DIGITAL POWER CORP
Form 10KSB
March 31, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 -
For the fiscal year ended December 31, 2007

Commission File Number 1-12711

DIGITAL POWER CORPORATION
(Name of small business issuer in its charter)

California	3679	94-1721931
(State or other jurisdiction of Incorporation or organization)	(Primary Standard Industrial Classification Code)	(I.R.S. Employer Identification No.)

41324 Christy Street, Fremont, California 94538-3158
(Address of principal executive offices)

510-657-2635
(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act:

Title of Each Class
None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No x

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Revenues for the year ended December 31, 2007, were $12,157,000.

As of March 3, 2008, the aggregate market value of the voting common stock held by non-affiliates was approximately $3,764,160 based on the closing price of $ 1.06 per share.

As of March 25, 2008, the number of shares of common stock outstanding was 6,615,708.

As used in this annual report, the terms “we,” “us,” “our,” Company,” “Digital,” or “Digital Power,” mean Digital Pow Corporation and its subsidiaries unless otherwise indicated.

With the exception of historical facts stated herein, the following discussion may contain forward-looking statements regarding events and financial trends, which may affect Digital Power’s future operating results and financial position. Such statements are subject to risks and uncertainties that could cause Digital Power’s actual results and financial position to differ materially from those anticipated in such forward-looking statements. Many of the factors that could cause actual results to differ materially are set forth in more detail in the sections entitled: “Certain Considerations” and “Management’s Discussion and Analysis or Plan of Operation” herein. Readers of this report are cautioned not to put undue reliance on forward-looking statements, which are, by their nature, uncertain indicators of future performance. Digital Power disclaims any intent or obligation to publicly update these forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I.

ITEM 1. DESCRIPTION OF BUSINESS

General

Digital Power Corporation (“DPC,” the “Company or “we”) designs, develops, manufactures, markets, sells, private licenses and distributes switching power supply products to industrial, telecommunication, data communication, medical, and military industries. We are a California corporation originally formed in 1969. Our corporate office, which contains our administrative, sales, and engineering services functions, is located in Fremont, California. In addition, we have a wholly-owned subsidiary, Digital Power Limited ("DPL"), located in Salisbury, England, which designs, manufactures, sells and distributes switching power supply products for the European marketplace, including power conversion products for naval and military applications and DC/AC inverters for the telecommunications industry, under the label Gresham Power Electronics.

We primarily sell our switching power supply products to the industrial, telecommunication, data communication, medical, and military industries both in North America and Europe. These industries have in recent years experienced pricing pressure as a result of increased competition that has adversely affected our operations and financial condition.

In an effort to respond to these pressures, we have moved most of the manufacturing of our developed products to Asian subcontractors, which offer lower prices with shorter lead-times. We have also increased our sales of products developed, manufactured and sold to us for redistribution by Telkoor Telecom Ltd. ("Telkoor"), an Israeli company which currently holds 43.8% of the outstanding shares of DPC. Although Telkoor manufactures at longer lead times and at higher ‘total costs’ in comparison to other manufacturing partners, as discussed below, we believe that Telkoor provides other significant design advantages in their products.

Power supply products are critical components of electronic equipment that supply, convert, distribute, and regulate electrical power. The various subsystems within electronic equipment require a steady supply of direct current (DC) electrical power, usually at different voltage levels from the other subsystems within the equipment. In addition, the electronic components and subsystems require protection from the harmful surges and drops in electrical power that commonly occur over power lines.

Power supply products satisfy these issues of allocation and protection by (i) converting alternating current (AC) electricity into direct current (DC); (ii) dividing a single input voltage into distinct and isolated output voltages; and (iii) regulating and maintaining such output voltages within a narrow range of values.

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Products, which convert AC from a primary power source into DC, are generally referred to as “power supplies” and commonly referred to as AC/DC power supplies. Products, which convert one level of DC voltage into a higher or lower level of DC voltage, are generally referred to as “DC/DC converters.” “Switching” power supplies are distinguished from “linear” power supplies by the manner and efficiency with which the power supplies “step down” voltage levels. A linear power supply converts an unregulated DC voltage to a lower regulated voltage by “throwing away” the difference between the two voltages as heat. Consequently, the linear power supply is inherently inefficient - typically, only 45% efficient for a 5V output regulator. By contrast, a switching power supply converts an unregulated DC voltage to a lower regulated voltage by storing the voltage difference in a magnetic field. When the magnetic field grows to a pre-determined level, the unregulated DC is switched off and the output power is provided by the energy stored in the magnetic field. When the field is sufficiently depleted, the unregulated DC is switched on again to deliver power to the output, while the excess voltage is again stored in the magnetic field. As a result, the switching power supply is more efficient than the linear power supply - typically, 75% efficient for a 5V output regulator.

We believe that our switching power supplies and designs have significant advantages in the power supplies market because they have higher efficiency and high power density, or power-to-volume ratio, which make them smaller than those of our competitors. We currently secure most of our designs for these products from Telkoor.

We believe that another advantage of our power supply products is the flexibility of their design. We have designed the base model power supply products so that they can be quickly and economically modified and adapted to the specific power supply needs of any original equipment manufacturer (OEM). This “flexibility” approach has allowed us to provide samples of modified power supplies to OEM customers in only a few days after initial consultation, an important capability given the emphasis placed by OEMs on “time to market.” It also results in very low non-recurring engineering (NRE) expenses. Because of reduced NRE expenses, we do not generally charge our OEM customers for NRE related to tailoring a power supply to a customer’s specific requirements. We believe this gives us an advantage over our competitors, many of whom do charge their customers for NRE expenses. Our marketing strategy is to leverage this combination of high power density, design flexibility, and short time-to-market to win an increasing share of the power supply market.

In addition to the line of proprietary products offered, and in response to requests from OEMs, we also provide “value-added services.” The term “value-added services” refers to our incorporation of an OEM’s selected electronic components, enclosures, and cable assemblies with our power supply products to produce a power subassembly that is compatible with the OEM’s own equipment, and specifically tailored to meet the OEM’s needs. We purchase parts and components that the OEM itself would otherwise attach to, or integrate with, our power supply, and we provide the OEM with that integration and installation service, thus saving the OEM time and money. We believe that this value-added service is well suited to those OEMs who wish to reduce their vendor base, and minimize their investment in manufacturing that leads to increased fixed costs. Based on the value-added services, the OEMs do not need to build assembly facilities to manufacture their own power subassemblies and thus are not required to purchase individual parts from many vendors.

Telkoor Telecom Ltd.

Telkoor, our largest shareholder, is a corporation organized and headquartered in Israel. It is primarily engaged in developing, marketing, and selling power supplies and power systems for the commercial and military markets. Consistent with our total cost reduction efforts, and taking advantage of Telkoor’s strong engineering team, we have and will continue to utilize Telkoor to assist us in new product development and manufacturing. Further, during the year ended December 31, 2007, we made significant progress in penetrating the United States and European markets with Telkoor’s products. This effort generated sales of approximately 55% of our revenues for 2007. We intend to continue to sell Telkoor’s products in the future to supplement our line of products.

Digital Power Limited

Digital Power Limited, organized and headquartered in Salisbury, England, designs, manufactures, and distributes switching power supplies, uninterruptible power supplies, and power conversion and distribution equipment frequency converters for the commercial and military markets, under the name Gresham Power Electronics. Frequency converters manufactured by DPL are used by naval warships to convert their generated 60-cycle electricity supply to 400 cycles. This 400-cycle supply is used to power their critical equipment such as gyro, compass, and weapons systems. DPL also designs and manufactures Transformer Rectifiers for naval use. Typically, these provide battery supported back up for critical DC systems such as machinery and communications. In addition, higher power rectifiers are used for the starting and servicing of helicopters on naval vessels, and DPL now supplies these as part of overall helicopter start and servicing systems. We believe that DPL products add diversity to our product line, provide greater access to the United Kingdom and European markets, and strengthen our engineering and technical resources. For the year ended December 31, 2007, DPL contributed approximately 56% to our gross revenues.

The Market

Geographically, we serve primarily the North American power electronics market with individual AC/DC power supplies and DC/DC converters ranging from 50 watts to 1,200 watts of total output power. DPL serves the United Kingdom and the European marketplace with AC/DC power supplies, uninterruptible power supplies, and frequency inverters.

Customers

Our products are sold in North America and Europe primarily through a network of manufacturers' representatives and distributors. Our customers can generally be grouped into five broad industries, consisting of the industrial, telecommunication, data communication, medical, and the military. We have a current base of approximately 330 active customers, some of which are served through our distributors.

DPL military products are sold primarily in the UK and in Europe.

Strategy

Our strategy is to be the supplier of choice to OEMs requiring high-quality power solutions where power density (size), rapid modification, and time-to-market are critical to business success. Target market segments include the industrial, telecommunication, data communication, medical, and military industries. While many of these segments would be characterized as computer-related, we do not participate in the personal computer ("PC") power supply market because of the low margins arising out of the high volume and extremely competitive nature of that market.

We intend to continue our sales primarily to existing customers while simultaneously targeting sales to new customers. We believe that our "flexibility and high density" power supplies allow customers a more effective choice between our products and products offered by other power supply competitors. Our "flexibility and high density" series is designed around a standardized power platform but allows the customer to specify output voltages tailored to its exact requirements within specific parameters. Furthermore, OEMs are seeking power supplies with greater power density and higher efficiency. Digital Power's strategy in responding to this demand has been to offer increasingly smaller power supply units or packages. OEMs typically had to settle for a standard power supply product with output voltages and other features predetermined by the manufacturer. Alternatively, if the OEM's product required a different set of power supply parameters, the OEM was forced to design this modification in-house, or pay a power supply manufacturer for a custom product. Because custom-designed power supplies are development-intensive and require a great deal of time to design, develop, and manufacture, typically only OEMs with significant volume requirements can economically justify the expense and delay associated with in-house production. Furthermore, since

virtually every power conversion product intended for use in commercial applications requires certain independent safety agency testing at considerable expense, such as by Underwriters Laboratories, an additional barrier is presented to the smaller OEM. By offering OEM customers a new choice with Digital Power's "flexibility and high density" power supplies, we believe we have an advantage over our competitors.

Products and Products Strategy

We have twelve series of base designs from which thousands of individual models can be produced. Each series has its own printed circuit board ("PCB") layout that is common to all models within the series, regardless of the number of output voltages (typically one to four) or the rating of the individual output voltages. Simply changing the power transformer construction and a small number of output components can produce a broad range of output ratings, from 2.0 volts to 48 volts. Designers of electronic systems can determine their total power requirements only after they have designed the system's electronic circuitry and selected the components to be used in the system. Because the designer has a finite amount of space for the system and may be under competitive pressure to further reduce its size, a burden is placed on the power supply manufacturer to maximize the power density of the power supply. A typical power supply consists of a PCB, electronic components, a power transformer and other electromagnetic components, and a sheet metal chassis. The larger components are typically installed on the PCB by means of pin-through-hole assembly where the components are inserted into pre-drilled holes and soldered to electrical circuits on the PCB. Other components can be attached to the PCB by surface mount interconnection technology (SMT), which allows for a reduction in board size because the holes are eliminated and components can be placed on both sides of the board. Our US100 series is an example of a product using this manufacturing technology.

Digital Power's "flexibility and high density" concept applies to all of our EF175/200, EF300/400, CPCI, Strongbox, US, UP/SP, DP, and UPF product series. Generally a common printed circuit board is usually shared by each model in a particular family, resulting in a reduction in parts inventory while allowing for rapid modifiability into thousands of output combinations. The following is a description of our primary products.

Four of our product offerings resulting from our strategic relationship with Telkoor is: the eF's series, CPCI's series, Strong Box series, and custom products.

The new 3.6KW Strongbox® is a single output front end with I^2C data bus. It features 3 x 1200 watt cassettes. The Strongbox is available in 24V and 48V outputs with active power factor correction.

The EF series are high-density open frame power supplies, which most commonly come in 12, 24 and 48 volt options with power factor correction.

The CPCI series are high-density enclosed central power supplies, which most commonly come in 5, 12, 24, and 48-volt options with power factor correction.

The US50 series of power supplies consists of compact, economical, high efficiency, open frame switchers that deliver up to 50 watts of continuous power, or 60 watts of peak power, from one to four outputs. The 90-264 VAC universal inputs allow them to be used worldwide without jumper selection. Flexibility options include power good signal, an isolated V4 output, and UL544 (2^{nd} Ed.) safety approval. All US50 series units are also available in 24VDC, or 48VDC inputs. This optional DC input unit (DP50 series) maintains the same pin-out, size, and mounting as the US50 series.

The US70 series of power supplies is similar to the US50 series, a compact, economical, highly efficient, open frame switcher that delivers up to 65 watts with a 70-watt peak. This unit is offered with one to four outputs, a universal input rated from 90 to 264 VAC, and is only slightly larger than the US50 series. The US70 series is differentiated from competitive offerings by virtue of its smaller size, providing up to four outputs while competitors typically are limited to three outputs. Flexibility options include cover, power good signal, an isolated V4 output, and UL544 (2^{nd} Ed.) medical safety approval. The DP70 is the same as the US70 except the input is 48 volts DC. We also offer 24VDC input on this series where the model series changes to a DM. This type of product is ideal for low profile systems, with the power supply measuring 3.2" x 5" x 1.5".

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The US100/DP100 was the industry's smallest 100-watt switcher when originally introduced. Measuring only 5" x 3.3" x 1.5", this series delivers up to 100 watts of continuous power, or 120 watt peak power, from one to four outputs. The 90-264VAC universal input allows them to be used worldwide. This product is ideal in applications where OEMs have upgraded their systems, requiring an additional 30-40 watts of output power, but being unable to accommodate a larger unit. The US100 fits in the same form factor and does not require any tooling or mechanical changes by the OEM. Flexibility options include a cover and adjustable post regulators on V3 and/or V4 outputs and UL2601-1 (2nd Ed.) medical safety approval. Fully customized models are also available. All US100 series units are also available with 12VDC, 24VDC, or 48 VDC inputs. This optional DC input unit (DP100) maintains the same pin-out, size, and mounting as the US100 series.

The US250 series consists of economical, high efficiency, open frame switchers that deliver up to 250 watts of continuous power, or 300 watts of peak power, from one to four outputs. The 115/230VAC auto-selectable input allows them to be used worldwide. Flexibility options include cover, power fail/power good signal, enable/inhibit, and an isolated V3 output. All US250 series units are also available with 12VDC, 24VDC, or 48VDC inputs. This optional DC input unit (DP250) maintains the same pin-out, size, and mounting as the US250 series.

The UP300 series consists of economical, high efficiency, open frame switchers that deliver up to 300 watts of continuous, or 325 watts of peak power, from one or two outputs. The 115/230VAC auto-selectable input allows them to be used worldwide. On-board EMI filtering is a standard feature. Flexibility options include a cover, power fail/power good signal, and an isolated 2nd output. This product can be used in network switching systems or other electronic systems where a lot of single output current, such as 5, 12, 24, or 48 volt current might be required.

The UPF150/DP150 series is an open-frame switcher that delivers up to 150 watts of continuous power from one to four outputs. In response to market condition for more functionality, the UPF 150 has both power factor correction and a Class B EMI filter as standard features. All UPF150 series units are available with 24VDC, or 48VDC inputs. This optional DC input unit (DP150) maintains the same pin-out, size, and mounting as the UPF150 series.

The UPF 300 watts delivers up to 300 watts from one or two outputs and also includes power factor correction and measures 8" x 4.5" x 2".

The HD and HV series are our newest products and deliver up to 160 watts in a single output and also includes power factor correction and measures 4" x 2" x 1.5" or 5" x 3" x 1.5".

DPL Products

Gresham designs and manufactures a wide range of products for Naval applications. These include:

Static Frequency Converters - typically converts ship's supply from 50/60Hz to 400Hz for gyros and weapons systems. Power range is from 1kVA to 40kVA.

DC Systems - converts main ship's supply to 24VDC. These systems normally supported by battery backup provide the vessel's emergency DC supplies for machinery, communications, and other essential services.

Transformer Rectifiers 28Vdc at up to 400A. Ratings of 10 and 15kVA provide DC power to enable the ship to start and service helicopters. Gresham's Transformer Rectifiers (TRUs) are in service with a number of Navies, including the Royal Navy. The scope of supply has now been expanded so that Gresham can supply entire helicopter start and servicing systems covering a wide range of aircraft.

Inverters - 1kVA to 3.6kVA typically convert DC to 440V 3phase 60 Hz for communications and emergency services.

Circuit breaker monitoring and controls - modular system of controls for main circuit breakers based upon digital circuitry. Modules available include over current, short circuit, low voltage, over and under frequency and an indicator module. Many are used in submarine service.

Intelligent switch mode DC/DC power supplies in support of inboard submarine sonar.

Filter boxes for secure communications.

Navigation and signal panels - for the control and dimming of ship's external navigation lights.

DPL also manufactures a range of commercial inverters of its own design for telecoms applications. Rated at 250VA, 500VA, and 1kVA, these convert either 24V or 48V DC to AC.

Manufacturing Strategy

Consistent with our product flexibility strategy, we aim to maintain a high degree of flexibility in our manufacturing strategy through the use of strategically focused contract manufactures. It is our belief that strategically focused contract manufacturers will meet our near term cost, delivery, and quality goals, while providing synergistic concepts. In addition, we believe these relationships will eventually give us access to new markets and cross licensing arrangements that may be beneficial. The competitive nature of the power supply industry has also placed continual downward pressure on selling prices. In order to achieve our low cost manufacturing goals with labor intensive product, we also plan on continually increasing our supply base through the use of contract manufacturers in the Far East. At present, our principal source in the Far East is Winco Power Technology (“Winco”).

In coordination with Telkoor, and our other design partners, we also utilize four additional contract manufacturers in China. In order to accelerate delivery and reduce cost of some of these products, we have also obtained the right from Telkoor to order products directly from Telkoor’s manufacturers in China in exchange for the payment of a commission to Telkoor. This arrangement does not require Digital Power to purchase any minimum product requirement and either party may cancel upon 12 months prior written notice.

We have contract manufacturing relationships with Winco to manufacture our products at facilities located in China on a turnkey basis. Purchases from Winco are made pursuant to purchase orders. For the year ended December 31, 2007, Digital Power purchased approximately 13.4% of its power supply requirements through Winco. Our products are meeting the certification standards according to independent safety agency requirements.

Regulatory Requirements

Digital Power and its manufacturing partners are required to meet applicable regulatory, environmental, emissions, safety or other requirements where specified by the customer and accepted by Digital Power or as required by local regulatory or legal requirements. In July of 2006, the industry began phasing in RoHs and Wee requirements in most geographical markets with specific emphasis on consumer based products. These requirements may require the use of new components or finish goods to be built with ‘RoHs’ and Wee compliant components potentially rendering existing or down revision finish goods inventory and component inventory to risk of obsolescence. In addition, there is some

speculation that RoHs and Wee compliant components may be subject to longer lead-times and higher prices as the industry transitions to these new requirements.

Furthermore, we are subject to U.S. Export Regulations, including the Arms Export Control Act (AECA), associated International Traffic in Arms Regulations (ITAR), as well as other federal regulations promulgated by various departments within the U.S. Government. The ITAR rules regulate the export of technical data and sale of products to other nations which may use these products for military purposes.

The failure to comply with present or future regulations could result in fines being imposed on us, suspension of production, or a cessation of operations. Any failure on our part to obtain any required licenses for the export of technical data and/or sales of our products or to otherwise comply with ITAR, could subject us to significant future liabilities. The Company currently has an open application and voluntary disclosure with the United States State Department that would permit the company to engage in custom power solutions for the military market. At present, we have placed on hold two existing programs pending approval and review by the State Department. The Company may be subject to fines or a deferment of revenue pending review by the State Department. While the Company cannot predict what the outcome of this review will be, the Company believes that any infractions were minor in nature.

Digital Power Limited Manufacturing

DPL operates from a 25,000 sq. ft leased facility located in Salisbury U.K. The equipment designed and manufactured in Salisbury is different from the power supplies produced in China. Full assembly, test, and quality assurance take place in-house.

Sales and service support staff for the European network of distributors for Digital Power products are located within the building together with other functions, such as Engineering and Administration.

Sales and Marketing

Digital Power markets its products through a network of independent manufacturer’s representatives and distributors. Each representative organization is responsible for managing sales in a particular geographic territory. Generally, the representative has exclusive access to all potential customers in the assigned territory and is compensated by commissions at 5% of net sales after the product shipment. Typically, either the representative organization or Digital Power may terminate the agreement with 30 days written notice.

Historically, we also sold products through multiple distributor arrangements. However, we have recently consolidated our distributor arrangements. Each of these arrangements can be terminated by either party with 30 days written notice. We also continue to sell directly to our customers.

Our promotional efforts to date have included product data sheets, trade shows, and Internet Web sites. Our future promotional activities will likely include space advertising in industry-specific publications, application notes, and enhancements to our existing Web sites.

Our products are warranted to be free of defects for approximately twelve months from date of shipment. As of December 31, 2007, our warranty reserve was $86,000.

Competition

The merchant power supply manufacturing industry is highly fragmented and characterized by intense competition. Our competition includes hundreds of companies located throughout the world, some of whom have advantages over us in terms of labor and component costs, and some of whom may offer products comparable in quality to ours. Many of our competitors including Power One, Emerson (Astec) Technologies, Inc., Lambda Electronics, and Mean-Well Power Supplies have substantially greater fiscal and marketing resources and geographic presence than we do. If we

are successful in increasing our revenues, competitors may notice and increase competition with our customers. We also face competition from current and prospective customers who may decide to design and manufacture internally power supplies needed for their products. Furthermore, certain larger OEMs tend to contract only with larger power supply manufacturers. This factor could become more problematic if consolidation trends in the electronics industry continue and some of the OEMs to whom we sell our products are acquired by larger OEMs. To remain competitive, Management believes that we must continue to compete favorably on the basis of value by providing reliable manufacturing, offering customer service engineering services, continuously improving quality and reliability levels, and offering flexible and reliable delivery schedules. We believe we have a competitive position with our targeted customers who need a high-quality, compact product, which can be readily modified to meet the customer's unique requirements. However, there is no assurance that we will continue to successfully compete in the power supply market.

Engineering and Product Development

Our engineering and product development efforts are primarily directed toward modification of our standard power supply to provide a broad array of individual models. Improvements are constantly sought in power density, adaptability, and efficiency, while we attempt to anticipate changing market demands for increased functionality, such as PFC and improved EMI filtering.

The Company partners with various design and contract engineering firms for development of its new products supported by its internal engineering services staff. The Company intends to continue its strategy for engineering and development.

Employees

As of December 31, 2007, Digital Power had 33 employees located in the United States and the United Kingdom.

Foreign Currency Fluctuations

DPL operates using the United Kingdom pound sterling. Therefore, we are subject to monetary fluctuations between the U.S. dollar and United Kingdom pound sterling. For the year ended December 31, 2007, we recorded a foreign currency translation profit of $34,000. For the year ended 2006, we recorded a foreign currency translation profit of $223,000.

Raw Materials

The raw materials for power supplies principally consist of electronic components. These raw materials are available from a variety of sources, and we are not dependent on any one supplier. We generally allow our subcontractors to purchase components based on orders received or forecasts to minimize our risk of unusable inventory. To the extent necessary, we may allow them to procure materials prior to orders received to obtain shorter lead times and to achieve quantity discounts following a risk assessment. (See regulatory requirements).

Intellectual Property

We rely upon a combination of trade secrets, industry expertise, confidential procedures, and contractual provisions to protect our intellectual property. We believe that because our products are continually updated and revised, obtaining patents would be costly and not beneficial.

On July 8, 2004, our trademark, “DP Digital Power - Powering our technologies,” was registered with the United States Patent and Trademark Office.

ITEM 2. DESCRIPTION OF PROPERTY.

Our headquarters are located in approximately 6,553 square feet of leased office, engineering, and development space in Fremont, California. Our rent expense for the period ended from January 2007 to September 30, 2007 was $9,500 per month. As of October 1, 2007, we moved to our present location and our rent expenses decreased to $5,707 per month. During 2002, we issued the prior landlord warrants to purchase 10,000 shares of Common Stock at an exercise price of $1.00 per share expiring in September 2013.

DPL leases approximately 25,000 square feet for its location in Salisbury, England. DPL's rent expense is approximately $16,500 per month, and the lease expires on September 26, 2009. We believe that our existing facilities are adequate for the future and have no plans to expand them.

ITEM 3. LEGAL PROCEEDINGS.

The Company has submitted a claim for an unpaid debt of $82,799.63 for products sold to Zultys Technologies. Zultys Technologies filed for bankruptcy protection following its failure to pay for the goods the Company had delivered. The Company is represented by counsel in the bankruptcy proceedings. Except for these proceedings, the Company is not currently involved in any legal proceedings.

On January 31, 2008, we submitted our notification of an initial notice of voluntary self-disclosure of possible export compliance problems under the ITAR regulations to the Directorate of Defense Trade Controls of the U.S. Department of State. A final report of voluntary self-disclosure detailing the results of the Company's internal review of these matters is due in April 2008 to the U.S. Department of State. The initial notice of voluntary self-disclosure described the Company's apparent omission to register the Company as a manufacturer, exporter and broker of defense articles and services as required by the ITAR, and to obtain the requisite export licenses from the U.S. Department of State pursuant to the ITAR in connection with its performance of certain contracts involving the manufacture and supply of power supplies for Israeli defense programs. Companies which violate U.S. export control laws can be subject to monetary fines and other sanctions, including possible criminal penalties. We do not expect the fines or penalties imposed on us, if any, to be material, but we cannot assure you that the actual amount of the fines or penalties, if any, will not have an adverse effect of our financial condition or reputation. It should be noted, however, that applicable regulations provide that a company's voluntary self-disclosure will be an important mitigating factor.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

(a) Comparative Market Prices

Our common stock is listed and traded on the American Stock Exchange (“AMEX”) under the symbol DPW. The following tables set forth the high and low closing sale prices, as reported by AMEX, for our common stock for the prior two fiscal years.

Quarter Ended	High	Low
12/31/2007	$ 1.90	$ 1.25
09/30/2007	1.84	1.31

06/30/2007	1.39	1.11
03/31/2007	1.80	1.26
12/31/2006	$ 1.30	$ 1.27
09/30/2006	1.35	1.33
06/30/2006	1.69	1.50
03/31/2006	1.88	1.79

(b) Holders

As of March 1 2008, there were shares of our common shares outstanding, held by approximately 84 registered holders, not including holders whose shares of common stock are held in street name.

(c) Dividends

We have not declared or paid any cash dividends since our inception, and we do not intend to pay any cash dividends in the foreseeable future. The declaration of dividends in the future, if any, will be at the discretion of the Board of Directors and will depend upon our earnings, capital requirements, and financial position.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

General

We are engaged in the business of designing, developing, manufacturing, marketing, distributing and selling switching power supplies to the industrial, telecommunication, data communication, medical, and military industries. Revenues are generated from sales to distributors and OEMs in North America, and Europe.

During the year ended December 31, 2007, the Company's products were received well in the marketplace. We have continued our promotional efforts to increase sales to existing and new customers and continue our strategy to move the manufacturing of our products to the Far East. While we believe our revenues have increased to a sufficient amount to offset our expenses, we may be subject to net losses in an individual quarter. We believe that our cash will be sufficient to fund those losses for at least 12 months.

Results of Operations

The table below sets forth certain statements of operations data as a percentage of revenues for the years ended December 31, 2007, and 2006:

	Years Ended December 31,	
	2007	2006
Revenues	100.00%	100.00%
Cost of Revenues	72.83	73.45
Write-off of excess inventory	1.61	0.57
Gross profit	25.56	25.98
Engineering and product development		