DIGITAL POWER CORP
Form 10-Q
August 12, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pusuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2015

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, 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 August 10, 2015, the registrant had outstanding 6,775,971 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, 2015 Unaudited	**December 31, 2014**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,760	$ 2,110
Trade receivables	1,047	1,548
Related parties – trade receivables	36	--
Prepaid expenses and other receivables	224	178
Inventories (Note 3)	1,906	1,653
Total current assets	4,973	5,489
PROPERTY AND EQUIPMENT, NET	605	567
INTANGIBLE ASSET, NET	18	66
INVESTMENT IN TELKOOR	102	207
LONG-TERM DEPOSITS	13	13
Total assets	$ 5,711	$ 6,342
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,015	$ 1,061
Related parties - trade payables	--	60
Advances from customers and deferred revenues	240	435
Other current liabilities	326	345
Total current liabilities	1,581	1,901
SHAREHOLDERS' EQUITY:		
Share capital -		
Series A Redeemable, Convertible Preferred shares, no par value - 500,000 shares authorized and 0 shares outstanding at June 30, 2015 and December 31, 2014	-	-
Preferred shares, no par value - 1,500,000 shares authorized and 0 shares outstanding at June 30, 2015 and December 31, 2014	-	-

Common shares, no par value - 30,000,000 shares authorized; 6,775,971 shares issued and outstanding as of June 30, 2015 and December 31, 2014.	-	-
Additional paid-in capital	14,876	14,739
Accumulated deficit	(10,415)	(9,940)
Accumulated other comprehensive loss	(331)	(358)
Total shareholders' equity	4,130	4,441
Total liabilities and shareholders' equity	$ 5,711	$ 6,342

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,**	
	2015	**2014**	**2015**	**2014**
	Unaudited			
Revenues	$4,047	$4,679	$2,151	$2,642
Cost of revenues	2,533	2,834	1,350	1,559
Gross profit	1,514	1,845	801	1,083
Operating expenses:				
Engineering and product development	460	394	226	211
Selling and marketing	519	642	259	330
General and administrative	901	813	463	391
Total operating expenses	1,880	1,849	948	932
Operating income (loss)	(366)	(4)	(147)	151
Financial expense, net	(3)	(5)	(68)	(2)
Impairment of investment	(106)	-	(56)	-
(Loss) income before income taxes	(475)	(9)	(271)	149
Income taxes	-	-	-	-
Net (loss) income	$(475)	$(9)	$(271)	$149
Basic net income (loss) per share	$(0.07)	$(0.00)	$(0.04)	$0.02
Diluted net income (loss) per share	$(0.07)	$(0.00)	$(0.04)	$0.02

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

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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,**	
	2015	**2014**	**2015**	**2014**
	Unaudited			
Net (loss) income	$(475)	$(9)	$(271)	$149
Other Comprehensive income, net of tax:				
Change in net foreign currency translation adjustment	27	61	138	44
Other comprehensive income	27	61	138	44
Total comprehensive income (loss):	$(448)	$52	$(133)	$193

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 income (loss)	Total shareholders equity
Balance as of January 1, 2015	6,775,971	$ 14,739	$ (9,940)	$ (358)	$ 4,441
Stock compensation related to options granted to employees	-	137	-	-	137
Comprehensive loss:					
Net loss	-	-	(475)	-	(475)
Foreign currency translation adjustments	-	-	-	27	27
Balance as of June 30, 2015	6,775,971	$ 14,876	$ (10,415)	$ (331)	$ 4,130
Balance as of January 1, 2014	6,853,161	$ 14,582	$ (9,282)	$ (253)	$ 5,047
Stock compensation related to options granted to non- employees	-	(4)	-	-	(4)
Stock compensation related to options granted to employees	-	86	-	-	86
Exercise of employee options	39,749	-	-	-	-
Purchase of treasury stock	(94,400)	(70)	-	-	(70)
Comprehensive loss:					
Net loss	-	-	(9)	-	(9)
Foreign currency translation adjustments	-	-	-	61	61
Balance as of June 30, 2014	6,798,510	$ 14,594	$ (9,291)	$ (192)	$ 5,111

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

	Six months ended June 30,	
	2015	**2014**
	Unaudited	
Cash flows from operating activities :		
Net loss	$(475)	$(9)
Adjustments required to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	71	69
Amortization of intangible asset	48	52
Stock based compensation related to options granted to employees	137	86
Stock based compensation related to options granted to Telkoor's employees	--	(4)
Impairment of investment in Telkoor	106	--
Write down of inventory	43	--
Decrease in trade receivables, net	500	540
Increase in prepaid expenses and other accounts receivable	(43)	(61)
Decrease (increase) in inventories	(277)	328
Decrease in accounts payable and related parties- trade payables	(146)	(422)
Decrease in deferred revenues and other current liabilities	(214)	(146)
Net cash provided (used by) operating activities	(250)	433
Cash flows from investing activities :		
Purchase of property and equipment	(105)	(54)
Proceeds from sales of property and equipment	--	16
Net cash used in investing activities	(105)	(38)
Cash flows from financing activities :		
Purchase of treasury stock	--	(70)
Net cash used in financing activities	--	(70)
Effect of exchange rate changes on cash and cash equivalents	5	27
Increase/(decrease) in cash and cash equivalents	(350)	352

Cash and cash equivalents at the beginning of the period	2,110	1,696
Cash and cash equivalents at the end of the period	$1,760	$2,048

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. In 2010, the Company purchased a specific intellectual property (IP) fromTelkoor in order to reduce its dependency on Telkoor with respect to a certain line of products.

NOTE 2:- BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the U.S. Securities and Exchange Commissions (the “SEC”) regarding unaudited interim financial information. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company’s consolidated balance sheets, statements of operations, comprehensive loss and cash flows for the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of the results of operations to be expected for the full year or the results for any future periods due to seasonal and other factors. Certain information and footnote disclosures normally included in the consolidated financial statements in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. Accordingly, these unaudited interim consolidated financial statements and footnotes should be read in conjunction with the consolidated financial statements and accompanying notes thereto included in the Company’s Form 10-K for the year ended December 31, 2014 filed with the SEC on March 27, 2015.

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, 2015 Unaudited	December 31, 2014
Raw materials, parts and supplies	$ 451	$ 287
Work in progress	254	357
Finished products	1,201	1,009
	$ 1,906	$ 1,653

NOTE 4:- ACCOUNTING FOR STOCK-BASED COMPENSATION

Share Option Plan

1. Under the Company's Digital Power 2012 (as amended) (“Incentive Share Option Plan”), options my be granted to employees, officers, consultants, service providers and directors of the Company or its subsidiary.

2. As of June 30, 2015, the Company has authorized according to the Incentive Share Option Plan, the grant of options to officers, management, other key employees and others of up to 1,372,630 options for the Company’s common shares. The maximum term of the options is ten years from date of grant. As of June 30, 2015, an aggregate of 690,130 shares of the Company’s common stock were 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.

3.

A summary of the Company’s employee share option activity (except options to consultants and service providers) and related information is as follows:

	Six months ended June 30, 2015			
	Amount of options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value (*)
Outstanding at the beginning of the period	1,262,763	$ 1.57	7.65	$ 40.57
Outstanding at the end of the period	1,227,763	$ 1.57	7.15	$ 9.92
Exercisable options at the end of the period	655,263	$ 1.52	5.85	$ 7.52

(*) Calculation of aggregate intrinsic value is based upon the share price of the Company's common stock as of June 30, 2015 ($0.92) 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.)

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 the 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 months of 2015.

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, 2015 and 2014 is comprised as follows:

	Six months ended		**Three months ended**	
	June 30, 2015	**June 30, 2014**	**June 30, 2015**	**June 30, 2014**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Cost of goods sold	3	2	2	1
Sales and marketing expenses	6	5	4	4
Research and development	11	6	7	5
General and administrative	117	73	77	54

Total employees equity-based compensation expense	137	86	90	64

As of June 30, 2015, there was $ 581 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the share option plans. That cost is expected to be recognized over a period of the next 2.76 years.

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5:- NET INCOME (LOSS) PER SHARE

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

1. Numerator:

	Six months ended		**Three months ended**	
	June 30,		**June 30,**	
	2015	**2014**	**2015**	**2014**
	Unaudited			
Net income (loss) available to Common shareholders	$(475)	$ (9)	$(271)	$149

2. Denominator:

	Six months ended		**Three months ended**	
	June 30, 2015	**2014**	**June 30, 2015**	**2014**
	Unaudited			
Denominator for basic net income per share of weighted average number of common shares	6,775,971	6,828,263	6,775,971	6,815,793
Effect of dilutive securities:				
Employee stock options	--	26,098	--	20,396
Denominator for diluted net income per common share	6,775,971	6,854,361	6,775,971	6,836,189

Basic net income (loss) per share	$(0.07)	$(0.00)	$(0.04)	$0.02
Diluted net income (loss) per share	$(0.07)	$(0.00)	$(0.04)	$0.02

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6:- INVESTMENT IN TELKOOR

On June 16, 2011 the Company 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 represented 8.8% of the outstanding shares of Telkoor. As a result of this transaction, an existing manufacturing agreement between Digital Power and Telkoor was updated and extended.

The Company has classified its investment in Telkoor's shares as available-for-sale securities in accordance with ASC 320, "Investment in Debt and Equity Securities". Marketable securities classified as "available for sale securities" are carried at fair value, based on quoted market prices. Unrealized gains and losses are reported in a separate component of shareholders' equity in "accumulated other comprehensive loss". When evaluating the investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and the Company's intent to sell, or whether it is more likely than not that it will be required to sell, the investment before recovery of the investment's amortized cost basis.

Equity securities that do not have readily determinable fair values (i.e. non-marketable equity securities) and are not required to be accounted for under the equity method are typically carried at cost(i.e., cost method investments), as described in ASC 325-20.

The Company recorded an impairment of its investment in Telkoor of $56 for the three months ended June 30, 2015 and $106 for the six months ended June 30, 2015 based upon a decline in the value of Telkoor's investment in the Company's shares and a reduction of the market value of Telkoor's equity. For the three and six months ended June 30, 2014, the Company did not record an impairment. In the year ended December 31, 2014, an independent appraiser evaluated the holding value of this investment based upon guidelines outlined in ASC 320 and concluded the fair value of the asset had declined by $175 from its value reported in the financial statements for the year ended December 31, 2013. In accordance with ASC 325, Telkoor’s equity shares held by the Company are presented at cost and will be reviewed for impairment in accordance with ASC 320.

DIGITAL POWER CORPORATION AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- 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, 2015 (unaudited)			
	DPC	**DPL**	**Eliminations**	**Total**
Revenues	$1,987	$2,060	$ -	$4,047
Intersegment revenues	122	-	(122)	-
Total revenues	$2,109	$2,060	$ (122)	$4,047
Depreciation and amortization	$37	$82	$ -	$119
Operating income (loss)	$(529)	$163	$ -	$(366)
Financial expense, net	$-	$(3)	$ -	(3)
Impairment of investment	$-	$(106)	$ -	$(106)
Net income (loss)	$(529)	$54	$ -	$(475)
Expenditures for segment assets, net of retirements	$50	$55	$ -	$105
Total assets as of June 30, 2015	$2,594	$3,117	$ -	$5,711

	Six months ended June 30, 2014 (unaudited)			
	DPC	**DPL**	**Eliminations**	**Total**
Revenues	$ 2,642	$ 2,037	$ -	$4,679
Intersegment revenues	119	-	(119)	-
Total revenues	$ 2,761	$ 2,037	$ (119)	$4,679

Depreciation and amortization	$ 36	$ 85	$ -	$ 121
Operating income (loss)	$ (132)	$ 128	$ -	$ (4)
Financial expense, net	$ -	$ (5)	$ -	$ (5)
Impairment of investment	$ -	$ -	$ -	$ -
Net income (loss)	$ (132)	$ 123	$ -	$ (9)
Expenditures for segment assets, net of retirements	$ 52	$ (14)	$ -	$ 38
Total assets as of June 30, 2014	$ 3,330	$ 3,149	$ -	$ 6,479

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DIGITAL POWER CORPORATION AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- SEGMENTS (Cont.)

	Three months ended June 30, 2015 (unaudited)			
	DPC	DPL	Eliminations	Total
Revenues	$ 1,063	$ 1,088	$ -	$2,151
Intersegment revenues	11	0	(11)	-
Total revenues	$ 1,074	$ 1,088	$ (11)	$2,151
Depreciation and amortization	$ 19	$ 42	$ -	$61
Operating income (loss)	$ (264)	$ 117	$ -	$(147)
Financial expense, net	$ -	(68)	$ -	$(68)
Impairment of investment	$ -	$ (56)	$ -	$(56)
Net income (loss)	$ (264)	$ (7)	$ -	$(271)
Expenditures for segment assets, net of retirements	$ 4	$ 2	$ -	$6
Total assets as of June 30, 2014	$ 2,594	$ 3,117	$ -	$5,711

	Three months ended June 30, 2014 (unaudited)			
	DPC	DPL	Eliminations	Total
Revenues	$1,476	$1,166	$ -	$2,642
Intersegment revenues	112	0	(112)	-
Total revenues	$1,588	$1,166	$ (112)	$2,642
Depreciation and amortization `	$20	$40	$ -	$60
Operating income (loss)	$16	$135	$ -	$151
Financial expense, net	$-	$(2)	$ -	$(2)
Impairment of investment	$-	$-	$ -	$-
Net income (loss)	$16	$133	$ -	$149
Expenditures for segment assets, net of retirements	$14	$2	$ -	$16

Total assets as of June 30, 2014	$3,330	$3,149	$ -	$6,479

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

We are 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, standard and modified standard products. Our unique high speed switching power rectifiers include, but are not limited to custom power products, front end, open frame, enclosed, Compact PCI, MicroTCA, PoE (Power over Ethernet) and other product solutions providing power output from 50 to 24,000 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 in China. These agreements allow us to better control production costs and ensure high quality products deliverable in a timely manner to meet market demand.

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 currently focused 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.

RESULTS OF OPERATIONS

THREE AND SIX MONTHS ENDED JUNE 30, 2015 COMPARED TO JUNE 30, 2014

Revenues

Our revenues decreased by 15% to $2.2 million for the three months ended June 30, 2015, from $2.6 million for the three months ended June 30, 2014. The decrease in revenues was mainly due to a decrease in orders and shipments of commercial products and the timing of shipments of military products of our domestic operation. Gross revenues of our European operation in Gresham, U.K. (DPL) declined by approximately 7% primarily due to the timing of defense related contract shipments.

For the six months ended June 30, 2015, our revenues decreased by 15% to $4.0 million from $4.7 million for the six months ended June 30, 2014. The decrease in revenues was attributable primarily to the decrease in order and shipments of commercial products of our domestic operation and the timing of defense related shipments for our domestic operation which are projected for the second half of 2015 and beyond but were included the in first half of 2014.

Our revenues are highly dependent on the timing of customer deliveries. Although our European operation shipments and related revenue were substantially the same for the first half of 2015 compared to the first half of 2014, our domestic operation experienced a significant decline in revenue of 25% in the first half of 2015 versus 2014 for both commercial and defense related orders. In order to increase the marketing of its products and address the decline in domestic orders the Company hired two senior sales individuals in July 2015 – one to serve as the Vice President of Worldwide Sales and Marketing and the second as a Regional Sales Manager. The Company hopes that the expansion of its sales and marketing efforts will enable it to realize incremental orders and subsequent revenue by the end of fiscal 2015 and beyond.

Gross Margins

Gross margins decreased to 37.2% for the three months ended June 30, 2015, compared to 41.0% for the three months ended June 30, 2014. Gross margins for the six months ended June 30, 2015 decreased to 37.4% compared to the gross margins of 39.4% for the six months ended June 30, 2014. The decrease in gross margins for the three and six months ended June 30, 2015 compared to the comparable periods of 2014 was mainly due to the effect of lower revenues on fixed manufacturing overhead costs, an inventory write down of $33,000 in the second quarter of 2015 and not in the second quarter of 2014, and to a lesser extent, changes in the product mix.

Engineering and Product Development

Engineering and product development expenses were $226,000 for the three months ended June 30, 2015, compared to $211,000 for the three months ended June 30, 2014. The increase of $15,000 was primarily related to an increase in outside contracted engineering services associated with the transitioning of certain parts from the prototype to production phase and higher safety license fees affiliated with these same parts. Engineering and product development expenses were $460,000 for the six months ended June 30, 2015 as compared to $394,000 for the six months ended June 30, 2014. The overall increase in our engineering and product development expenses for the comparative six month periods was mainly due to the aforementioned increase in contracted engineering services and safety license fees in the second quarter of 2015 versus 2014 in addition to higher stock option expenses in the first half of 2015 versus the comparable 2014 time period.

Selling and Marketing

Selling and marketing expenses were $259,000 and $519,000, respectively, for the three and six months ended June 30, 2015 as compared to $330,000 and $642,000, respectively, for the three and six months ended June 30, 2014. The decrease in sales and marketing expenses for the three and six month periods of 2015 versus the 2014 comparable periods was primarily the result of a temporary decrease in direct manpower costs due to a reduced headcount. As mentioned above, the Company increased its sales and marketing capabilities by adding two senior sales executives in July, 2015 which we expect to result in higher sales and marketing expenses compared to the prior comparable periods beginning in the third quarter of 2015.

General and Administrative

General and administrative expenses were $463,000 and $901,000, respectively, for the three and six months ended June 30, 2015 as compared to $391,000 and $813,000 for the three and six months ended June 30, 2014. Higher stock based compensation expenses accounted for $28,000 and $47,000 of the increases from 2014 to 2015 for the three and six month periods, respectively. In addition, the Company incurred higher investor relations expenses associated with its annual meeting held in the second quarter of 2015 versus the third quarter of 2014 and legal and audit costs for the preparation of an S-3 registration statement in 2015 not incurred in 2014, outside contracted services, and higher employee health insurance premium costs during the three and six month periods ending June 30, 2015 compared to the same periods ending June 30, 2014.

Financial Expense

Financial expense was $68,000 for the three months ended June 30, 2015 compared to $2,000 for the three months ended June 30, 2014. The increase in expense for these comparable periods was solely attributable to foreign currency flucttutation differences due to the effect of a weakening dollar in the second quarter of 2015 on dollars held by our U.K. subsidiary effectively eliminated a similar gain in the prior quarter (ended March 31, 2015). For the six month periods ended June 30, 2015 and June 30, 2014, the Company recorded foreign currency losses of $3,000 and $5,000, respectively.

Impairment of Investment

The Company recorded an impairment of its investment in Teloor of $56,000 for the three months ended June 30, 2015 and $106,000 for the six months ended June 30, 2015. No impairment expense was recognized in the comparable periods of 2014.

Operating income (loss)

The Company recorded an operating loss of $147,000 and $366,000, respectively, for the three and six months ended June 30, 2015. For the three and six months ended June 30, 2014, the Company recognized an operating income of $151,000 and an operating loss of $4,000, respectively. The operating loss this year was mainly due to the reduced sales levels.

Net income (loss)

The Company recorded a net loss of $271,000 and $475,000, respectively, for the three and six months ended June 30, 2015. For the three and six months ended June 30, 2014, the Company recognized a net income of $149,000 and a net loss of $9,000, respectively. The net loss this year was mainly due to the reduced sales levels and impairments of the Company's investment in Telkoor in 2015 but not in 2014.

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2015, we had cash and cash equivalents of $1.8 million and working capital of $3.4 million. This compared with cash and cash equivalents of $2.1 million and working capital of $3.6 million at December 31, 2014. The decrease in cash and cash equivalents and working capital was due mainly to the operating loss.

Net cash used by operating activities totaled $250,000 for the six months ended June 30, 2015 compared to net cash provided by operating activities of $433,000 for the six months ended June 30, 2014. The decrease in cash provided by operating activities for the comparable periods was primarily the result of the operating loss, an increase in inventories, a decrease in accounts payable balances and deferred revenues; offset by a reduction of accounts receivable balances.

Net cash used in investing activities was $105,000 for the six months ended June 30, 2015 compared to $38,000 for the six months ended June 30, 2014. The net usage of cash for investing activities in 2015 and 2014 was due to purchases of equipment net of retirements.

There were no financing activities for the six months ended June 30, 2015. Net cash used by financing activities for the six months ended June 30, 2014 was $70,000 which represented purchases of treasury stock related to the liquidation of the Company's Employee Stock Ownership Plan.

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, 2014, 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

None

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.

We generated an operating and net loss during the three and six months ended June 30, 2015, we have historically experienced operating and net losses, and we may experience such losses in the future.

For the six months ended June 30, 2015, we had operating loss of $366,000 and a net loss of $475,000 compared to an operating loss of $4,000 and a net loss of $9,000 for the six months ended June 30, 2014. 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 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 and depend on a manufacturing rights agreement with Telkoor under which we have the right to directly place purchase orders with third party manufacturers.

We depend on Telkoor Telecom Ltd. (“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. 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 certain IP from Telkoor in order to reduce its dependency on Telkoor with respect to a certain line of products. 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 to Telkoor. This agreement currently accounts for a significant portion of our sales. In the event this agreement is terminated for any reason, it would materially affect our profitability and cash position.

If Telkoor is unable to continue operating as a going concern, our operational and financial results may be significantly adversely affected. Due to extensive losses incurred by Telkoor during 2014 and resultant limited liquidity, Telkoor’s auditors expressed doubt regarding the continued existence of Telkoor as a going concern in its audit opinion regarding Telkoor’s financial statements for the quarter ended September 30, 2014, the year ended December 31, 2014, and the quarter ended March 31, 2015. If Telkoor is unable to rectify its current liquidity problem, there is the possibility that Telkoor will not be able to continue operating in the coming year. We may lose our ability to continue manufacturing product under our Manufacturing Rights Agreement with Telkoor, we may lose our ability to collect on accounts receivable due from Telkoor and may be forced to fully impair our investment in Telkoor which may significantly adversely affect our operational and financial results.

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

Because of the global economy, many 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. 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 manufacture our products.

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. 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. Moreover, changes in market conditions and strategic changes at the direction of our customers may affect their decision to continue to purchase from us. 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, including those involving Company personnel, 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.

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 President and CEO, our V.P. of Finance, marketing and sales personnel, and key engineers necessary to implement our business plan and to grow our business. 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. Mr. Kohn continues to serve in his role as our President and CEO. However, Mr. Kohn's employment agreement expired on December 31, 2010, and as of August 7, 2015, Mr. Kohn and the Company had 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 OEMs and other customers for a significant portion of our revenues. We had one customer that accounted for more than 10% of total revenue for the three and six months ended June 30, 2015. We have 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 of current economic conditions.

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. OEMs, in turn, make similar demands on their suppliers, such as us, for increased product performance and lower prices. Such demands may adversely affect our ability to successfully compete in certain markets or our ability to sustain our gross margins.

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 unsaleable 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 manufacturer' representative OEM relationships and our other relationships.

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 manufacturer' 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 our 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 ITAR rules, which are interpreted, enforced and administered by the U.S. Department of State. 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 material 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 governed by the U.S. Foreign Military Financing program (FMF). Any such future sales would be subject to these regulations. Failure to comply with ITAR or FMF rules could have a material adverse affect on our financial condition, and/or operating results.

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 63.0% of net revenues in the six months ended June 30, 2015 and for 50.4% of net revenues in the year ended December 31, 2014 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. In addition, DPL, our wholly-owned subsidiary in the United Kingdom, supports our European and other international customers, distributors, and sales representatives, and therefore is also subject to local regulation. International sales are also subject to the export laws and regulations of the United States and other countries.

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 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 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.

Our common stock price is volatile.

Our common stock is listed on the NYSE MKT. 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, 2015, we had outstanding options to purchase an aggregate of 1,227,763 shares of common stock, with a weighted average exercise price of $1.57 per share, exercisable at prices ranging from $0.68 to $1.79 per share.

ITEM 2. CHANGES IN SECURITIES

On May 20, 2015, the Company's largest shareholder, Telkoor Telecom Ltd, sold 160,000 shares of the Company's common stock under a Rule 10b5-1 sales plan. After the sale, Telkoor Telecom Ltd. held 2,714,610 of the Company's common shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

On August 12, 2015, the Company issued a press release announcing its financial results for the second fiscal quarter ended June 30, 2015 and for the six months of the period ended June 30, 2015. A copy of the press release is attached as Exhibit 99.1 hereto.

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	Amendment to Articles of Incorporation (2)
3.3	Bylaws of Digital Power Corporation (1)
31.1	Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release, dated August 12, 2015, issued by Digital Power Corporation
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 3.1 to the Company's Form 8-K filed December 9, 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.

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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: August 12, 2015

Digital Power Corporation

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

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