DIGITAL POWER CORP
Form 10QSB
November 21, 2005

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2005

[ ] TRANSITION REPORT UNDER 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 small business issuer as specified in its charter)

California	94-1721931
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

41920 Christy Street, Fremont, CA 94538-3158
(Address of principal executive offices)

(510) 657-2635
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [ ]

Number of shares of common stock outstanding as of November 8, 2005, 6,161,859

DIGITAL POWER CORPORATION

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2005

IN U.S. DOLLARS

UNAUDITED

INDEX

[LOGO OF ERNST & YOUNG]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS OF

DIGITAL POWER CORPORATION

We have reviewed the accompanying consolidated balance sheet of Digital Power Corporation ("the Company") and its subsidiary as of September 30, 2005, and the related consolidated statements of operations for the nine-month and three-month periods ended September 30, 2005 and 2004, changes in shareholders' equity for the nine-month period ended September 30, 2005, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2005 and 2004. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
November 15, 2005

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

DIGITAL POWER CORPORATION

CONSOLIDATED BALANCE SHEET

U.S. DOLLARS IN THOUSANDS

	SEPTEMBER 30, 2005
	Unaudited

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 1,147
Restricted cash	281
Trade receivables, net of allowance for doubtful accounts of $ 56 at September 30, 2005	1,700
Prepaid expenses and other current assets	140
Inventories	2,227
Total current assets	5,495
LEASE DEPOSITS	18
PROPERTY AND EQUIPMENT, NET	191
Total assets	$ 5,704

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

DIGITAL POWER CORPORATION

CONSOLIDATED BALANCE SHEET

U.S. DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

	SEPTEMBER 30, 2005
	Unaudited
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 1,777
Related party - trade payables account	476
Deferred revenues	363
Other current liabilities	377
Convertible note (Note 4)	250
Total current liabilities	3,243
SHAREHOLDERS' EQUITY:	
Series A Redeemable, Convertible Preferred shares no par value: 500,000 shares authorized; 0 shares issued and outstanding at September 30, 2005	-
Preferred shares, no par value: 1,500,000 shares authorized; 0 shares issued and outstanding at September 30, 2005	-

Common shares, no par value: 10,000,000 shares authorized; 6,161,859 shares issued and outstanding at September 30, 2005	11,036
Additional paid-in capital	2,227
Deferred stock compensation	(8)
Accumulated deficit	(10,780)
Accumulated other comprehensive loss	(14)
Total shareholders' equity	2,461
Total liabilities and shareholders' equity	$ 5,704

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

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DIGITAL POWER CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTH SEPTEMBER
	2005	2004	2005
	Unaudited		
Revenues	$ 7,187	$ 6,158	$ 2,969
Cost of revenues	5,090	4,673	2,120
Gross profit	2,097	1,485	849
Operating expenses:			
Engineering and product development	374	449	151
Selling and marketing	999	947	319
General and administrative	797	811	268
Total operating expenses	2,170	2,207	738
Operating income (loss)	(73)	(722)	111
Financial income (expenses), net	(87)	(5)	1
Other expenses	-	(6)	-
Net income (loss)	$ (160)	$ (733)	$ 112

Basic net earnings (loss) per share	$ (0.03)	$ (0.13)	$ 0.02	$
Diluted net earnings (loss) per share	$ (0.03)	$ (0.13)	$ 0.02	$
Weighted average number of shares used in computing basic net earnings (loss) per share	6,161,859	5,772,868	6,161,859	
Weighted average number of shares used in computing diluted net earnings (loss) per share	6,161,859	5,772,868	6,183,665	

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

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DIGITAL POWER CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

	COMMON SHARES		ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK COMPENSATION	ACCUMULATED DEFICIT	ACCU OT COMPR INCOM
	NUMBER	AMOUNT				
Balance as of January 1, 2005	6,161,859	$ 11,036	$ 2,227	$ (13)	$ (10,620)	$
Amortization of deferred stock compensation related to options granted to an employee	-	-	-	5	-	
Comprehensive loss:						
Net loss	-	-	-	-	(160)	
Foreign currency translation adjustments	-	-	-	-	-	
Total comprehensive loss						
Balance as of September 30, 2005 (unaudited)	6,161,859	$ 11,036	$ 2,227	$ (8)	$ (10,780)	$

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

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DIGITAL POWER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. DOLLARS IN THOUSANDS

	NINE MONTHS EN SEPTEMBER 30	
	2005	2
	Unaudited	
Cash flows from operating activities:		
Net loss	$ (160)	$
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	64	
Loss on sale of property and equipment	-	
Compensation related to options granted to an employee	5	
Increase in trade receivables	(52)	
Decrease (increase) in prepaid expenses and other current assets	25	
Decrease (increase) in inventories	(795)	
Increase in accounts payable	538	
Increase (decrease) in deferred revenues and other current liabilities	46	
Net cash used in operating activities	(329)	
Cash flows from investing activities:		
Restricted cash	(50)	
Purchase of property and equipment	(21)	
Proceeds from sale of property and equipment	-	
Net cash provided by (used in) investing activities	(71)	
Cash flows from financing activities:		
Proceeds from issuance of Common shares	-	
Proceeds from a convertible note	250	
Exercise of options granted to an employee	-	
Net cash provided by financing activities	250	
Effect of exchange rate changes on cash and cash equivalents	(26)	
Increase (decrease) in cash and cash equivalents	(176)	
Cash and cash equivalents at the beginning of the period	1,323	

Cash and cash equivalents at the end of the period	$ 1,147	$

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

NOTE 1:- GENERAL

Digital Power Corporation ("the Company" or "DPC") was incorporated in 1969, under the General Corporation Law of the State of California. The Company has a wholly-owned subsidiary, Digital Power Limited ("DPL"), located in the United Kingdom. The Company and its subsidiary 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).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2004, are applied consistently in these financial statements. In addition, the following accounting policy is applied:

The accompanying unaudited consolidated financial statements as of September 30, 2005 and for the nine-month periods ended September 30, 2005 and 2004 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of the financial condition and results of operations, contained in the Company Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004. The results of operations for the nine-month period ended September 30, 2005 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2005.

b. Accounting for stock-based compensation:

The Company and its subsidiary have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Company's share options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized.

The Company and its subsidiary apply SFAS No. 123 and Emerging Issues Task Force No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or

Services" ("EITF 96-18"), with respect to options issued to non-employees. SFAS No. 123 requires use of an option valuation model to measure the fair value of the options at the grant date.

Under Statement of Financial Accounting Standard No. 123, "Accounting for Stock Based Compensation" ("SFAS No. 123") pro forma information regarding net earnings (loss) and net earnings (loss) per share is required and has been determined as if the Company had accounted for its employee options under the fair value method of that statement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value for options granted in the nine months ended September 30, 2005 and 2004 is amortized over their vesting period and estimated at the date of grant using a Black-Scholes options pricing model with the following assumptions:

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS E[...] SEPTEMBER 3[...]	
	2005	2004	2005	
	Unaudited			
Dividend yield	0%	0%	-	
Expected volatility	103%	107%-111%	-	
Risk-free interest	4%	3%-3.5%	-	
Expected life of up to	7 years	5-7 years	-	

The following table illustrates the effect on net loss and loss per share as if the fair value method had been applied to all outstanding and unvested awards in each period:

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS E[...] SEPTEMBER 3[...]	
	2005	2004	2005	
	Unaudited			
Net income (loss) available to Ordinary shares - as reported	$ (160)	$ (733)	$ 112	$
Add - stock-based employee compensation - intrinsic value	5	10	2	
Deduct - stock-based employee				

compensation -fair value	(99)	(143)	(33)	
Pro forma net income (loss)	$ (254)	$ (866)	$ 81	$
Basic net earnings (loss) per share, as reported	$ (0.03)	$ (0.13)	$ 0.02	$
Proforma basic net earnings (loss) per share	$ (0.04)	$ (0.15)	$ 0.01	$
Diluted net earnings (loss) per share, as reported	$ (0.03)	$ (0.13)	$ 0.02	$
Proforma diluted net earnings (loss) per share	$ (0.04)	$ (0.15)	$ 0.01	$

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DIGITAL POWER CORPORATION

NOTE 3:- INVENTORIES

	SEPTEMBER 30, 2005
	Unaudited
Raw materials, parts and supplies	$ 472
Work in progress	422
Finished products	1,333
	$ 2,227

NOTE 4:- CONVERTIBLE LOAN

In February 2005, the Company entered into a convertible loan agreement with Telkoor, according to which Telkoor loaned a $ 250 interest free convertible note to be paid on the tenth business day after the Company announced its financial results for 2005. The note may be converted into Common shares at a rate of $ 1.06 per share, which is equal to the quoted market price of the Company's Common stock on the date the Note was approved and signed. Automatic conversion shall occur if the Company meets its set budget for 2005. In accordance with the guidelines of APB No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Instruments", and EITF Issue No. 00-27, "Application of issue No. 98-5 to Certain Convertible Instruments", the Company has determined the Note had no beneficial conversion feature since the conversion price was equal to the quoted market price of the Company's Common stock at the date the note was approved and signed.

NOTE 5:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Pending litigation:

On April 2, 2003, a claim was filed against the Company by Tek-Tron Enterprises Inc. ("Tek-Tron"). In April 2004, the Company signed a settlement agreement with Tek-Tron according to which the Company paid $ 90 and returned certain disputed inventory for a full release. The settlement agreement allowed Tek-Tron to seek arbitration limited to the sum of $ 50 in case the parties do not agree on a resolution regarding the returned inventory. Tek-Tron initiated arbitration against the Company for $ 50 plus legal fees. The arbitration hearing was held on May 2, 2005, and Tek-Tron was awarded $ 5 in damages and no legal fees. Tek-Tron filed an appeal of the arbitration, and in response, the Company filed a petition to enforce the settlement agreed. On October 31, 2005, the Company has been notified that Tek-Tron would be withdrawing its arbitration appeal, and dismissing this matter formally and finally. We are waiting receipt of the official dismissal paper.

b. On May 3, 2005, the Company received a written notice from the American Stock Exchange ("the AMEX"), advising that the Company was not in compliance with the AMEX's listing requirements. In order to maintain its AMEX listing, the Company submitted on June 3, 2005, a recovery plan which was accepted by AMEX, and the Company will be able to continue its listing during the plan period, subject to AMEX's periodic reviews. If the Company is not in compliance with the listing standards at the end of such 18 months period or fails the periodic reviews, the AMEX will initiate delisting proceedings.

NOTE 6:- EVENTS DURING THE PERIOD

In April 2005, the Company granted 70,000 options to Telkoor's employees. The Company had accounted for its options to Telkoors' employees under the fair value method of SFAS No. 123 and EITF 96-18. The fair value for these options was estimated using a Black-Scholes option-pricing model with the following assumptions: risk-free interest rates of 4.4%, dividend yields of 0%, volatility of 103.5%, and the contractual life of the options of 10 years. The fair value is amortized over the vesting period of the options of 4 years.

During the quarter, no compensation expenses were recorded in the financial statements due to immateriality.

NOTE 7:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHICAL INFORMATION

The Company has two reportable geographic segments, see Note 1 for a brief description of the Company's business. The data is presented in accordance with Statement of Financial Accounting Standard No. 131, "Disclosure About Segments of an Enterprise and Related Information" ("SFAS No. 131").

The following data presents the revenues, expenditures and other operating data of the Company's geographic operating segments:

	NINE MONTHS ENDED SEPTEMBER 30, 200 (unaudited)			
	DPC	DPL	ELIMINATIONS	
Revenues	$ 3,373	$ 3,814	$ -	$
Intersegment revenues	629	-	(629)	
Total revenues	$ 4,002	$ 3,814	$ (629)	$
Depreciation expenses	$ 16	$ 48	$ -	$
Operating income (loss)	$ (101)	$ 28	$ -	$
Financial expenses, net				$
Net loss	$ (92)	$ (68)	$ -	$
Expenditures for segment assets at September 30, 2004	$ 19	$ 2	$ -	$
Identifiable assets at September 30, 2004	$ 2,140	$ 3,564	$ -	$

NOTE 7:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHICAL INFORMATION (Cont.)

	NINE MONTHS ENDED SEPTEMBER 30, 200 (unaudited)			
	DPC	DPL	ELIMINATIONS	
Revenues	$ 2,874	$ 3,284	$ -	$
Intersegment revenues	613	-	(613)	
Total revenues	$ 3,487	$ 3,284	$ (613)	$
Depreciation expenses	$ 23	$ 56	$ -	$

Operating loss	$ (452)	$ (270)	$ -	$
Financial expenses, net				$
Other expenses				$
Net loss	$ (450)	$ (283)	$ -	$
Expenditures for segment assets at September 30, 2004	$ 15	$ 7	$ -	$
Identifiable assets at September 30, 2004	$ 2,040	$ 3,073	$ -	$

	THREE MONTHS ENDED SEPTEMBER 30, 20 (unaudited)			
	DPC	DPL	ELIMINATIONS	
Revenues	$ 1,272	$ 1,697	$ -	$
Intersegment revenues	431	-	(431)	
Total revenues	$ 1,703	$ 1,697	$ (431)	$
Depreciation expenses	$ 5	$ 16	$ -	$
Operating income (loss)	$ (10)	$ 121	$ -	$
Financial income, net				$
Net income (loss)	$ (6)	$ 118	$ -	$
Expenditures for segment assets at September 30, 2004	$ 11	$ -	$ -	$
Identifiable assets at September 30, 2004	$ 2,140	$ 3,564	$ -	$

DIGITAL POWER CORPORATION

NOTE 5:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHICAL INFORMATION (Cont.)

	THREE MONTHS ENDED SEPTEMBER 30, 20 (unaudited)			
	DPC	DPL	ELIMINATIONS	
Revenues	$ 1,019	$ 1,171	$ -	$
Intersegment revenues	196	-	(196)	
Total revenues	$ 1,215	$ 1,171	$ (196)	$
Depreciation expenses	$ 8	$ 21	$ -	$
Operating loss	$ (93)	$ (124)	$ -	$
Financial expenses, net				$
Other expenses				$
Net loss	$ (97)	$ (133)	$ -	$
Expenditures for segment assets at September 30, 2004	$ 7	$ 3	$ -	$
Identifiable assets at September 30, 2004	$ 2,040	$ 3,073	$ -	$

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

With the exception of historical facts stated herein, the matters discussed in this report are "forward looking" statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such "forward looking" statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Factors that could cause actual results to differ materially include, in addition to other factors identified in this report, dependence on the electronic equipment industry, competition in the power supply industry, dependence on manufacturers in China and other risks factors detailed in the Company's Form 10-KSB for the year ended December 31, 2004. Readers of this report are cautioned not to put undue reliance on "forward looking" statements which are, by their nature, uncertain as reliable indicators of future performance. The Company disclaims any intent or obligation to publicly update these "forward looking" statements, whether as a result of new information, future events, or otherwise.

GENERAL

We are engaged in the business of designing, developing, manufacturing, marketing and selling switching power supplies to the industrial, telecommunication, data communication, medical and military industries. Revenues are generated from sales to distributors, system integrators, OEMs in North America, Europe and the United Kingdom.

We have continued our efforts to increase sales to existing and new customers, and continue our strategy to manufacture our products in the Far East. Until revenues increase to a sufficient amount to offset our expenses, we anticipate that we will continue to experience net losses for the near future. We believe that our cash will be sufficient to fund those losses for the near future.

In February 2005, the Company signed on a $250,000 convertible note ("the Note") agreement with Telkoor Telecom Ltd.("Telkoor"), a major stockholder in the company. In accordance with the aforementioned agreement, the Company is obligated to repay Telkoor the amount of $250,000 on the 10th business day after the release of its financial results for the year ended December 31, 2005. The conversion price of the Note is $1.06, which was the quoted market price of the Company's Common stock on the date the Note was approved and signed. In accordance with the guidelines of APB No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF Issue No. 00-27, "Application of issue No. 98-5 to Certain Convertible Instruments", the Company has determined the date of approving and signing the agreement as the commitment date and since the conversion price was equal to the market price of the company's Common stock at that date, the Note had no beneficial conversion feature.

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THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005, COMPARED TO SEPTEMBER 30, 2004

REVENUES
Total revenues increased by 35.6% to $2,969,000 for the three months ended September 30, 2005, from $2,190,000 for the three months ended September 30, 2004.

Revenues from the domestic operations of DPC increased 24.8% to $1,272,000 for the third quarter ended September 30, 2005, from $1,019,000 for the third quarter ended September 30, 2004. Revenues from the Company's European operations of DPL increased 44.9% to $1,697,000 for the third quarter ended September 30, 2005, from $1,171,000 for the third quarter ended September 30, 2004. The revenue increase in the third quarter of 2005 is mainly due to increase in sales of military products and new products.

For the nine months ended September 30, 2005, revenues increased by 16.7% to $7,187,000 from $6,158,000 from the nine months ended September 30, 2004. Revenues attributed to the domestic operations of DPC for the nine months ended September 30, 205, increased by 17.4% to $3,373,000 from $2,874,000 for the nine months ended September 30, 2004. The increase in revenue from the domestic operations of DPC is mainly due to higher sales of our new products and military products. Revenues from the Company's European operations of DPL for the nine months ended September 30, 2005 increased by 16.1% to $3,814,000 from $3,284,000 for the nine months ended September 30, 2004.

GROSS MARGINS
Gross margins were 28.6% for the three months ended September 30, 2005, compared to 23.8% for the three months ended September 30, 2004. The increase in gross margins can be primarily attributed to the increase use of lower cost contract

manufacturers in the Far East. Gross margins were 29.2% for the nine months ended September 30, 2005 compared to 24.1% for the nine months ended September 30, 2004. The increase in gross margins can be primarily attributed to increase use of lower cost contract manufacturers in the Far East.

ENGINEERING AND PRODUCT DEVELOPMENT
Engineering and product development expenses were 5.1% of revenues for the three months ended September 30, 2005, and 7.2% for the three months ended September 30, 2004. In absolute dollars, the engineering expenses remained at approximately the same level. Engineering and product development expenses were 5.2% of revenues for the nine months ended September 30, 2005, compared to 7.3% of revenues for the nine months ended September 30, 2004.

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SELLING AND MARKETING
Selling and marketing expenses were 10.7% of revenues for the three months ended September 30, 2005, compared to 14.8% for the three months ended September 30, 2004. In absolute dollars, the selling and marketing expenditures remained at approximately the same level. Selling and marketing expenses were 13.9% of revenues for the nine months ended September 30, 2005, compared to 15.4% for the nine months ended September 30, 2004. In absolute dollars, the selling and marketing expenditures increased by $52,000. The increase in selling and marketing were primarily due to new hires, and travel expenses as part of our efforts to increase sales.

GENERAL AND ADMINISTRATIVE
General and administrative expenses were 9.0% of revenues for the three months ended September 30, 2005, compared to 11.7% for the three months ended September 30, 2004. General and administrative expenses were 11.1% of revenues for the nine months ended September 30, 2005, compared to 13.2% for the nine months ended September 30, 2004. In absolute dollars, the general and administrative expenditures remained at approximately the same level.

FINANCIAL INCOME (EXPENSES), NET
Financial income net was $1,000 for the three months ended September 30, 2005, compared to financial expense net of $7,000 for the three months ended September 30, 2004. Financial expense was $87,000 for the nine months ended September 30, 2005, compare to financial expense of $5,000 for the nine months ended September 30, 2004. Financial expense resulted mainly from the exchange rate fluctuation.

NET PROFIT (LOSS)
For the three months ended September 30, 2005, the Company had net profit of $112,000 compared to a net loss of $230,000 for the three months ended September 2004. The net profit is mainly due to the increase in revenues and increase in gross margin. Net loss for the nine months ended September 30, 2005 decrease to $160,000 compared to $733,000 for the nine months ended September 30, 2004. The net loss decrease is mainly due to increase in sales and increase in gross margin.

LIQUIDITY AND CAPITAL RESOURCES
On September 30, 2005, the Company had cash, and cash equivalents $1,147,000 and working capital of $2,252,000. This compares with cash and cash equivalents of $1,249,000 and working capital of $2,785,000 at September 30, 2004. The decrease in working capital is mainly due to operating losses.

Cash used in operating activities for the Company totaled $329,000 for the nine months ended September 30, 2005, compared to cash used in operating activities of $601,000 for the nine months ended September 30, 2004. Cash used in investing activities was $71,000 for the nine months ended September 30, 2005, compared to $46,000 cash provided for the nine months ended September 30, 2004.

The Company has an available line of credit with Silicon Valley Bank ("SVB"). The Company can borrow up to $1,200,000 against eligible accounts receivable and other financial covenants. The rate for this line of credit would be at Silicon Valley Bank's prime rate plus 1.75%. In order to utilize the line of credit, the Company is required to maintain certain ratios and be in compliance with other covenants. As of September 30, 2005, the Company has not utilized its line of credit.

The Company believes it has adequate resources at this time to continue its promotional efforts to increase sales in the electronic industry market. However, if the Company does not meet those goals, it may have to raise money through debts or equity, which may dilute shareholder's equity.

AMEX LISTING

On May 3, 2005, the Company received a written notice from the American Stock Exchange ("the AMEX"), advising that the Company was not in compliance with the AMEX's listing requirements. In order to maintain its AMEX listing the Company submitted on June 3, 2005 a recovery plan which was accepted by AMEX and the Company will be able to continue its listing during the plan period, subject to AMEX's periodic reviews. If the Company is not in compliance with the listing standards at the end of such 18 months period or fails the periodic reviews, the AMEX will initiate delisting proceedings.

ITEM 3. CONTROLS AND PROCEDURES

The Company's management with the participation of the Company's principal executive and financial officers evaluated the effectiveness of the Company's disclosure controls and procedures (as defined Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act are recorded, processed, summarized and reported on a timely basis. Based upon their evaluation, the Company's principal executive and financial officers concluded that the Company's disclosure controls and procedures are effective to accumulate and communicate to the Company's management as appropriate to allow timely decisions regarding disclosure.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 2, 2003, a claim was filed against the Company by Tek-Tron Enterprises Inc. ("Tek-Tron"). In April 2004, the Company signed a settlement agreement with Tek-Tron according to which the Company paid $90,000 returned certain disputed inventory for a full release. The settlement agreement allowed Tek-Tron to seek arbitration limited to the sum of $50,000 on case the parties do not agree on a resolution regarding the returned inventory. Tek-Tron initiated arbitration against the Company for $50,000 plus legal fees. The arbitration hearing was held on May 2, 2005, and Tek-Tron was awarded $5,000 in damages and no legal fees. Tek-Tron filed an appeal of the arbitration, and in response, the Company filed a petition to enforce the settlement agreed. On October 31, 2005, the Company have been notified that Tek-Tron would be withdrawing its arbitration appeal, and dismissing this matter formally and finally. We are waiting receipt of the official dismissal paper.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Certification of the CEO under the Sarbanes-Oxley Act
31.2 Certification of the CFO under the Sarbanes-Oxley Act
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(b) Reports on Form 8-K

The Company filed the following reports

Date of Report	Date of Event	Item reported
August 16, 2005	August 16, 2005	Financial Results for Second Quarter
July 14, 2005	July 14, 2005	
July 6, 2005	July 6, 2005	Amex approval Digital Power's recovery plan

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.

DIGITAL POWER CORPORATION
(Registrant)

Date: 11/15/2005

/s/ Jonathan Wax

Jonathan Wax
Chief Executive Officer
(Principal Executive Officer)

Date: 11/15/2005

/s/ Leo Yen

Leo Yen
Chief Financial Officer
(Principal Financial Officer)