)	$
Diluted income (loss) per share	$ 0.01	$ (1.70)	$ (0.04)	$

DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

4. SEGMENT INFORMATION:

The Company has identified its segments based upon its geographic operations. These segments are represented by each of the Company's individual legal entities: Digital Power Corporation (DPC), Poder Digital, S.A. de C.V. (PD) and Digital Power Limited (DPL). Segment information is as follows:

For the Three Months Ended June 30, 2002

		DPC		PD		DPL		Elimination
Revenues	$	1,423,606	$	-	$	934,494	$	-
Intersegment Revenues	$	114,786	$	256,009	$	-	$	(370,
Interest Income	$	3,178	$	6	$	25,303	$	(2,
Interest Expense	$	4,800	$	375	$	3,278	$	(2,
Income Tax Expense	$	-	$	-	$	14,046	$	-
Net income (loss)	$	86,609	$	(150,215)	$	69,216	$	-

For the Three Months Ended June 30, 2001

		DPC		PD		DPL		Elimination
Revenues	$	1,431,631	$	427	$	1,057,690	$	-
Intersegment Revenues	$	193,637	$	630,981	$	880	$	(825,
Interest Income	$	7,201	$	478	$	1,364	$	(6,
Interest Expense	$	17,221	$	165	$	6,295	$	(6,
Income Tax Expense (benefit)	$	-	$	-	$	(88,000)	$	-
Net income (loss)	$	(5,368,042)	$	25,369	$	(216,419)	$	-

For the Six Months Ended June 30, 2002

		DPC		PD		DPL		Elimination
Revenues	$	2,585,367	$	-	$	1,955,582	$	-
Intersegment Revenues	$	213,224	$	495,822	$	-	$	(709,
Interest Income	$	7,502	$	22	$	24,553	$	(3,
Interest Expense	$	13,045	$	-	$	7,712	$	(3,
Income Tax Expense	$	-	$	-	$	39,716	$	-
Net income (loss)	$	54,237	$	(343,162)	$	98,661	$	-

For the Six Months Ended June 31, 2001

		DPC		PD		DPL		Elimination
Revenues	$	3,391,113	$	1,125	$	2,356,857	$	-
Intersegment Revenues	$	435,824	$	1,411,148	$	880	$	(1,847,
Interest Income	$	18,316	$	668	$	7,197	$	(16,
Interest Expense	$	31,407	$	392	$	16,265	$	(16,
Income Tax Expense	$	350,500	$	-	$	(70,500)	$	-
Net income (loss)	$	(6,245,456)	$	61,284	$	(155,947)	$	-

For the Year Ended December 31, 2001

DPC	PD	DPL	Elimination

Revenues	$	6,475,533	$	-	$	3,854,324	$	-
Intersegment Revenues	$	-	$	778,450	$	599,848	$	(1,378,
Interest Income	$	24,350	$	310	$	12,519	$	(24,
Interest Expense	$	56,874	$	-	$	30,937	$	(24,
Depreciation and amortization	$	196,555	$	139,526	$	114,671	$	-
Income Tax Expense	$	350,523	$	11,356	$	(62,996)	$	-
Net income (loss)	$	(5,360,730)	$	(1,596,321)	$	(207,140)	$	123,
Expenditures for Segment Assets	$	104,257	$	5,424	$	23,600		-
Segment Assets	$	6,833,699	$	409,601	$	2,562,562	$	(3,292,

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheets of Digital Power Corporation and subsidiaries as of June 30, 2002 and 2001, and related consolidated statements of operations, shareholders' equity, and cash flows for the three and six month periods then ended. These financial statements are the responsibility of the Company's management.

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

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

HEIN + ASSOCIATES LLP
Certified Public Accountants

Orange, California
August 13, 2002

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

With the exception of historical facts stated herein, the matters discussed in this report are "forward looking" statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such "forward looking" statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Factors that could cause actual results to differ materially include, in addition to other factors identified in this report, dependence on the computer and other electronic equipment industry, competition in the power supply industry, dependence on the Guadalajara, Mexico facility and manufacturer in China, and other risks factors detailed in the Company's Form 10-KSB for the year ended December 31, 2001. Readers of this report are cautioned not to put undue reliance on "forward looking" statements, which are, by their nature, uncertain as reliable indicators of future performance. The Company disclaims any intent or obligation to publicly update these "forward looking" statements, whether as a result of new information, future events, or otherwise.

The financial statements included in this report include additional information not otherwise required by regulations of the Securities and Exchange Commission. The Company is providing this additional information in connection with Telkoor Telecom Ltd.'s filings with the securities agencies in Israel.

THREE AND SIX MONTHS PERIODS ENDED JUNE 30, 2002, COMPARED TO JUNE 30, 2001

REVENUES

Revenues decreased by 5.3% to $2,358,100 for the three months ended June 30, 2002, from $2,489,748 for the second quarter ended June 30, 2001. Revenues from the Company's United Kingdom's operations of Digital Power Ltd. decreased 11.6% to $934,494 for the second quarter ended June 30, 2002, from $1,057,690 for the second quarter ended June 30, 2001.

For the six months ended June 30, 2002, revenues decreased by 21.0% to $4,540,949 from $5,749,095 for the six months ended June 30, 2001. For the six months ended June 30, 2002, Digital Power Ltd. contributed $1,955,582 to the Company's revenues compared to $2,356,857 for the six months ended June 30, 2001. The decrease in revenues was attributed primarily to the continued softness in the telecommunications industry.

GROSS MARGINS

Gross margins were 30.6% for the three months ended June 30, 2002, compared to (145.2)% for the three months ended June 30, 2001. Gross margins were 27.7% for the six months ended June 30, 2002, compared to (52)% for the six months ended June 30, 2001. The increase in gross margins can be primarily attributed to the provision for inventory obsolescence of $3,250,560 during three months ended June 30, 2001, reduced labor costs from the lay off of employees in PD at Guadalajara Mexico in 2001 and implementation of a more sophisticated inventory control. Also contributing to the increase in gross margins for the three months ended June 30, 2002 was the reversal of $102,214 in accrued cancellation charges. The reversal of this accrual was due in part to the recent resumption of the sale of products to a customer who had previously cancelled his purchase order.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were 23.2% of revenues for the three months ended June 30, 2002, compared to 29.4% for the three months ended June 30, 2001. In actual dollar, these expenses were down 25.2%, while revenues were down 5.3%. Selling, general and administrative expenses were 23.1% of revenues for the six months ended June 30, 2002, compared to 25.2% for the six months ended June 30, 2001. Reduced selling, general and administrative expenses can be attributed primarily to a decreased commissions paid and a reduction in salary for administrative staff due to a 20% pay cut beginning in fourth quarter of 2001.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 7.8% of revenues for the three months ended June 30, 2002, and 12.6% for the three months ended June 30, 2001. Engineering and product development expenses were 8.2% of revenues for the six months ended June 30, 2002, compared to 11.0% for the six months ended June 30, 2001. Actual dollar expenditures decreased $130,346 from $313,729 for the three months ended June 30, 2001 to $183,383 for the three months ended June 30, 2002 and decreased $258,267 from $631,076 for the six months ended June 30, 2001 to $372,809 for the six months ended June 30, 2002. The decreases in engineering and product development expenses are mainly due to the reduced labor cost from the lay of an engineer and reducing the cost of outside services.

INTEREST EXPENSE

Interest expense was $5,906 for the three months ended June 30, 2002, compared to $17,386 for the three months ended June 30, 2001. Interest expense, was $17,378 for the six months ended June 30, 2002 compared to $31,799 for the six months ended June 30, 2001. The decrease in interest expense is primarily due to reduced average borrowing balance on the Company line of credit, and replacement of Digital Power Ltd. receivables financing with a bank line of credit with a more favorable interest rate. Also, at the end of June 2002, the balance of the line of credit with San Jose National Bank had been paid off.

INCOME (LOSS) BEFORE INCOME TAXES

For the three months ended June 30, 2002, the Company had an income before income taxes of $19,656 compared to a loss before income taxes of $5,647,092 for the three months ended June 30, 2001. For the six months ended June 30, 2002, the Company had a loss before income taxes of $150,548 compared to loss before income taxes of $6,060,119 for the six months ended June 30, 2001. As mentioned below, reduced labor expenses resulting from last year's lay off and the increase in our gross margin percentage contributed to our income.

INCOME TAX

Provision for income tax increased from an income tax benefit of $88,000 for the three months ended June 30, 2001, to $14,046 for the second quarter of 2002. Due to the net loss, DPC has no income tax provisions. The $14,046 income tax provision in the second quarter of 2002 was solely for DPL. Provision for income tax decreased from $280,000 for the six months ended June 30, 2001 to $39,716 for the six months ended June 30, 2002. A write off of a deferred asset of $350,523 was included in the provision for income tax in the first quarter of 2001.

NET INCOME (LOSS)

Net income for the three months ended June 30, 2002, was $5,610 compared to net loss of $5,559,092 for the three months ended June 30, 2001. Net loss for the six months ended June 30, 2002, was $190,264, compared to a net loss of $6,340,119 for the six months ended June 30, 2001. Reduced labor expenses resulting from last year's lay off and the increase in our gross margin percentage contributed to our income.

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2002, the Company had cash of $1,022,335 and working capital of $1,848,424. This compares with cash of $765,144 and working capital of $1,085,562 at June 30, 2001. The increase in working capital was primarily due to an increase in accounts receivable and cash and a decrease in current liabilities. Cash provided by operating activities for the Company totaled $428,506 for the six months ended June 30, 2002. Cash provided in operating activities for the Company totaled $254,968 for the six months ended June, 2001. Cash used in investing activities was $58,496 for the six months ended June 30, 2002, compared to $68,749 for the six months ended June 30, 2001. Net cash used by financing activities was $668,281 for the six months ended June30, 2002, compared to the net cash provided by financing activities of $421,125 for the six months ended June 30, 2001.

A $750,000 line of credit with San Jose National Bank ("SJNB") terminated on June 2002 due to a change in business direction at SJNB. The Company opened a new line of credit with Silicon Valley Bank on May 31, 2002. The Company can borrow up to $600,000 at the bank's prime rate (currently 4.75%) as long as the Company maintains a balance of $600,000 in a certificate of deposit ("CD"). Also the Company can borrow up to $400,000 against our eligible accounts receivable. The rate for this line of credit would be at the bank's prime rate plus 2.0%. Silicon Valley Bank will be granted a warrant to purchase the Company's stock equal to 10.0% of commitment amount of Facility B at an exercise price of $1.00 per share. The warrant shall be exercisable for ten years from the date of issuance. The warrant may be exchanged with the payment of any additional consideration for the Borrower's stock based upon the values of the warrant and the stock at the time of the exchange, i.e. net issuance.

Included in accrued liabilities is a $508,000 accrual for severance payments for the Company's operations in Mexico. Management is continuing to evaluate the Company's Mexican operations and may modify its plans. Modifications to these plans may result in adjustments to the severance accrual.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 25, 2002, Celetron USA, Inc. filed a complaint against the Company in the Superior Court of the State of California for the County of Alameda (Case No. 2002-047625). Celetron is alleging breach of contract, among other claims, in connection with the purchase of power supplies by the Company from Celetron. Celetron has been seeking damages of approximately $126,000. The Company has settled this suit for $70,000, which will be paid in four installment beginning in June 2002.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 99.1	CEO Certification under Sarbanes-Oxley Act of 2002
Exhibit 99.2	CFO Certification under Sabranes-Oxley Act of 2002

(b) Reports on Form 8-K

The following report on Form 8-K was filed during the period covered by this report:

Date of Report	Date of Event	Item Reported
April 11, 2002	April 5, 2002	Filing of additional information provided to the Israeli Securities Authorities

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 14, 2002

/s/ David Amitai
____
David Amitai
Executive Officer
(Principal Executive Officer)

Date: August 14, 2002

/s/ Uri Friedlander
____
Uri Friedlander
Chief Financial Officer
(Principal Financial Officer)

Exhibit 99.1

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

In connection with the filing of the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002, (the "Report") by Digital Power Corporation (the "Company"), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Amitai

David Amitai
Chief Executive Officer

Exhibit 99.2

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

In connection with the filing of the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002, (the "Report") by Digital Power Corporation (the "Company"), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Uri Friedlander

Uri Friedlander
Chief Financial Officer