DIGITAL POWER CORP
Form 10-K/A
October 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
Amendment No. 2

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

or

o 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
(Name of registrant as specified in its charter)

California	94-1721931
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

41324 Christy Street, Fremont, California 94538-3158
(Address of principal executive offices)

510-657-2635
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, no par value	NYSE Amex

Securities registered under Section 12(g) of the Act:

Title of Each Class
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes ¨ No þ

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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 ¨ (do not check if a smaller reporting company)	Smaller reporting company þ

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

As of June 30, 2011, the aggregate market value of the voting common stock held by non-affiliates was approximately $5,803,484 based upon the closing price of the common stock on the NYSE Amex on that date. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 29, 2012, the number of shares of common stock outstanding was 6,849,654.

DOCUMENTS INCORPORATED BY REFERENCE
None.

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A (this “Amendment”) amends the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which the Registrant originally filed with the Securities and Exchange Commission on April 3, 2012 ("Original Filing Date") and amended on August 31, 2012 (collectively, the “Earlier Filings”). The Registrant is filing this Amendment to revise Item 11 of the report on Form 10K/A to include the monthly fees paid to the Chairman of the Board that were inadvertently not included in the Earlier Filings. Except as set forth above, the Earlier Filings have not been amended, updated or otherwise modified. This Amendment does not reflect any events occurring after the Original Filing Date, and as a result, this Amendment continues to speak as of the date of the Original Filing Date. For the convenience of the reader, the document has been refiled in its entirety together with updated officer certifications.

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As used in this annual report, the terms “we,” “us,” “our,” “Company,” “Digital,” or “Digital Power,” mean Digital Power Corporation, a California corporation, and its subsidiaries unless otherwise indicated.

The following information should be read in conjunction with the Consolidated Financial Statements and the notes thereto located elsewhere in this Annual Report on Form 10-K. This Report, and in particular “Management's Discussion and Analysis of Financial Condition and Results of Operations,” contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In this report, the words "believes," "anticipates," "intends," "expects," "plans," "should," "will," "seeks" and words of similar import identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: our history of net losses; our dependence on Telkoor Telecom Ltd. to design certain of our standard products; the possible limits of our strategic focus on our power supply component competencies; our dependence on a few major customers; uncertainty of market acceptance of our product; the effects of the current crisis affecting world financial markets; and other factors referenced in "Risk Factors" and other sections of this Annual Report. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

PART I.

ITEM 1. DESCRIPTION OF BUSINESS.

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 both the commercial 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 Amex 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 includes but 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 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 rich features 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.

Power System Solutions

We provide custom power system solutions, high-grade flexibility series power supply products, off-the-shelf products and value-added services to our diverse industries and markets including military/defense, telecom, medical and industrial. We believe that our solutions leverage a combination of low leakage power emissions, high power density, superior power efficiency, design flexibility and short time to market.

Custom Power System Solution . We provide high-grade custom power system solutions to numerous customers in multiple industry segments. Each custom solution that we develop is based on high power density, digital power processing and a special layout to meet each of our customer's unique operation environments where efficiency, size and performance are key. We combine our power design capabilities with the latest circuit designs to provide complete power solutions for virtually any need. In the design of custom power solutions, we work closely with our customers' engineering teams to develop mechanical enclosures to ensure 100% compatibility with any hosted platform.

Our standard contract for custom power solutions includes a multi-year high-volume production forecast that allows us to secure long-term production guarantees (and therefore possible savings on manufacturing costs for volume orders) while providing an environment that promotes the development of our intellectual property ("IP") portfolio. We believe that this business model provides an incentive to our customers to be committed to high-volume production orders.

High-Grade Flexibility Series Power Supply Product . We offer our rich features based power rectifiers that support flexible configuration and high-grade design implementation. This include innovative designs and implementation including Digital Signal Processing ("DSP") control for Power Factor Correction ("PFC") and DC/DC, synchronous rectifier outputs under DSP control, two phase PFC, hot pluggable, current sharing and other features. While some of our customers have special requirements that include a full custom design, other customers may require only certain electrical changes to standard power supply products, such as modified output voltages and unique status and control signals, and mechanical repackaging tailored to fit the specific application. We offer a wide range of standard and modified standard products that can be easily integrated with any platform across our diversified market segments.

Value-Added Services . In addition to our custom solutions and high-grade flexibility series proprietary products that we offer, we also provide value-added services to OEMs. We incorporate an OEM's selected electronic components, enclosures, cable assemblies and other compliance components into our power system solutions to produce a power subassembly that is compatible with the OEM's own equipment and specifically tailored to meet the OEM's needs. We purchase parts and components that the OEM itself would otherwise attach to, or integrate with, our

power systems, and provide the OEM with the integration and installation service, thus eliminating a complex, time-consuming and costly integration. We believe that this value-added service is well suited to those OEMs who wish to reduce their vendor base and minimize their investment in manufacturing that leads to increased fixed costs. Based on these value-added services, the OEMs do not need to build assembly facilities to manufacture their own power subassemblies and thus are not required to purchase individual parts from many vendors.

Our products have a warranty period from date of shipment to the customer.

Markets

We sell our custom power system solutions, high-grade flexibility series power supply products and value-added services to customers in a diverse range of commercial and defense industries and markets throughout the world, with an emphasis on North America and Europe. Our current customer base consists of approximately 200 companies, some of which are served through our partner channels. We serve the North American power electronics market primarily through our domestic corporation, Digital Power Corporation; the European marketplace is served through DPL, our wholly-owned subsidiary.

Our products are sold directly by our sales force and through a network of manufacturers' representatives and distributors. Our sales strategy is to identify and focus on strategic accounts. This strategy allows us to maintain a close and direct relationship with them, which positions us as the supplier of choice for these customers' challenging, innovative and demanding new product requirements. In striving for additional market share, we simultaneously strengthen our traditional sales channels of manufacturer representatives and distributors. We plan to continue to build more channels and increase our market share through 2012.

Commercial Customers . We serve global commercial markets including medical, telecom, and industrial companies. Our products are deployed in a variety of applications and operate in a broad range of systems where customers require mission critical power reliability and occasionally extreme environmental conditions. Examples of the commercial markets we serve and products for these markets include:

- Medical (Non-patient Contact)
  - Imaging, dispensing equipment
  - Ventilators
  - Dialysis, endoscopy, surgical equipment
  - Ultrasound, MRI
  - Oxygen concentration
- Telecom
  - Switches
  - Routers
  - Servers
  - Broadband networks and video broadcast systems
  - Fiber optic networks
  - Wireless systems
- Industrial Process Equipment and Embedded Controls
  - Packaging equipment, pumps, CNC machines, laser
  - Intelligent / LED lighting
  - Industrial printers
  - Laboratory and diagnostic equipment
  - ATE (Automatic Test Equipment), scientific
  - Advanced projectors

These product solutions, which include standard, modified-standard or full custom designs, are designed to meet our customers' requirements.

Military/Defense Customers . We have developed a broad range of rugged product solutions for the military and defense market, featuring the ability to withstand harsh environments. These ruggedized product solutions, which include both specific modifications of existing products or full custom designs, are designed for combat environments and meet the requirements of our defense customers. We are compliant with the regulations of International Traffic in Arms Regulations ("ITAR") and are an approved vendor for the U.S. Air Force, Navy and Army.

At the core of every military electronic system is a power supply. Mission critical systems require rugged high performance power platforms that will operate and survive the harsh environmental conditions placed upon such systems. Our power supplies, which include the following, function effectively in these severe military environments:

- § Missiles – Ground-to-Air, Air-to-Air and Sea-to-Air
- § Naval – Shipboard radar, EW and communication
- § Mobile and Ground Communications – Active Protection, Communications and Navigation
- § Surveillance, test equipment
- § UAV (Unmanned Aerial Vehicle) – Very lightweight power systems

Space, weight, output power, electromagnetic compatibility, power density and multiple output requirements are only part of the challenges that any military power supply design faces. With many decades of experience, our engineering teams meet these tough challenges. Our power supplies are a critical component of many major weapon systems worldwide.

We leverage our strategic alliance and collaboration with Telkoor Telecom Ltd. ("Telkoor"), our largest shareholder, and Digital Power Limited ("DPL"), our wholly-owned subsidiary, to develop some of the MIL-SPEC products.

Full custom military project services:

- · Program management for each project
- · Quality assurance and control:
  - o ISO 9001: 2008 and ISO 17025: 2005 certified
  - o Compliance with AS9100
  - o Compliance with MIL-Q 9858A
  - o Compliance with environmental testing in accordance with MIL-STD 810, MIL-STD 202
  - o FRACAS (Failure Reporting, Analysis, and Corrective Action System)
  - o 100% screening, including ESS (Environmental Stress Screening) and ATP (Acceptance Test Procedure) with random vibration and temperature cycling tests
- · Product Tests:
  - o Vertical Random Vibration
  - o Sine Sweep Vibrations
  - o Shock
  - o Salt
  - o Fog
  - o Polar Temperatures

Typical Product Features:

- · Wide input voltage range
- · Multi-output voltages (DC and AC)
- · Fully approved according to MIL-STD 704, MIL-STD 1275 and MIL-STD 1399
- · Environmental conditions per MIL-STD 810
- · EMI/RFI per MIL-STD 461
- · Wide operating temperature range of -40°C up to +90°C
- · Power output up to 72,000 Watts (3 x 24,000 Watts system)
- · High switching frequency up to 500KHz
- · High efficiency, over 90%

- High power density up to 26 watts/inch 3
- Power factor correction
- Redundancy and hot swap N+1
- Switching Frequency sync to external clock
- Free convection, forced air cooling and base plate cooling

Strategy

Our strategy is to be the supplier of choice to those companies and OEMs requiring high-quality power system solutions where custom design, superior product, high quality, time to market and very competitive prices are critical to business success. We believe that we provide advanced custom product design services to deliver high-grade products that reach a high level of efficiency and density and can meet rigorous environmental requirements. Our customers benefit from a direct relationship with us that support all of their needs for designing and manufacturing power solutions and products. By implementing our advanced core technology, including process implementation in integrated circuits, we can provide cost reductions to our customers by replacing their existing power sources with our custom design cost-effective products.

Our target market segments include the industrial, telecommunication, medical, and military/defense industries. We do not participate in the personal computer power supply market because of the low margins arising out of the high volume and extremely competitive nature of that market.

Our strategy will continue to focus on expanding our market share by adding new customers from all of our target market segments. We are developing long term relationships, and we intend to expand our customer base in our commercial market segments, including medical, telecom and industrial, while continuing to maintain our existing customers. In the military and defense market segment, we will continue to provide advanced rugged products to customers, and we are striving to expand our business to support the military and defense industries. We believe that our custom power supply solutions, flexibility series, high-grade and high-efficiency power product solutions provide customers with a more effective choice as compared to products offered by other power solution competitors, due in part to a customer's requirement for output voltages and other features such as redundancy and sense control tailored to its exact requirements within specific parameters.

Furthermore, we believe that we have the talent and engineering experience to satisfy any of our customers' product or platform requirements. If an OEM customer specifies a different set of power system parameters, we will custom design or modify a product to meet the OEM's requirements With a wide range of solutions from our custom designs to our high-grade flexibility series products, our professional design team can provide economical and timely product solutions to our OEM customers. In addition, as our power systems meet all appropriate environmental requirements and safety standards, our smaller OEM customers can expedite the process of independent safety agency testing by companies such as Underwriters Laboratories, and save considerable expense. By offering OEM customers a new choice with Digital Power's custom, flexibility series, high-grade and high-efficiency power system solutions, we believe we provide certain strategic advantages over our competitors.

Digital Power Limited (Gresham Power Electronics)

Digital Power Limited, our wholly-owned subsidiary organized and headquartered in Salisbury, United Kingdom , designs, manufactures, and distributes switching power supplies, uninterruptible power supplies, and power conversion and distribution equipment frequency converters for the commercial and military markets, under the name Gresham Power Electronics ("Gresham"). Frequency converters manufactured by Gresham are used by navel warships to convert their generated 60-cycle electricity supply to 400 cycles. This 400-cycle supply is used to power their critical equipment such as gyro, compass, and weapons systems. Gresham also designs and manufactures transformer rectifiers for naval use. Typically, these provide battery supported back up for critical DC systems, such as machinery and communications. In addition, higher power rectifiers are used for the starting and servicing of helicopters on naval vessels, and Gresham now supplies these as part of overall helicopter start and servicing systems. We believe that Gresham products add diversity to our product line, provide greater access to the United Kingdom and European markets, and strengthen our engineering and technical resources.

Manufacturing and Testing

Consistent with our strategy of focusing on custom design products and high-grade flexibility series products, we aim to maintain a high degree of flexibility in our manufacturing through the use of strategically focused contract manufacturers. We select contract manufacturers to ensure that they will meet our near term cost, delivery, and quality goals. In addition, we believe these relationships will eventually give us access to new markets and beneficial cross-licensing opportunities. The competitive nature of the power supply industry has placed continual downward pressure on selling prices. In order to achieve our low cost manufacturing goals with labor-intensive products, we have entered into production agreements with certain contract manufacturers in Asia. At present, our principal contract manufacturers in Asia are Winco-Power Technology, Shenzhen Watt Electronics, Ultra Level Tech Co. Ltd, Teamwise and Energy Recovery Products.

We sell certain products that are developed, manufactured and sold to us by Telkoor, an Israeli company that currently holds 40.4% of our outstanding common stock. In coordination with Telkoor, and in order to accelerate delivery and reduce the cost of some of the products we purchase from Telkoor, we have obtained the right to order products directly from Telkoor's contract manufacturers, as well as from our own contract manufacturers in China, in exchange for the payment of royalties to Telkoor.

We are continually improving our internal processes, while monitoring the processes of our contract manufacturers, to ensure the highest quality and consistent manufacturing of our power solutions. We test all of our custom power assemblies per clearly defined test procedures developed by us and our customers. This approach ensures that our customers can use our systems right out of the box. Customer specific testing services are offered with custom designed test stands to simulate operation within our customer applications.

Compliance with international safety agency standards is critical in every application, and power solutions play a major role in meeting these compliance requirements. Our safety engineers and quality assurance teams help ensure that our custom products are designed to meet all safety requirements and are appropriately documented to expedite safety approval processes.

Regulatory Requirements

We and our manufacturing partners are required to meet applicable regulatory, environmental, emissions, safety and other requirements where specified by the customer and accepted by us or as required by local regulatory or legal requirements. The products that we market and sell in Europe may be subject to the 2003 European Directive on Restriction of Hazardous Substances ("RoHS"), which restricts the use of six hazardous materials in the manufacture of certain electronic and electrical equipment, as well as the 2002 European Directive on Waste Electrical and Electronic Equipment ("WEEE"), which determines collection, recycling and recovery goals for electrical goods. In July 2006, our industry began phasing in RoHS and WEEE requirements in most geographical markets with specific emphasis on consumer-based products. We believe that RoHS and WEEE-compliant components may be subject to longer lead-times and higher prices as the industry transitions to these new requirements.

Some of our products are subject to ITAR, which is administered by the U.S. Department of State. ITAR controls not only the export of certain products specifically designed, modified, configured or adapted for military systems, but also the export of related technical data and defense services and foreign production. We obtain required export licenses for any exports subject to ITAR. Compliance with ITAR may require a prolonged period of time; if the process of obtaining required export licenses for products subject to ITAR is delayed, it co