

DIGITAL POWER CORP
Form 10-Q
August 14, 2012

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, 2012

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
(State or other jurisdiction of
incorporation or organization)

94-1721931
(I.R.S. Employer Identification Number)

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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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 14, 2012, the registrant had outstanding 6,863,150 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, 2012 Unaudited	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,922	\$ 1,777
Trade receivables (net of allowance for doubtful accounts of \$ 146 and \$ 148 at June 30, 2012 and December 31, 2011, respectively)	2,326	1,845
Prepaid expenses and other receivables	146	108
Inventories (Note 3)	1,886	2,332
Total current assets	6,280	6,062
PROPERTY AND EQUIPMENT, NET	472	448
INTANGIBLE ASSET, NET	306	350
AVAILABLE FOR SALE SECURITIES OF TELKOOR	607	483
LONG-TERM DEPOSITS	6	6
Total assets	\$ 7,671	\$ 7,349
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 942	\$ 1,032
Related parties - trade payables	363	369
Advances from customers and deferred revenues	16	286
Other current liabilities	472	529
Total current liabilities	1,793	2,216
SHAREHOLDERS' EQUITY:		
Share capital -		
Series A Redeemable, Convertible Preferred shares, no par value - 500,000 shares authorized at June 30, 2012 and December 31, 2011; No shares are issued and outstanding.	-	-
Preferred shares, no par value - 1,500,000 shares authorized at June 30, 2012 and December 31, 2011; No shares are issued and outstanding.	-	-
Common shares, no par value - 30,000,000 shares authorized at June 30, 2012 and December 31, 2011; 6,863,150 shares and 6,849,654 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	-	-
Additional paid-in capital	14,410	14,358
Accumulated deficit	(7,768)	(8,321)
Accumulated other comprehensive loss	(764)	(904)
Total shareholders' equity	5,878	5,133

Total liabilities and shareholders' equity	\$	7,671	\$	7,349
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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 June 30,		Three months ended June 30,	
	2012	2011	2012	2011
	Unaudited			
Revenues	\$ 5,182	\$ 6,150	\$ 2,942	\$ 3,172
Cost of revenues	2,979	3,751	1,666	1,879
Gross profit	2,203	2,399	1,276	1,293
Operating expenses:				
Engineering and product development	322	388	160	202
Selling and marketing	490	514	252	239
General and administrative	804	882	393	433
Total operating expenses	1,616	1,784	805	874
Operating income	587	615	471	419
Financial income (expense), net	(22)	(27)	7	(2)
Income before income taxes	565	588	478	417
Income taxes	12	10	-	9
Net income	\$ 553	\$ 578	\$ 478	\$ 408
Basic net income per share	\$ 0.081	\$ 0.086	\$ 0.070	\$ 0.061
Diluted net income per share	\$ 0.079	\$ 0.083	\$ 0.069	\$ 0.058

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 June 30,		Three months ended June 30,	
	2012	2011	2012	2011
	Unaudited			
Net Income	\$553	\$578	\$478	\$408
Other Comprehensive income, net of tax:				
Change in net unrealized gain on available-for-sale marketable securities	130	(181)	93	(181)
Change in net foreign currency translation adjustment	10	84	(72)	(4)
Other comprehensive income	140	(97)	21	(185)
Total comprehensive income:	693	481	499	223

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, 2012	6,849,654	\$ 14,358	\$ (8,321)	\$ (904)	-	\$ 5,133
Stock based compensation related to options granted to Telkoor's employees and other non- employee consultants	-	(9)	-	-	-	(9)
Stock based compensation related to options granted to employees	-	61	-	-	-	61
Exercise of options granted to employees	13,496	-	-	-	-	-
Comprehensive income:						
Net Income	-	-	553	-	553	553
Unrealized loss from available-for-sale securities	-	-	-	130	130	130
Foreign currency translation adjustments	-	-	-	10	10	10
Total comprehensive income					\$ 693	
Balance as of June 30, 2012 (unaudited)	6,863,150	\$ 14,410	\$ (7,768)	\$ (764)		\$ 5,878

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,	
	2012	2011
	Unaudited	
Cash flows from operating activities :		
Net income	\$ 553	\$ 578
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	50	31
Amortization of intangible asset	49	50
Stock based compensation related to options granted to employees	61	68
Stock based compensation related to options granted to Telkoor's employees	(9)	14
Decrease (increase) in trade receivables, net	(484)	345
(Increase) decrease in prepaid expenses and other accounts receivable	(37)	28
Decrease in inventories	462	49
Decrease in accounts payable and related parties- trade payables	(100)	(247)
Decrease in deferred revenues and other current liabilities	(335)	(579)
Net cash provided by operating activities	210	337
Cash flows from investing activities :		
Purchase of available for sale securities of Telkoor	-	(1,007)
Purchase of property and equipment	(71)	(27)
Net cash used in investing activities	(71)	(1,034)
Cash flows from financing activities :		
Exercise of employees stock options	-	26
Net cash provided by financing activities	-	26
Effect of exchange rate changes on cash and cash equivalents	6	47
Increase/ (decrease) in cash and cash equivalents	145	(624)
Cash and cash equivalents at the beginning of the period	1,777	2,115
Cash and cash equivalents at the end of the period	\$ 1,922	\$ 1,491

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

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

- a. 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 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).
- b. The Company depends on Telkooor Telecom Ltd. ("Telkooor"), a major shareholder of the Company and one of DPC's third party subcontractors, for design and manufacturing capabilities of some of the products which the Company sells. The Company also relies on third party contract manufacturer's (CMs) to manufacture its products. If Telkooor and these manufacturers are unable or unwilling to continue manufacturing the Company's products in required 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 its willingness and ability to transfer production to third party manufacturers allowing the Company to use these production rights. Failure to obtain new products in a timely manner or delay in delivery of product to customers would have an adverse effect on the Company's ability to meet its customers' expectations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The accompanying unaudited consolidated financial statements as of June 30, 2012 and for the six months ended June 30, 2012 and 2011 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 fiscal year ended December 31, 2011. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2012.

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2011 are applied consistently in these financial statements. In addition, the following accounting policy is applied:

- b. Marketable securities:

The Company classifies its investment in Telkooor's shares as available-for-sale securities in accordance with ASC 320 (originally issued as SFAS 115), "Investment in Debt and Equity Securities". The investment is stated at market value. Unrealized gains and losses are comprised of the difference between market value and the investment fair value at the

acquisition date and are reflected as "accumulated other comprehensive loss" in equity.

c. 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 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, 2012 Unaudited	December 31, 2011
Raw materials, parts and supplies	\$ 324	\$ 239
Work in progress	334	486
Finished products	1,228	1,607
	\$ 1,886	\$ 2,332

NOTE 4:- ACCOUNTING FOR STOCK-BASED COMPENSATION

a. Stock option plans:

- 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.
- As of June 30, 2012, 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, 2012, options to purchase up to an aggregate of 410,145 shares of the Company's common stock are still available for future grant.
- 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, 2012			
	Amount of options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value (*)
Outstanding at the beginning of the period	792,763	\$ 1.33	6.88	\$ 411