

DIGITAL POWER CORP
Form 10-Q
August 19, 2013

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended June 30, 2013

Transition report pursuant to 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 registrant as specified in its charter)

California **94-1721931**
(State or other jurisdiction of (I.R.S. Employer Identification Number)
incorporation or organization)

41324 Christy Street

Fremont, CA 94538-3158

(Address of principal executive offices)

(510) 657-2635

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12(b)-2 of the Exchange Act). Yes No

At August 9, 2013, the registrant had outstanding 6,853,131 shares of common stock.

DIGITAL POWER CORPORATION

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PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****DIGITAL POWER CORPORATION AND ITS SUBSIDIARY****CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands, except share data

	June 30, 2013 Unaudited	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,344	\$ 1,821
Trade receivables (net of allowance for doubtful accounts of \$ 146 as at June 30, 2013 and December 31, 2012)	2,046	1,390
Prepaid expenses and other receivables	224	139
Inventories (Note 3)	1,793	2,012
<u>Total current assets</u>	5,407	5,362
PROPERTY AND EQUIPMENT, NET	541	504
INTANGIBLE ASSET, NET	205	267
INVESTMENT IN TELKOOR	542	780
LONG-TERM DEPOSITS	13	19
<u>Total assets</u>	\$ 6,708	\$ 6,932
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 918	\$ 870
Related parties - trade payables	17	110
Advances from customers and deferred revenues	43	6
Other current liabilities	357	419
Total current liabilities	1,335	1,405
SHAREHOLDERS' EQUITY:		
Share capital -		
Series A Redeemable, Convertible Preferred shares, no par value - 500,000 shares authorized at June 30, 2013 and December 31, 2012; No shares are issued and outstanding.	-	-

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Preferred shares, no par value - 1,500,000 shares authorized at June 30, 2013 and December 31, 2012; No shares are issued and outstanding.	-	-
Common shares, no par value - 30,000,000 shares authorized at June 30, 2013 and December 31, 2012; 6,853,161 shares issued and outstanding as at June 30, 2013 and December 31, 2012.	-	-
Additional paid-in capital	14,511	14,476
Accumulated deficit	(8,668)	(8,650)
Accumulated other comprehensive loss	(470)	(299)
<u>Total shareholders' equity</u>	5,373	5,527
<u>Total liabilities and shareholders' equity</u>	\$ 6,708	\$ 6,932

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

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY**CONSOLIDATED STATEMENTS OF OPERATIONS**

U.S. dollars in thousands, except per share data

	Six months ended		Three months ended	
	June 30, 2013	2012	June 30, 2013	2012
	Unaudited			
Revenues	\$4,416	\$5,182	\$2,227	\$2,942
Cost of revenues	2,702	2,979	1,341	1,666
Gross profit	1,714	2,203	886	1,276
Operating expenses:				
Engineering and product development	349	322	177	160
Selling and marketing	524	490	257	252
General and administrative	751	804	376	393
Impairment of investment	196	-	196	-
<u>Total operating expenses</u>	1,820	1,616	1,006	805
Operating (loss) income	(106)	587	(120)	471
Financial income (expense), net	88	(22)	(5)	7
(Loss) income before income taxes	(18)	565	(125)	478
Income taxes	-	12	-	-
Net (loss) income	\$(18)	\$553	\$(125)	\$478
Basic net (loss) income per share	\$(0.003)	\$0.081	\$(0.018)	\$0.070
Diluted net (loss) income per share	\$(0.003)	\$0.079	\$(0.018)	\$0.069

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

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

U.S. dollars in thousands

	Six months ended		Three months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	Unaudited			
Net (loss) income	\$(18)	\$553	\$(125)	\$478
Other Comprehensive income, net of tax:				
Change in net unrealized gain on available-for-sale marketable securities	-	130	-	93
Change in net foreign currency translation adjustment	(171)	10	4	(72)
Other comprehensive (loss) income	(171)	140	4	21
Total comprehensive (loss) income:	(189)	693	(121)	499

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

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Common shares Number	Additional paid-in capital	Accumulated deficit	Other accumulated comprehensive loss	Total comprehensive Income	Total shareholders' Equity
Balance as of January 1, 2013	6,853,161	\$ 14,476	\$ (8,650)	\$ (299)	-	\$ 5,527
Stock based compensation related to options granted to Telkooor's employees and other non- employee consultants	-	(20)	-	-	-	(20)
Stock based compensation related to options granted to employees	-	55	-	-	-	55
Comprehensive income:						
Net loss	-	-	(18)	-	(18)	(18)
Foreign currency translation adjustments	-	-	-	(171)	(171)	(171)
Total comprehensive income					\$ (189)	
Balance as of June 30, 2013 (unaudited)	6,853,151	\$ 14,511	\$ (8,668)	\$ (470)		\$ 5,373

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

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY**CONSOLIDATED STATEMENTS OF CASH FLOWS****U.S. dollars in thousands**

	Six months ended	
	June 30, 2013	2012 Unaudited
<u>Cash flows from operating activities :</u>		
Net (loss) income	\$(18)	\$553
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	50	50
Amortization of intangible asset	48	49
Stock based compensation related to options granted to employees	55	61
Stock based compensation related to options granted to Telkooor's employees	(20)	(9)
Impairment of investment in Telkooor	196	-
Decrease (increase) in trade receivables, net	(682)	(484)
(Increase) decrease in prepaid expenses and other accounts receivable	(81)	(37)
Decrease in inventories	161	462
Decrease in accounts payable and related parties- trade payables	(48)	(100)
Decrease in deferred revenues and other current liabilities	(15)	(335)
Net cash (used by)/provided by operating activities	(354)	210
<u>Cash flows from investing activities :</u>		
Purchase of property and equipment	(105)	(71)
Net cash used in investing activities	(105)	(71)
<u>Cash flows from financing activities :</u>		
Effect of exchange rate changes on cash and cash equivalents	-	-
	(18)	6

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Increase/ (decrease) in cash and cash equivalents	(477)	145
Cash and cash equivalents at the beginning of the period	1,821	1,777
Cash and cash equivalents at the end of the period	\$1,344	\$1,922

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

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DIGITAL POWER CORPORATION AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

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 and Digital Power Limited ("DPL"), a wholly owned subsidiary a. located in the United Kingdom, 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).

The Company depends on Telkooor Telecom Ltd. ("Telkooor"), a major shareholder of the Company and one of DPC's third party subcontractors, for manufacturing capabilities in production of the products which DPC sells. If these manufacturers are unable or unwilling to continue manufacturing the Company's products in required b. volumes on a timely basis, that could lead to loss of sales, and adversely affect the Company's operating results and cash position. The Company also depends on Telkooor's intellectual property and ability to transfer production to third party manufacturers. Failure to obtain new products in a timely manner or delay in delivery of product to customers will have an adverse effect on the Company's ability to meet its customers' expectations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements as of June 30, 2013 and for the six months ended June 30, 2013 and 2012 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's Annual Report on Form 10-K for the a. fiscal year ended December 31, 2012. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2013.

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2012 are applied consistently in these financial statements. In addition, the following accounting policy is applied:

Accounting for stock-based compensation:

The Company has several stock-based employee compensation plans, which are described more fully in Note 4.

The Company accounts for stock-based compensation in accordance with Accounting Standards Codification b.Statement ("ASC") 718 (formerly SFAS No. 123 (revised 2004)) "Stock compensation" ("ASC 718").

The Company and its subsidiary apply ASC 718 and ASC 505-50 (formerly EITF 96-18) "Equity-Based Payments to Non-Employees" ("ASC 505-50") to options issued to non-employees. ASC 718 requires use of an option valuation model to measure the fair value of the options at the grant date.

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 3:- INVENTORIES

	June 30, 2013 Unaudited	December 31, 2012
Raw materials, parts and supplies	\$ 416	\$ 426
Work in progress	369	368
Finished products	1,008	1,218
	\$ 1,793	\$ 2,012

NOTE 4:- ACCOUNTING FOR STOCK-BASED COMPENSATION

a. Stock option plans:

1. Under the Company's stock option plans, options may be granted to employees, officers, consultants, service providers and directors of the Company or its subsidiary.

2. As of June 30, 2013, the Company has authorized, by way of three Incentive Share Option Plans, the grant of options to officers, management, other key employees and others of up to 513,000, 240,000 and 1,519,000 shares, respectively, of the Company's common stock. As of June 30, 2013, options to purchase up to an aggregate of 410,145 shares of the Company's common stock are still available for future grant.

3. The options granted generally become fully exercisable after four years and expire no later than 10 years from the date of the option grant. Any options that are forfeited or cancelled before expiration become available for future grants.

	Six months ended June 30, 2013			
	Amount	Weighted	Weighted	Aggregate
	of	average	average	intrinsic
	options	exercise	remaining	value (*)
		price	contractual	
			term	
			(years)	
Outstanding at the beginning of the period	832,763	\$ 1.30	6.08	\$ 1
Outstanding at the end of the period	832,763	\$ 1.30	5.58	\$ -
Exercisable options at the end of the period	584,013	\$ 1.25	4.58	\$ -

(*) Calculation of aggregate intrinsic value is based on the share price of the Company's common stock as of June 30, 2013 (\$ 0.61 per share).

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

NOTE 4:- ACCOUNTING FOR STOCK-BASED COMPENSATION (Cont.)

a. Stock option plans (cont.):

Under the provisions of ASC 718, the fair value of each option is estimated on the date of grant using a Black-Sholes option valuation model that uses the assumptions such as stock price on the date of the grant, exercise price, risk-free interest rate, expected volatility, expected life and expected dividend yield of the option. Expected volatility is based exclusively on historical volatility of the entity's stock as allowed by ASC 718. The Company uses historical information with respect to the employee options exercised to estimate the expected term of options granted, representing the period of time that options granted are expected to be outstanding. The risk-free interest rate of period within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

No options were granted during the first six month of 2013 and 2012.

The total employee's equity-based compensation expense related to all of the Company's equity-based awards, recognized for the six months and three months ended June 30, 2013 is comprised as follows:

	Six months ended		Three months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	Unaudited	Unaudited	Unaudited	Unaudited
Sales and marketing expenses	2	3	2	1
General and administrative	53	58	26	30

Total employees equity-based compensation expense	55	61	28	31
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As of June 30, 2013, there was \$ 218 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the stock option plans. That cost is expected to be recognized over a period of the next 23 months.

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 4:- ACCOUNTING FOR STOCK-BASED COMPENSATION (Cont.)

Employee Stock Ownership Plan:

- b. The Company has an Employee Stock Ownership Plan ("ESOP") covering eligible employees. The ESOP provides for the Employee Stock Ownership Trust ("ESOT") to distribute shares of the Company's Common shares as retirement benefits to the participants. The Company has not distributed shares since 1998. As of June 30, 2013, the ESOT held 167,504 shares of common stock.

NOTE 5:- NET INCOME PER SHARE

The following table sets forth the computation of the basic and diluted net earnings per share:

1. Numerator:

	Six months ended		Three months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	Unaudited			
Net (loss) income available to Common shareholders	\$ (18)	\$ 553	\$ (125)	\$ 478

2. Denominator:

	Six months ended		Three months ended	
	June 30, 2013	2012	June 30, 2013	2012
	Unaudited			
Denominator for basic net income per share of weighted average number of common shares	6,853,161	6,851,614	6,853,161	6,853,594
Effect of dilutive securities:				
Employee stock options	-	154,501	-	85,753
Denominator for diluted net income per common share	6,853,161	7,006,115	6,853,161	6,939,347

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

NOTE 6:- SEGMENTS

The Company has two reportable geographic segments (see Note 1 for a brief description of the Company's business).

The following data presents the revenues, expenditures and other operating data of the Company's geographic operating segments in accordance with ASC 218 (formerly SFAS No. 131) "Segment Reporting".

	Six months ended June 30, 2013			
	(unaudited)			
	DPC	DPL	Eliminations	Total
Revenues	\$2,508	\$1,908	\$ -	\$4,416
Intersegment revenues	199	-	(199)	-
Total revenues	\$2,707	\$1,908	\$ (199)	\$4,416
Depreciation and amortization	\$19	\$80	\$ -	\$99
Operating income (loss)	\$57	\$(163)	\$ -	\$(106)
Tax expense				\$-
Net income (loss)	\$56	\$(74)	\$ -	\$(18)
Expenditures for segment assets	\$86	\$19	\$ -	\$105
Identifiable assets	\$3,890	\$2,796	\$ -	\$6,671

	Six months ended June 30, 2012			
	(unaudited)			
	DPC	DPL	Eliminations	Total
Revenues	\$2,853	\$2,329	\$ -	\$5,182
Intersegment revenues	290	3	(293)	-

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Total revenues	\$3,143	\$2,332	\$ (293) \$5,182
Depreciation and amortization	\$23	\$76	\$ -	\$99
Operating income	\$244	\$343	\$ -	\$587
Tax expense				\$(12)
Net income	\$232	\$321	\$ -	\$553
Expenditures for segment assets	\$57	\$14	\$ -	\$71
Identifiable assets	\$4,367	\$3,304	\$ -	\$7,671

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

NOTE 6:- SEGMENTS
(Cont.)

	Three months ended June 30, 2013			
	(unaudited)			
	DPC	DPL	Eliminations	Total
Revenues	\$1,376	\$851	\$ -	\$2,227
Intersegment revenues	161	0	(161)	-
Total revenues	\$1,535	\$851	\$ (161)	\$2,227
Depreciation expense	\$11	\$40	\$ -	\$51
Operating income (loss)	\$57	\$(177)	\$ -	\$(120)
Tax expense				\$-
Net income (loss)	\$56	\$(181)	\$ -	\$(125)
Expenditures for segment assets	\$53	\$2	\$ -	\$55
Identifiable assets	\$3,890	\$2,796	\$ -	\$6,671

	Three months ended June 30, 2012			
	(unaudited)			
	DPC	DPL	Eliminations	Total
Revenues	\$1,442	\$1,500	\$ -	\$2,942
Intersegment revenues	162	1	(163)	-