DIGITAL POWER CORP
Form 10-Q/A
September 06, 2013

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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 incorporation or organization)	*(I.R.S. Employer Identification Number)*

48430 Lakeview Blvd.

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 6,853,161 shares of common stock.

DIGITAL POWER CORPORATION

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EXPLANATORY NOTE

Digital Power Corporation (“Company) is filing this Amendment No. 1 (this “Amendment) to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (the “Original Form 10-Q”) originally filed with the Securities and Exchange Commission on August 19, 2013. The registrant is filing this Amendment to reclassify the impairment of its investment in Telkoor Telecom Ltd. ("Telkoor") from operating expenses to a separate other expense line item on its Consolidated Statements of Operations below operating income consistent with prior reporting and ASC 820 (Fair Value Measurements). The registrant has amended its Consolidated Balance Sheets, Consolidated Statements of Operations, and Notes 6 and 7 to Consolidated Financial Statements to reflect the reclassification. Further explanation as to the methodology used to establish the valuation of the investment in Telkoor is also provided in Note 7. In addition, to reflect this change the Company has also amended Risk Factors, Results of Operations, and Exhibit 99.1 (Press Release issued to report its financial results for the Quarter Ended June 30, 2013). In addition, the Company provided information about the appointment of a new VP of Finance, corrected various typographical errors in the original submission, and made other minor changes.

For the convenience of the reader, the document has been refiled in its entirety together with updated officer certifications.

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
Total current assets	5,407	5,362
PROPERTY AND EQUIPMENT, NET	541	504
INTANGIBLE ASSET, NET	205	267
INVESTMENT IN TELKOOR (Note 7)	542	780
LONG-TERM DEPOSITS	13	19
Total assets	$ 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.	-	-

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)
Total shareholders' equity	5,373	5,527
Total liabilities and shareholders' equity	$ 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,		**June 30,**	
	2013	**2012**	**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
Total operating expenses	1,624	1,616	810	805
Operating (loss) income	90	587	76	471
Financial income (expense), net	88	(22)	(5)	7
Impairment of investment	(196)		(196)	
(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 Telkoor'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)	6,853,161	$ 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	
Cash flows from operating activities :		
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 Telkoor's employees	(20)	(9)
Impairment of investment in Telkoor	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
Cash flows from investing activities :		
Purchase of property and equipment	(105)	(71)
Net cash used in investing activities	(105)	(71)
Cash flows from financing activities :	-	-
Effect of exchange rate changes on cash and cash equivalents	(18)	6
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.

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 Telkoor Telecom Ltd. ("Telkoor"), 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 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 Telkoor'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

a. 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 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:

b. 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, 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

	of options	**average exercise price**	**Weighted average remaining contractual term (years)**	**Aggregate intrinsic value (*)**
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.):

4. 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

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.)

b. Employee Stock Ownership Plan:

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 157,515 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 June 30,		**Three months ended 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 Unaudited	2012	June 30, 2013	2012
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	$33	$ -	$90
Tax expense				**$-**
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)	-
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	$19	$ -	$76
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)	-
Total revenues	$1,604	$1,501	$ (163)	$2,942
Depreciation expense	$11	$39	$ -	$50
Operating income	$132	$339	$ -	$471
Tax expense				$-
Net income	$124	$354	$ -	$478
Expenditures for segment assets	$43	$8	$ -	$51
Identifiable assets	$3,514	$3,304	$ -	$6,996

NOTE 7:- INVESTMENT IN TELKOOR

On June 16, 2011 the Company has acquired 1,136,666 shares of Telkoor, a major shareholder of the Company and an Israeli company listed in the Tel Aviv stock exchange, which represents 8.8% of the outstanding shares of Telkoor. As a result of this transaction, an existing manufacturing agreement between Digital Power and Telkoor will be updated and extended. The investment is accounted for as available-for-sale security. In September 2012, the investment has been accounted for under cost method as Telkoor shares do not have readily determinable fair value on the Tel Aviv Stock Exchange. The Company evaluated the fair value of the investment with assistance of a third party valuation. Such evaluation was based upon measurement of Telkoor’s total equity value (in accordance with ASC 820 – Fair Value Measurements) using the Income Approach based upon a discounted cash flow forecast for Telkoor in addition to the market value of Telkoor’s investment in the Company. An other than temporary impairment loss of $218 was recognized in finance expenses in the quarter ended September 30, 2012. The fair value of the investment as of December 31, 2012 was $780. The Company obtained another third party evaluation (based upon the Income Approach) of the stock during the quarter ended June 30, 2013 and the fair value of the investment was reduced to $542. As a result the Company recorded an impairment loss of $196 during the quarter and six months ended June 30, 2013. The Company has evaluated the near-term prospects of the investment in relation to the severity and duration of the impairment and based on that evaluation has the ability and intent to hold these investments until a recovery of fair value. Company has two reportable geographic segments (see Note 1 for a brief description of the Company's business).

NOTE 8:- FAIR VALUE

Investment in Telkoor and stock options issued to non-employees are categorized as Level 3 fair value instruments. There were no reclassifications during the quarter and six months ended June 30, 2013 and 2012 respectively.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 and the Securities Exchange Act of 1934. All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on our expectations, beliefs, forecasts, intentions and future strategies and are signified by the words "expects," "anticipates," "intends," "believes" or similar language. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business and other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below, under “Part II, Item 1A. Risk Factors” and elsewhere in this report. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. All forward-looking statements included in this quarterly report are based on information available to us on the date of this report and speak only as of the date hereof. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

In this quarterly report, the “Company,” “Digital Power,” “we,” “us” and “our” refer to Digital Power Corporation, a California corporation, and our wholly-owned subsidiary, Digital Power Limited.

GENERAL

Digital Power Corporation is a solution-driven organization that designs, develops, manufactures and sells high-grade customized and flexible power system solutions for the most demanding applications in the medical, military, telecom and industrial markets. We are highly focused on high-grade and custom product designs for the commercial, medical and military/defense markets, where customers demand high density, high efficiency and ruggedized products to meet the harshest and/or military mission critical operating conditions. We are a California corporation originally formed in 1969, and our common stock trades on the NYSE MKT under the symbol “DPW”. Our corporate headquarters are located in the heart of the Silicon Valley.

We also have a wholly-owned subsidiary, Digital Power Limited ("DPL"), which operates under the brand name of “Gresham Power Electronics” (“Gresham”). DPL is located in Salisbury, England, and it designs, manufactures and sells power products and system solutions mainly for the European marketplace, including power conversion, power distribution equipment, DC/AC (Direct Current/Active Current) inverters and UPS (Uninterrupted Power Supply) products. DPL's defense business has specialists in the field of naval applications of power distribution conversion.

We believe that we are one of the first companies in the power solutions industry to introduce a product strategy based on the premise that products developed with an extremely flexible architecture enable rapid modifications to meet unique customer requirements for non-standard output voltages. The development and implementation of this strategy has resulted in broad acceptance in the telecom/industrial, and increasingly in the medical market, segments for our new line of high density and high efficiency power products. These products set an industry standard for providing high-power output in package sizes that are among the smallest available for such commercial products.

We market and sell our products to many diverse market segments, including the telecom, industrial, medical and military/defense industries. Our products serve a global market, with an emphasis on North America and Europe. We offer a broad product variety, including a full custom product design and production, unique high-speed switching power front-end, modified-standard and value added products, open-frame, Compact-PCI, ATSC, Micro TCA, Front-Ends Systems and PoE (Power over Ethernet) product solutions, providing power output from 50 watts to 72,000 watts.

In an effort to provide short lead-times, high quality products and competitive pricing to support our markets, we have entered into production agreements with several contract manufacturers located in Asia, primarily China. These agreements allow us to better control production costs and ensure high quality products deliverable in a timely manner to meet market demand. However, we use domestic manufacturers to manufacture prototypes, "short production run" and our military products.

We intend to remain an innovative leader in the development of cutting-edge custom power solutions and feature rich products to meet any customer needs and requirements, rugged power systems to meet harsh and extreme operation environmental requirements, and high performance, high efficiency, high-density and modular power systems.   We are focusing today on developing even more high-grade custom power system solutions for numerous customers in a broadly diversified range of markets and challenging environments. Each product development is based on best of class performance criteria, including unique, advanced feature sets and a special layout to meet our customers' unique operating conditions where efficiency, size and time to market are key to their success. We are taking initiatives to develop and sell high efficiency "green power" solutions.

RESULTS OF OPERATIONS

THREE AND SIX MONTHS ENDED JUNE 30, 2013, COMPARED TO JUNE 30, 2012

Revenues

Our revenues decreased by 24% to $2.2 million for the three months ended June 30, 2013, from $2.9 million for the three months ended June 30, 2012. The decrease in revenues was mainly due to decrease in shipment of our custom products to the commercial markets.

Revenues from our U.S. operations were relatively flat and were $1.4 million for the three months ended June 30, 2013 and June 30, 2012. Revenues from our European operations decreased by 43% to $851,000 for the three months ended June 30, 2013 as compared to $1.5 million for the same period in 2012. The decrease in revenues of our European operations was attributable to decreased sales of custom products to the commercial market.

For the six months ended June 30, 2013, our revenues decreased by 15% to $4.4 million from $5.2 for the six months ended June 30, 2012. The decrease in the revenues was attributable to the end of life of certain military products of our European operations and lower demand in U.S. operations.

For the six months ended June 30, 2013, revenues from our U.S. operations decreased by 12% to $2.5 million from $2.8 for the six months ended June 30, 2012. Revenues from our European operations of DPL decreased by 18% to $1.9 for the six months ended June 30, 2013, from $2.3 million for the six months ended June 30, 2012.

Gross Margins

Gross margins decreased to 39.8% for the three months ended June 30, 2013, compared to 43.4% for the three months ended June 30, 2012. Gross margins for the six months ended June 30, 2013 decreased to 38.8% compared to the gross margins of 42.5% for the six months ended June 30, 2012. The decrease in gross margins for the three and six months ended June 30, 2013 was mainly due to lower revenues.

Engineering and Product Development

Engineering and product development expenses were $177,000 or 7.9% of revenues for the three months ended June 30, 2013, compared to $160,000 or 5.4% of revenues for the three months ended June 30, 2012. Engineering and product development expenses were $349,000 or 7.9% of revenues for the six months ended June 30, 2013 as compared to $322,000 or 6.2% of revenues for the six months ended June 30, 2012. The overall slight increase in our engineering and product development expenses was mainly due to increased spending on consulting costs.

Selling and Marketing

Selling and marketing expenses were $257,000 or 11.5% of revenues for the three months ended June 30, 2013 as compared to $252,000 or 8.6% of revenues for the three months ended June 30, 2012. Selling and marketing expenses were $524,000 or 11.9% of revenues for the six months ended June 30, 2013 as compared to $490,000 or 9.4% of revenues for the six months ended June 30, 2012. The marginal increase in the absolute dollars of selling and marketing expenses was primarily due to increased expense in selling and marketing headcount.

General and Administrative

General and administrative expenses were $376,000 or 16.9% of revenues for the three months ended June 30, 2013 as compared to $393,000 or 13.4% of revenues for the three months ended June 30, 2012. General and administrative expenses were $751,000 or 17.0% of revenues for the six months ended June 30, 2013 as compared to $804,000 or 15.5% of revenues for the six months ended June 30, 2012. The decrease in general and administrative expenses during the three and six months ended June 30, 2013 was mainly due to lower consulting costs.

Impairment of Investment

For the quarter and six months ended June 30, 2013, the Company recorded an impairment in the investment made in Telkoor equity shares based on independent valuation obtained. There was no impairment charges in the comparable prior periods ended on June 30, 2012.

Impairment of Investment

For the quarter and six months ended June 30, 2013, the Company recorded an impairment in the investment made in Telkoor equity shares based on independent valuation obtained. There was no impairment charges in the comparable prior periods ended on June 30, 2012**. See Note 7 to the Consolidated Financial Statements.**

Financial Income (Expense)

Financial expense was $5,000 for the three months ended June 30, 2013 compared to financial income of $7,000 for the three months ended June 30, 2012. Financial income was $88,000 for the six months ended June 30, 2013 compared to financial expense of $22,000 for the six months ended June 30, 2012. The change in financial results was due to a dividend of $63 received from Telkoor in the quarter ended March 31, 2013 and foreign currency fluctuations during the respective periods.

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2013, we had cash and cash equivalents of $1.3 million and working capital of $4.1 million. This compared with cash and cash equivalents of $1.8 million and working capital of $4.0 million at December 31, 2012. The decrease in cash and cash equivalents was due mainly to an increase in trade receivables partially offset by a decrease in inventories. Working capital remained virtually unchanged as the decrease in cash and cash equivalents and inventories was offset by the increase in trade receivables.

Net cash used in by operating activities totaled $354,000 for six months ended June 30, 2013 compared to net cash provided by operating activities of $210,000 for the six months ended June 30, 2012.

Net cash used in investing activities was $105,000 for the six months ended June 30, 2013 compared to $71,000 for the six months ended June 30, 2012. The net usage of cash for investing activities in 2013and 2012 was due mainly to a purchase of equipment.

There were no cash flows from financing activities for the six months ended June 30, 2013 and June 30, 2012.

We believe we have adequate resources at this time to continue our operational and promotional efforts to increase sales and support our current operation. However, if we do not increase our sales, we may have to raise money through debt or equity, which may dilute shareholders' equity.

CRITICAL ACCOUNTING POLICIES

In our Annual Report on Form 10-K for the year ended December 31, 2012, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. The basis for developing the estimates and assumptions within our critical accounting policies is based on historical information and known current trends and factors. The estimates and assumptions are evaluated on an ongoing basis and actual results have been within our expectations. We have not changed these policies from those previously disclosed in our Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable for a smaller reporting company.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Our principal executive officer and principal financial officer, with the assistance of other members of the Company's management, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in Internal Control over Financial Reporting

During the period covered by this quarterly report, there were no changes in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See our disclosures under “Legal Proceedings” in our Annual Report on Form 10-K, filed March 29, 2013. There have been no material developments in those proceedings since that filing.

ITEM 1A. RISK FACTORS

The risk factors listed in this section provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Readers should be aware that the occurrence of any of the events described in these risk factors could have a material adverse effect on our business, results of operations and financial condition. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Although we generated operating income during the six months ended June 30, 2013, we have historically experienced operating and net losses and we may experience such losses in the future.

For the six months ended June 30, 2013, we had operating income of $90,000 and a net loss of $18,000 compared to an operating income of $587,000 and a net income of $553,000 for the six months ended June 30, 2012. For the year ended December 31, 2012, we had an operating loss of $94,000 and a net loss of $329,000. Although we have actively taken steps to increase our revenue and reduce manufacturing and operating costs, we may incur operating and net losses in the future unless we continue to increase revenues by selling current and custom design products, and continue seeking manufacturing cost reductions through offshore strategic agreements with contract manufacturers.

We depend on Telkoor to design and manufacture some of our products.

We depend on Telkoor, our largest shareholder and one of our third party subcontractors, for design and manufacturing capabilities for some of the products that we sell. If Telkoor is unable or unwilling to continue designing or manufacturing our products in required volumes and with a certain level of quality on a timely basis, that could lead to loss of sales and adversely affect our operating results and cash position. We also depend on Telkoor'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 products to customers will have an adverse effect on our ability to meet our customers' expectations. In addition, we operate in highly competitive markets where our ability to sell Telkoor's products could be adversely affected by Telkoor's agreements with other companies, long lead-times and the high cost of Telkoor's products. For example, in April 2008 Telkoor signed a "private label" agreement with Murata Power Solutions ("MPS") in Canada to manufacture and sell Telkoor's products under the Murata brand name, an agreement which positioned Murata as a direct competitor to us with respect to selling Telkoor's products in North America.

Also, in 2012, Telkoor's manufacturing lead-times increased, which has hindered our ability to respond to our customers' needs. Telkoor's principal offices, research and development and manufacturing facilities are located in Israel. Political, economic, and military conditions in Israel directly affect Telkoor's operations. We are also dependent upon Telkoor's terms and conditions with its contract manufacturers for some of our products, which terms and conditions may not always be in our best interest. In 2010, the Company purchased a certain IP from Telkoor in order to reduce its dependency on Telkoor with respect to a certain line of products.

Beginning in 2010, Telkoor made the decision to not offer Digital Power manufacturing rights on their newer technology, which prevents us from cost-reducing these products. This requires us to buy finished goods directly from Telkoor which, in turn, affects our ability to sell these products at competitive prices.

We also entered into a Manufacturing Rights Agreement with Telkoor in 2012 pursuant to which we were granted the non-exclusive right to directly place purchase orders for certain products from third party manufacturers in consideration for payment of royalties.

We are dependent upon our ability, and our contract manufacturers' ability, to timely procure electronic components.

Affected by the 2009 global recession and the tsunami and nuclear crises in Japan, many of our raw material vendors have reduced capacities, closed production lines and, in some cases, even discontinued their operations. As a result, there is a global shortage of certain electronic components, which has extended our production lead-time and our production costs. For example, in some cases, finished goods that used to be available in 12 weeks for a production purchase order are now available only after 22 weeks. Also, some materials are no longer available to support some of our products, thereby requiring us to search for cross materials or, even worse, redesign some of our products to support currently-available materials. Such redesign efforts may require certain regulatory and safety agency re-submittals, which may cause further production delays. While we have initiated actions that we believe will limit our exposure to such problems, the dynamic business conditions in many of our markets may challenge the solutions that have been put in place, and issues may recur in the future.

In addition, some of our products are manufactured, assembled and tested by third party subcontractors and contract manufacturers located in Asia. While we have had relationships with many of these third parties in the past, we cannot predict how or whether these relationships will continue in the future. In addition, changes in management, financial viability, manufacturing demand or capacity, or other factors, at these third parties could hurt our ability to have our products manufactured.

Our strategic focus on our custom power supply solution competencies and concurrent cost reduction plans may be ineffective or may limit our ability to compete.

As a result of our strategic focus on custom power supply solutions, we will continue to devote significant resources to developing and manufacturing custom power supply solutions for a large number of customers, where each product represents a uniquely tailored solution for a specific customer's requirements. A failure to meet these customer product requirements or a failure to meet production schedules and/or product quality standards may put us at risk with one or more of these customers. The loss of one or more of our significant custom power supply solution customers could have a material adverse impact on our revenues, business or financial condition.

We have also implemented a series of initiatives designed to increase efficiency and reduce costs. While we believe that these actions will reduce costs, they may not be sufficient to achieve the required operational efficiencies that will enable us to respond more quickly to changes in the market or result in the improvements in our business that we anticipate. In such event, we may be forced to take additional cost-reducing initiatives, which may negatively impact quarterly earnings and profitability as we account for severance and other related costs. In addition, there is the risk that such measures could have long-term adverse effects on our business by reducing our pool of talent, decreasing or slowing improvements in our products or services, making it more difficult for us to respond to customers, limiting our ability to increase production quickly if and when the demand for our solutions increases and limiting our ability to hire and retain key personnel. These circumstances could cause our earnings to be lower than they otherwise might be.

If our new custom products development efforts fail to result in products that meet our customers' needs, or if our customers fail to accept our new products, our revenues will be adversely affected.

We develop multiple custom product designs. The commercial success of this new technology will depend on a number of factors, including the successful development of the custom products, our ability to meet customer requirements, our ability to meet all product criteria, successful transition from development stage to production stage, our ability to meet product cost targets generating acceptable margins, timely remediation of product performance issues, if any, identified during testing, product performance at customer locations, differentiation of our product from our competitors' products, and management of customer expectations concerning product capabilities and life cycles. If we fail to accomplish all of the above, our business could be materially and adversely affected.

We are dependent upon our ability to attract, retain and motivate our key personnel.

Our success depends on our ability to attract, retain and motivate our key management personnel, including, but not limited to, our CEO, CFO, marketing & sales, and key engineers, necessary to implement our business plan and to grow our business. Despite the adverse economic conditions at this time, and those occurring over the past several years, competition for certain specific technical and management skill sets is intense. If we are unable to identify and hire the personnel that we need to succeed, or if one or more of our present key employees were to cease to be associated with us, our future results could be adversely affected. Our CEO, Amos Kohn, also currently serves as our CFO on an interim basis until the Company appoints a new CFO. Mr. Kohn continues to serve in his role as our CEO. Mr. Kohn's employment agreement with the Company expired on December 31, 2010. As of June 30, 2013, Mr. Kohn and the Company have not signed a new employment agreement.

We depend upon a few major customers for a majority of our revenues, and the loss of any of these customers, or the substantial reduction in the quantity of products that they purchase from us, would significantly reduce our revenues and net income.

We currently depend upon a few major original equipment manufacturers ("OEM") and other customers for a significant portion of our revenues. Because of the global economic downturn, we have already experienced a reduction of orders by OEMs and a reduction or cancellation of orders, scaling back of certain activities and workforce layoffs by other customers. The loss of any of these customers, or a substantial reduction in the quantity of products that they purchase from us, would significantly reduce our revenues and net income. Furthermore, diversions in the capital spending of certain of these customers to new network elements have and could continue to lead to their reduced demand for our products, which could, in turn, have a material adverse effect on our business and results of operations. If the financial condition of one or more of our major customers should deteriorate, or if they have difficulty acquiring investment capital due to any of these or other factors, a substantial decrease in our revenues would likely result.

We are dependent on the electronic equipment industry, and accordingly will be affected by the impact on that industry by the current economic downturn.

Substantially all of our existing customers are in the electronic equipment industry, and they manufacture products that are subject to rapid technological change, obsolescence, and large fluctuations in demand. This industry is further characterized by intense competition and volatility. The OEMs serving this industry are pressured for increased product performance and lower product prices, and their misjudgments of order quantities negatively affects our business by reducing or canceling orders by OEMs. OEMs, in turn, make similar demands on their suppliers, such as us, for increased product performance and lower prices. Recently, certain segments of the electronic industry have experienced a significant softening in product demand. Such lower demand may affect our customers, in which case the demand for our products may decline and our growth could be adversely affected.

Our reliance on subcontract manufacturers to manufacture certain aspects of our products involves risks, including delays in product shipments and reduced control over product quality.

Since we do not own significant manufacturing facilities, we must rely on, and will continue to rely on, a limited number of subcontract manufacturers to manufacture our power supply products. Our reliance upon such subcontract manufacturers involves several risks, including reduced control over manufacturing costs, delivery times, reliability and quality of components, unfavorable currency exchange fluctuations, and continued inflationary pressures on many of the raw materials used in the manufacturing of our power supply products. If we were to encounter a shortage of key manufacturing components from limited sources of supply, or experience manufacturing delays caused by reduced manufacturing capacity, inability of our subcontract manufacturers to procure raw materials, the loss of key assembly subcontractors, difficulties associated with the transition to our new subcontract manufacturers or other factors, we could experience lost revenues, increased costs, and delays in, or cancellations or rescheduling of, orders or shipments, any of which would materially harm our business.

We outsource, and are dependent upon developer partners for, the development of some of our custom design products.

We made an operational decision to outsource some of our custom design products to numerous developer partners. This business structure will remain in place until the custom design volume justifies expanding our in house capabilities. Incomplete product designs that do not fully comply with the customer specifications and requirements might affect our ability to transition to a volume production stage of the custom designed product where the revenue goals are dependent on the high volume of custom product production. Furthermore, we rely on the design partners' ability to provide high quality prototypes of the designed product for our customer approval as a critical stage to approve production.

We face intense industry competition, price erosion and product obsolescence, which, in turn, could reduce our profitability .

We operate in an industry that is generally characterized by intense competition. We believe that the principal bases of competition in our markets are breadth of product line, quality of products, stability, reliability and reputation of the provider, along with cost. Quantity discounts, price erosion, and rapid product obsolescence due to technological improvements are therefore common in our industry as competitors strive to retain or expand market share. Product obsolescence can lead to increases in un-saleable inventory that may need to be written off and, therefore, could reduce our profitability. Similarly, price erosion can reduce our profitability by decreasing our revenues and our gross margins. In fact, we have seen price erosion over the last several years on most of the products we sell, and we expect additional price erosion in the future.

Our future results are dependent on our ability to establish, maintain and expand our manufacturers' representative OEM relationships and our other distributors.

We market and sell our products through domestic and international OEM relationships and other distribution channels, such as manufacturers' representatives and distributors. Our future results are dependent on our ability to establish, maintain and expand our relationships with OEMs as well as with manufacturers' representatives and distributors to sell our products. If, however, the third parties with whom we have entered into such OEM and other arrangements should fail to meet their contractual obligations, cease doing, or reduce the amount of their, business with us or otherwise fail to meet their own performance objectives, customer demand for our products could be adversely affected, which would have an adverse effect on our revenues.

We may not be able to procure necessary key components for our products, or we may purchase too much inventory or the wrong inventory.

The power supply industry, and the electronics industry as a whole, can be subject to business cycles.   During periods of growth and high demand for our products, we may not have adequate supplies of inventory on hand to satisfy our customers' needs. Furthermore, during these periods of growth, our suppliers may also experience high demand and, therefore, may not have adequate levels of the components and other materials that we require to build products so that we can meet our customers' needs. Our inability to secure sufficient components to build products for our customers could negatively impact our sales and operating results. We may choose to mitigate this risk by increasing the levels of inventory for certain key components. Increased inventory levels can increase the potential risk for excess and obsolescence should our forecasts fail to materialize or if there are negative factors impacting our customers’ end markets. If we purchase too much inventory or the wrong inventory, we may have to record additional inventory reserves or write-off the inventory, which could have a material adverse effect on our gross margins and on our results of operations.

We depend on sales of our legacy products for a meaningful portion of our revenues, but these products are mature and their sales will continue to decline.

A relatively large portion of our sales have historically been attributable to our legacy products. We expect that these products may continue to account for a meaningful percentage of our revenues for the foreseeable future. However, these sales are declining. Although we are unable to predict future prices for our legacy products, we expect that prices for these products will continue to be subject to significant downward pressure in certain markets for the reasons described above. Accordingly, our ability to maintain or increase revenues will be dependent on our ability to expand our customer base, to increase unit sales volumes of these products and to successfully, develop, introduce and sell new products such as custom design and value added products. We cannot assure you that we will be able to expand our customer base, increase unit sales volumes of existing products or develop, introduce and/or sell new products.

Our operating results may vary from quarter to quarter.

Our operating results have in the past been subject to quarter-to-quarter fluctuations, and we expect that these fluctuations will continue, and may increase in magnitude, in future periods. Demand for our products is driven by many factors, including the availability of funding for our products in customers' capital budgets. There is a trend for some of our customers to place large orders near the end of a quarter or fiscal year, in part to spend remaining available capital budget funds. Seasonal fluctuations in customer demand for our products driven by budgetary and other concerns can create corresponding fluctuations in period-to-period revenues, and we therefore cannot assure you that our results in one period are necessarily indicative of our revenues in any future period. In addition, the number and timing of large individual sales and the ability to obtain acceptances of those sales, where applicable, have been difficult for us to predict, and large individual sales have, in some cases, occurred in quarters subsequent to those we anticipated, or have not occurred at all. The loss or deferral of one or more significant sales in a quarter could harm our operating results. It is possible that, in some quarters, our operating results will be below the expectations of public market analysts or investors. In such events, or in the event adverse conditions prevail, the market price of our common stock may decline significantly.

Failure of our information technology infrastructure to operate effectively could adversely affect our business.

We depend heavily on information technology infrastructure to achieve our business objectives. If a problem occurs that impairs this infrastructure, the resulting disruption could impede our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on business in the normal course. Any such events could cause us to lose customers or revenue and could require us to incur significant expense to remediate.

We are subject to certain governmental regulatory restrictions relating to our international sales.

Some of our products are subject to International Traffic in Arms Regulation ("ITAR") rules, which are interpreted, enforced and administered by the U.S. Department of State. These regulations implement the provisions of the Arms Export Control Act, the goal of which is to safeguard U.S. national security and further U.S. foreign policy objectives. ITAR controls not only the export, import and trade of certain products specifically designed, modified, configured or adapted for military systems, but also the export of related technical data and defense services as well as foreign production. Any delays in obtaining the required export, import or trade licenses for products subject to ITAR rules could have a materially adverse effect on our business, financial condition, and/or operating results. In addition, changes in United States export and import laws that require us to obtain additional export and import licenses or delays in obtaining export or import licenses currently being sought could cause significant shipment delays and, if such delays are too great, could result in the cancellation of orders. Any future restrictions or charges imposed by the United States or any other country on our international sales or foreign subsidiary could have a materially adverse effect on our business, financial condition, and/or operating results. In addition, from time to time, we have entered into contracts with the Israeli Ministry of Defense which were funded with monies subject to, and we therefore were required to comply with the regulations governing, the U.S. Foreign Military Financing program. Any such future sales would be subject to such regulations.

We depend on international operations for a substantial majority of our components and products.

We purchase a substantial majority of our components from foreign manufacturers and have a substantial majority of our commercial products assembled, packaged, and tested by subcontractors located outside the United States. These activities are subject to the uncertainties associated with international business operations, including trade barriers and other restrictions, changes in trade policies, governmental regulations, currency exchange fluctuations, reduced protection for intellectual property, war and other military activities, terrorism, changes in social, political, or economic conditions, and other disruptions or delays in production or shipments, any of which could have a materially adverse effect on our business, financial condition, and/or operating results.

We depend on international sales for a portion of our revenues.

Sales to customers outside of North America accounted for 44.9% of net revenues during the six months ended June 30, 2013, and we expect that international sales will continue to represent a material portion of our total revenues. International sales are subject to the risks of international business operations as described above, as well as generally longer payment cycles, greater difficulty collecting accounts receivable, and currency restrictions.

If our accounting controls and procedures are circumvented or otherwise fail to achieve their intended purposes, our business could be seriously harmed.

We evaluate our disclosure controls and procedures as of the end of each fiscal quarter, and are annually reviewing and evaluating our internal control over financial reporting in order to comply with Securities and Exchange Commission (“SEC”) rules relating to internal control over financial reporting adopted pursuant to the Sarbanes-Oxley Act of 2002. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain effective internal control over financial reporting or our management does not timely assess the adequacy of such internal control, we may be subject to regulatory sanctions, and our reputation may decline.

The sale of our products is dependent upon our ability to satisfy the proprietary requirements of our customers.

We depend upon a relatively narrow range of products for the majority of our revenue. Our success in marketing our products is dependent upon their continued acceptance by our customers. In some cases, our customers require that our products meet their own proprietary requirements. If we are unable to satisfy such requirements, or forecast and adapt to changes in such requirements, our business could be materially harmed.

The sale of our products is dependent on our ability to respond to rapid technological change, including evolving industry-wide standards, and may be adversely affected by the development, and acceptance by our customers, of new technologies which may compete with, or reduce the demand for, our products.

Rapid technological change, including evolving industry standards, could render our products obsolete. To the extent our customers adopt such new technology in place of our products, the sales of our products may be adversely affected. Such competition may also increase pricing pressure for our products and adversely affect the revenues from such products.

Our limited ability to protect our proprietary information and technology may adversely affect our ability to compete, and our products could infringe upon the intellectual property rights of others, resulting in claims against us, the results of which could be costly.

Many of our products consist entirely or partly of proprietary technology owned by us. Although we seek to protect our technology through a combination of copyrights, trade secret laws and contractual obligations, these protections may not be sufficient to prevent the wrongful appropriation of our intellectual property, nor will they prevent our competitors from independently developing technologies that are substantially equivalent or superior to our proprietary technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States. In order to defend our proprietary rights in the technology utilized in our products from third party infringement, we may be required to institute legal proceedings, which would be costly and would divert our resources from the development of our business. If we are unable to successfully assert and defend our proprietary rights in the technology utilized in our products, our future results could be adversely affected.

Although we attempt to avoid infringing known proprietary rights of third parties in our product development efforts, we may become subject to legal proceedings and claims for alleged infringement from time to time in the ordinary course of business. Any claims relating to the infringement of third-party proprietary rights, even if not meritorious, could result in costly litigation, divert management’s attention and resources, require us to reengineer or cease sales of our products or require us to enter into royalty or license agreements which are not advantageous to us. In addition, parties making claims may be able to obtain an injunction, which could prevent us from selling our products in the United States or abroad.

If we are unable to satisfy our customers’ specific product quality, certification or network requirements, our business could be disrupted and our financial condition could be harmed.

Our customers demand that our products meet stringent quality, performance and reliability standards. We have, from time to time, experienced problems in satisfying such standards. Defects or failures have occurred in the past, and may in the future occur, relating to our product quality, performance and reliability. From time to time, our customers also require us to implement specific changes to our products to allow these products to operate within their specific network configurations. If we are unable to remedy these failures or defects or if we cannot effect such required product modifications, we could experience lost revenues, increased costs, including inventory write-offs, warranty expense and costs associated with customer support, delays in, or cancellations or rescheduling of, orders or shipments and product returns or discounts, any of which would harm our business.

If we ship products that contain defects, the market acceptance of our products and our reputation will be harmed and our customers could seek to recover their damages from us.

Our products are complex, and despite extensive testing, may contain defects or undetected errors or failures that may become apparent only after our products have been shipped to our customers and installed in their network or after product features or new versions are released. Any such defect, error or failure could result in failure of market acceptance of our products or damage to our reputation or relations with our customers, resulting in substantial costs for us and for our customers as well as the cancellation of orders, warranty costs and product returns. In addition, any defects, errors, misuse of our products or other potential problems within or out of our control that may arise from the use of our products could result in financial or other damages to our customers. Our customers could seek to have us pay for these losses. Although we maintain product liability insurance, it may not be adequate.

If Telkoor's share market value will continue to decrease it may have a material adverse effect on our results of operations.

During the second quarter of 2011, we invested in our major shareholder – Telkoor Telecom Ltd. (a publicly traded company in Israel) through our wholly own subsidiary, DPL. This strategic investment was classified as an available-for-sale security and was recorded in our financial statements at the market value. Under United States generally accepted accounting principles ("U.S. GAAP"), unrealized losses are reflected as "accumulated other comprehensive loss" in the equity, unless there is deemed to be a permanent decrease in market value. Since the investment does not have a readily determinable fair value on the Tel Aviv Stock Exchange, the Company evaluated the fair value of the investment through a third party for the quarter ended September, 2012 and, again, for the current quarter ended June 30, 2013 As the result of these evaluations, the Company has recorded impairments of this investment of $218,000 in the quarter ended September 30, 2012 and $196,000 in the quarter ended June 30, 2013. We will continue to evaluate this investment on an ongoing basis and further declines in its value may have a material adverse effect on our results of operations.

Our common stock price is volatile .

Our common stock is listed on the NYSE MKT and is thinly traded. In the past, our trading price has fluctuated widely, depending on many factors that may have little to do with our operations or business prospects. The exercise of outstanding options and warrants may adversely affect our stock price and a shareholder's percentage of ownership. As of June 30, 2013, we had outstanding exercisable options to purchase an aggregate of 476,013 shares of common stock, with a weighted average exercise price of $1.21 per share.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

Appointment of new VP of Finance

On August 15, 2013, the Company entered into a letter agreement with William J. Hultzman (the "Letter Agreement"), pursuant to which he became the Company's VP of Finance (principal financial officer and principal accounting officer) on August 21, 2013. Mr. Hultzman replaced Amos Kohn, the Company's President and Chief Executive Officer, who served as interim Chief Financial Officer since March 2011.

Mr. Hultzman (age 61) served as Finance & Business Development Advisor for STEC USA, LLC, a private start-up in the industrial automation industry space, from 2009 until August, 2013. From 2007 to 2009, Mr. Hultzman served as the Vice President of Finance and Corporate Secretary for R.T. Peak Travel Group, a private travel management company. From 1999 to 2007, Mr. Hultzman held the positions of Vice President of Finance & Controlling, and then Business Unit General Manager and V.P. of Finance, with Voith Paper Automation, Inc., a private manufacturing and service conglomerate headquartered in Germany. From 1985 to 1999, Mr. Hultzman served as the Corporate Controller of Impact Systems, Inc. (a public company traded on NASDAQ for most of this period).

As VP of Finance, Mr. Hultzman's will be principally responsible for the finance, accounting and human resource functions of the Company, including but not limited to SEC reporting, budgeting and financial planning. In addition, Mr. Hultzman will prepare consolidated financial statements and maintain appropriate internal controls. Mr. Hultzman will report to the Company's President and Chief Executive Officer.

The following is a brief description of the Letter Agreement with Mr. Hultzman:

Annual Compensation. Mr. Hultzman's base salary will be $110,000, subject to a performance review after six months and an annual performance review thereafter. He will be eligible for potential salary increases and a bonus grant subject to the Company’s yearly practice and his performance.

Equity Award. Subject to Compensation Committee and Board of Director approval, Mr. Hultzman will be granted an option to purchase 25,000 shares of the Company's common stock at the closing price on the date of grant.

Benefits: Mr. Hultzman is eligible to participate in the Company’s 401(k) pension plan and will receive other customary employee benefits.

The description of the Letter Agreement herein does not purport to be complete and is qualified in its entirety by reference to the Letter Agreement itself, a copy of which is filed as an exhibit to this Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarterly period ended June 30, 2013.

There are no transactions in which Mr. Hultzman has an interest requiring disclosure under Item 404(a) of Regulation S-K or any family relationships requiring disclosure under Item 401(d) of Regulation S-K.

ITEM 6. EXHIBITS

Exhibits

3.1	Amended and Restated Articles of Incorporation of Digital Power Corporation (1)
3.2	Amendment to Articles of Incorporation (1)
3.3	Bylaws of Digital Power Corporation (1)
10.1	1996 Digital Power Stock Option Plan (1)
10.2	1998 Digital Power Stock Option Plan (2)
10.3	2002 Digital Power Stock Option Plan (3)
10.4	Lease, dated as of August 21, 2007, between the Company and SDC Fremont Business Center, Inc. (4)
10.5	Employment Agreement with Amos Kohn (5)
10.6	2012 Digital Power Incentive Share Option Plan (6)
10.8†	Manufacturing Rights Agreement, dated December 30, 2012, by and between the Company and Telkoor Telecom Ltd.
10.9	Letter Agreement with William J. Hultzman.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley of 2002
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Press Release, dated September 6, 2013, issued by Digital Power Corporation entitled, "Digital Power Corporation Reports Financial Results for the Second Quarter Ended June 30, 2013".
99.2	Press Release, dated September 6, 2013, issued by Digital Power Corporation entitled, "Digital Power Corporation Appoints William J. Hultzman as VP of Finance".
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

(1)	Previously filed with the Commission on October 16, 1996 as an exhibit to the Company’s Registration Statement on Form SB-2.
(2)	Previously filed with the Commission as Exhibit 10.7 to the Company’s Form 10-KSB for the year ended December 31, 1998.
(3)	Previously filed with the Commission as Exhibit A to the Company’s Proxy Statement filed on September 5, 2002.
(4)	Previously filed with the Commission as Exhibit 10.1 to the Company’s Form 8-K filed on October 22, 2007.
(5)	Previously filed with the Commission as Exhibit 10.1 to the Company’s Form 8-K filed on July 10, 2008.
(6)	Previously filed with the Commission as Exhibit A to the Company’s DEF-14A filed on October 22, 2012.

†Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request, which was granted on July 16, 2013.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

Dated: September 6, 2013

Digital Power Corporation

By: /s/ William Hultzman
William Hultzman
VP of Finance
(Principal Financial Officer)