

DIGITAL POWER CORP

Form 10-Q

November 13, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2014

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)

48430 Lakeview Blvd.

Fremont, CA 94538-3158

(Address of principal executive offices)

(510) 657-2635

(Registrant's telephone number, including area code)

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 November 12, 2014, the registrant had outstanding 6,774,769 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

	September 30, 2014	December 31, 2013
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,660	\$ 1,696
Trade receivables (net of allowance for doubtful accounts of \$64 as of September 30, 2014 and \$146 as of December 31, 2013)	2,051	2,157
Related parties – trade receivables	12	--
Prepaid expenses and other receivables	212	167
Inventories (Note 3)	1,828	1,751
<u>Total current assets</u>	5,763	5,771
PROPERTY AND EQUIPMENT, NET	610	616
INTANGIBLE ASSET, NET	94	171
INVESTMENT IN TELKOOR	400	406
LONG-TERM DEPOSITS	13	13
<u>Total assets</u>	\$ 6,880	\$ 6,977
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,341	\$ 1,109
Related parties - trade payables	--	248
Advances from customers and deferred revenues	243	128
Other current liabilities	365	445
Total current liabilities	1,949	1,930
SHAREHOLDERS' EQUITY:		
Share capital -	-	-

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Series A Redeemable, Convertible Preferred shares, no par value - 500,000 shares authorized and 0 shares outstanding at September 30, 2014 and December 31, 2013		
Preferred shares, no par value - 1,500,000 shares authorized; 0 shares outstanding at September 30, 2014 and December 31, 2013	-	-
Common shares, no par value - 30,000,000 shares authorized; 6,774,769 and 6,853,161 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively.	-	-
Additional paid-in capital	14,645	14,582
Accumulated deficit	(9,441)	(9,282)
Accumulated other comprehensive loss	(273)	(253)
<u>Total shareholders' equity</u>	4,931	5,047
<u>Total liabilities and shareholders' equity</u>	\$ 6,880	\$ 6,977

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

	Nine months ended		Three months ended	
	September 30, 2014	2013	September 30, 2014	2013
	Unaudited			
Revenues	\$6,910	\$6,503	\$2,231	\$2,087
Cost of revenues	4,319	4,100	1,485	1,398
Gross profit	2,591	2,403	746	689
Operating expenses:				
Engineering and product development	591	573	197	224
Selling and marketing	934	794	292	270
General and administrative	1,248	1,180	435	429
Total operating expenses	2,773	2,547	924	923
Operating loss	(182)	(144)	(178)	(234)
Financial and other income (expense), net	23	69	28	(18)
Impairment of investment	-	(196)	-	-
Loss before income taxes	(159)	(271)	(150)	(252)
Income taxes	-	-	-	-
Net loss	\$(159)	\$(271)	\$(150)	\$(252)
Basic and diluted loss per share	\$(0.023)	\$(0.039)	\$(0.022)	\$(0.037)

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

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	Unaudited			
Net loss	\$ (159)	\$ (271)	\$ (150)	\$ (252)
Other Comprehensive income, net of tax:				
Change in net foreign currency translation adjustment	(20)	(8)	(81)	163
Other comprehensive (loss) income	(20)	(8)	(81)	163
Total comprehensive loss:	\$ (179)	\$ (279)	\$ (231)	\$ (89)

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, 2014	6,853,161	\$ 14,582	\$ (9,282)	\$ (253)	-	\$ 5,047
Stock based compensation related to options granted to Telkoor's employees and other non- employee consultants	-	1	-	-	-	1
Stock based compensation related to options granted to employees	-	152	-	-	-	152
Exercise of employee options	39,749					
Purchase of treasury stock	(118,141)	(90)				(90)
Comprehensive income:						
Net loss	-	-	(159)	-	(159)	(159)
Foreign currency translation adjustments	-	-	-	(20)	(20)	(20)
Total comprehensive income					\$ (179)	
Balance as of September 30, 2014 (unaudited)	6,774,769	\$ 14,645	\$ (9,441)	\$ (273)		\$ 4,931
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	-	(17)	-	-	-	(17)
Stock based compensation related to options granted to employees	-	82	-	-	-	82
Comprehensive income:						
Net loss	-	-	(271)	-	(271)	(271)

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Foreign currency translation adjustments	-	-	-	(8)	(8)	(8)
Total comprehensive income					\$ (279)	
Balance as of September 30, 2013 (unaudited)	6,853,161	14,541	\$ (8,921)	\$ (307)		\$ 5,313

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

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

	Nine months ended	
	September 30, 2014 2013 Unaudited	
<u>Cash flows from operating activities :</u>		
Loss	\$(159)	\$(271)
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	104	78
Amortization of intangible asset	78	72
Stock based compensation related to options granted to employees	152	82
Stock based compensation related to options granted to Telkooor's employees & consultants	1	(18)
Impairment of investment in Telkooor	--	196
Decrease (increase) in trade receivables and related parties – trade receivables, net	76	(919)
(Increase) in prepaid expenses and other accounts receivable	(45)	(46)
Decrease (increase) in inventories	(85)	196
Increase (decrease) in accounts payable and related parties- trade payables	(10)	309
Increase (decrease) in deferred revenues and other current liabilities	42	190
Decrease in long term loan and lease		6
Net cash provided (used by) operating activities	154	