TALK AMERICA HOLDINGS INC
Form S-8
January 24, 2006

As Filed with the Securities and Exchange Commission on January 23, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM S-8

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

TALK AMERICA HOLDINGS, INC.
(Exact name of registrant as specified in charter)

Delaware	**23-2827736**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6805 Route 202
New Hope, Pennsylvania 18938
(215) 862-1500
(Address of principal executive offices)

Talk America Executive Nonqualified Savings Plan
(Full title of the plan)

Aloysius T. Lawn, IV
Executive Vice President - General Counsel and Secretary
Talk America Holdings, Inc.
6805 Route 202
New Hope, Pennsylvania 18938
(Name and address of agent for service)

(215) 862-1500

(Telephone number, including area code, of agent for service)

CALCULATION OF REGISTRATION FEE

Title of securities to be registered	Amount to be registered	Proposed maximum offering price per unit(1)	Proposed maximum aggregate offering price(2)	Amount of registration fee
Deferred Compensation Obligations (1)	$2,000,000	100%	$2,000,000	$214.00

(1) The deferred compensation obligations to which this Registration Statement relates arise under the Talk America Executive Nonqualified Savings Plan (the “Plan”) and are unsecured obligations of Talk America Holdings, Inc. and designated affiliates to pay deferred compensation in the future pursuant to compensation deferral elections made by participants in the Plan in accordance with the terms of the Plan.

(2) Estimated pursuant to rule 457(h) under the Securities Act of 1933, as amended, solely for the purpose of calculating the registration fee.

PART I

INFORMATION REQUIRED IN THE SECTION 10(a) prospectus

Item 1. Plan Information

The document(s) containing the information specified in Part I of Form S-8 will be sent or given to participants in the Plan as specified by Rule 428(b)(1) of the Securities Act. Such documents are not being filed with the Securities and Exchange Commission (the “Commission”), but constitute, along with the documents incorporated by reference to this Registration Statement, a prospectus that meets the requirements of Section 10(a) of the Securities Act.

Item 2. Registrant Information and Employee Plan Annual Information.

Talk America Holdings, Inc. (the “Registrant”) shall furnish, without charge, to each person to whom the prospectus is delivered, upon the written or oral request of such person, a copy of any and all of the documents incorporated by reference, other than exhibits to such documents (unless such documents are specifically incorporated by reference to the information that is incorporated). Requests should be directed to:

Aloysius T. Lawn, IV
Executive Vice President - General Counsel and Secretary
Talk America Holdings, Inc.
6805 Route 202
New Hope, Pennsylvania 18938
(215) 862-1500

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

The following documents, which have been filed by the Registrant with the Commission, are incorporated by reference to this Registration Statement:

(i) The Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the SEC on March 16, 2005, as amended and filed with the SEC on March 30, 2005;

(ii) The Registrant's Quarterly Reports on Form 10-Q for the quarter ended September 30, 2005 filed with the Commission on November 9, 2005, for the quarter ended June 30, 2005, filed with the Commission on August 9, 2005 and for the quarter ended March 31, 2005, filed with the Commission on May 9, 2005; and

(iii) The Registrant's Current Reports on Form 8-K filed with the Commission on January 4, 2006, December 29, 2005, October 20, 2005, July 15, 2005 (as amended by the Registrant's current report on Form 8 K/A filed on August 3, 2005), June 9, 2005, June 1, 2005, May 25, 2005, May 24, 2005, April 26, 2005, March 1, 2005, February 23, 2005, January 14, 2005 and January 3, 2005.

The Registrant is not incorporating by reference any Form 8-K through which it furnished, rather than filed, information with the Commission.

All documents filed by the Registrant pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") after the date hereof and prior to the filing of a post-effective amendment indicating that all securities offered pursuant to this Registration Statement have been sold or deregistering all securities then remaining unsold, shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents.

Item 4. Description of Securities.

The following description of the deferred compensation obligations of the Registrant under the Plan is qualified by reference to the Plan, which is included as an exhibit to this Registration Statement. Capitalized terms used in this Item 4 and not otherwise defined in this Registration Statement shall have the respective meanings attributed to such terms in the Plan.

The deferred compensation obligations incurred by the Registrant under the Plan will be unsecured general obligations of the Registrant to pay the Compensation deferred in accordance with the terms of the Plan, and will rank equally with other unsecured and unsubordinated indebtedness of the Registrant, from time to time outstanding, payable from the general assets of the Registrant. The Registrant has several subsidiaries. The right of the Registrant, and hence the right of creditors of the Registrant (including Participants in the Plan), to participate in a distribution of the assets of any such subsidiary upon its liquidation or reorganization or otherwise, is subject to the prior claims of creditors of the subsidiary.

Under the Plan, Eligible Employees will have the opportunity to elect to defer a portion of the Compensation to be received from the Registrant or the Company. Eligible Employees are permitted to defer between 1% and 15% of their Compensation (after required payroll withholdings and deductions), but may not defer in excess of the applicable dollar amount contained in Section 402(g)(1)(B) of the Internal Revenue Code of 1986 (the "Code"). Compensation of a Participant which exceeds the annual compensation limit under Code Section 401(a)(17) for a Plan Year is not considered for deferral purposes; nonetheless, Participants who have attained age 50 before the close of a Plan Year are eligible to make additional catch-up deferrals subject to the limitations of Code Section 414(v)(2)(B)(i) and (C). Participants are fully and immediately vested in their own deferrals.

Participants' deferrals may be matched in an amount equal to $.25 for each $1.00 of Compensation deferred by a Participant, up to a maximum of 4% of the Participant's Compensation. Any Matching Contribution will be made in the sole and absolute discretion of the Company, and to such Participants or group(s) or category(ies) of Participants as shall be determined in the sole discretion of the Administrator. Participants will vest in any Matching Contributions pursuant to the following schedule:

Years of Service to the Company	Vested Percentage
1	33%
2	66%
3	100%

If a Participant terminates employment due to retirement (as determined pursuant to the terms of the Talk America, Inc. 401(k) Plan), Disability or death, the Participant will be fully vested in any Matching Contributions.

For each Plan Year, the maximum amount that can be deferred and contributed on a Participant's behalf may not exceed the limit stated in Code Section 415(c)(1)(A), as adjusted.

Deemed earnings and losses are credited or debited, as the case may be, to Participants' Accounts. The deemed rate of return to be credited or debited, as the case may be, is based on the investment options made available by the Administrator and elected by the Participant. Participants may direct the manner in which their deferrals are deemed invested from among these investment options, and may change their investment directions from time to time in accordance with procedures established by the Administrator.

Participant deferrals are credited, at the election of the Participant, to either the Fixed Distribution Account or to one of up to five Flexible Distribution Accounts. Any Matching Contribution will be allocated to a Participant's Fixed Distribution Account. Amounts credited to the Fixed Distribution Account will be paid in a lump sum, unless the Participant makes a timely election to receive distributions in up to 15 annual installments. Amounts credited to a Flexible Distribution Account will be paid in a lump sum or in up to 15 annual installments, with payments commencing no earlier than 2 years after the date such Account was established. Distributions are made or will commence by the last day of January of the Plan Year following the payment date specified by the Participant. Elections as to timing and form of distribution apply to all amounts credited to the specific Account.

Participants may change their elections regarding the time and form of distribution (a "Subsequent Election"), provided that any Subsequent Election may not accelerate any distribution. A Subsequent Election may delay distributions or change the form of payment only if (i) the new election is not made less than 12 months before the date on which payment would have been made (or, in the case of installment payments, the first installment payment would have been made), and (ii) the Subsequent Election delays payment for at least 5 years from the date that original payment would otherwise have been made.

If a Participant's employment terminates or the Participant dies or becomes Disabled, distribution of the Participant's Account(s) shall be made as elected by the Participant in the Enrollment Agreement or in a Subsequent Election. However, the Account(s) of a Participant who is also a "Key Employee" will not be distributed prior to the date that is 6 months from the date of his or her termination of service.

Certain accelerated distributions are permitted in the event of an Unforeseeable Emergency, to fulfill a domestic relations order, or to pay any amount included in income by the Participant as a result of the Plan failing to meet the requirements of Code Section 409A. If there is a Change of Control, the Company reserves the right, subject to any limitations imposed by Code Section 409A and regulations thereunder, within the 30 days preceding or the 12 months following a Change of Control, to terminate the Plan and distribute a Participant's entire Account. Notwithstanding any deferral election in effect, the Administrator will cash out the benefit of a Participant who terminates employment, becomes Disabled, or dies prior to the date on which an Account is scheduled to be distributed, if the aggregate value of the Participant's Account(s) does not exceed $10,000.

Whether or not the Registrant is a Participant's employer, all Compensation deferred under the Plan will continue for all purposes to be a part of the general funds of the Registrant and the Participant's Account(s) will at all times represent the general obligation of the Registrant. Each Participant will be a general creditor of the Registrant with respect to all of the Registrant's deferred compensation obligations to the Participant under the Plan, and will not have a secured or preferred position with respect to his or her Account(s). Nothing contained in the Plan shall be deemed to create an escrow, trust, custodial account or fiduciary relationship of any kind or to eliminate any priority or preferred position of a Participant in a bankruptcy matter with respect to claims for wages. Other than as expressly provided under the terms of the Plan, the right of a Participant in or to an Account, benefit or payment under the Plan shall not be subject in any manner to attachment or other legal process for the debts of such Participant; and no such Account, benefit or payment shall be subject to anticipation, alienation, sale, transfer, assignment or encumbrance.

The Company, without the consent of Participants, may amend, suspend, discontinue or modify the Plan at any time, except that no such action shall reduce or in any manner adversely affect the rights of any Participant with respect to benefits that are payable or may become payable under the Plan based upon the balance of the Participant's Account(s) as of the effective date of such action. The Company reserves the right at any time, or from time to time, to terminate the Plan. The Plan is intended to comply with the requirements of Code Section 409A, the American Jobs Creation Act of 2004 and the regulations to be issued thereunder ("AJCA"). Notwithstanding any provision of the Plan to the contrary, the Administrator reserves the right to amend the Plan, either retroactively or prospectively, in whatever respect is required to achieve compliance with Code Section 409A and AJCA.

The Registrant or the Company will settle a Participant’s Account(s) and discharge all obligations under the Plan in cash. In connection with the Plan, the Registrant may establish a rabbi trust (the “Trust”) for the purpose of setting aside assets for the payment of benefits under the Plan. The Registrant and the Company are obligated to pay all benefits from its general assets to the extent that such benefits are not paid by the Trust, and the establishment of the Trust shall not reduce or otherwise affect the Registrant’s continuing liability to pay benefits from such assets, except that the Registrant’s liability shall be offset by actual benefit payments made from the Trust.

Item 5. Interests of Named Experts and Counsel.

Not applicable.

Item 6. Indemnification of Directors and Officers.

Under Section 145 of the General Corporation Law of the State of Delaware (the "DGCL"), a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

A Delaware corporation may indemnify any person in connection with any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys’ fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interest of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that, a court of competent jurisdiction determines upon application that the person is fairly and reasonably entitled to indemnity for such expenses as the court shall deem proper.

A Delaware corporation must indemnify any present or former director or officer who is successful on the merits or otherwise in defense of any action, suit or proceeding referred to above against expenses (including attorneys’ fees) actually and reasonably incurred by such person in connection therewith.

A Delaware corporation may pay for the expenses (including attorneys’ fees) incurred by an officer or director in defending any such action, suit or proceeding in advance of final disposition upon receipt of an undertaking by or on behalf of such officer or director to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation.

Article VI of the Bylaws of the Registrant provides for indemnification of its directors and executive officers to the maximum extent permitted by the DGCL. Additionally, the Registrant has entered into indemnification agreements with certain of its directors and officers. These agreements provide for indemnification to the fullest extent permitted by law and, in certain respects, may provide greater protection than that specifically provided for by the Bylaws by providing for indemnification for, among other things, conduct which is adjudged to be fraud, deliberate dishonesty or willful misconduct.

Section 102(b)(7) of the DGCL permits a corporation to provide in its certificate of incorporation that a director shall not be personally liable to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for any acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) with respect to certain unlawful dividend payments or stock redemptions or repurchases or (iv) for any transaction from which the director derived an improper personal benefit. Article Ninth of the Registrant's Certificate of Incorporation eliminates the liability of directors to the fullest extent permitted by Section 102(b)(7) of the DGCL.

Section 145 of the DGCL permits a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in such capacity, or arising out of their status as such, whether or not the corporation would have the power to indemnify such person against such liability. The Registrant has purchased an insurance policy that purports to insure the officers and directors against certain liabilities incurred by them in the discharge of their functions as officers and directors.

Item 7. Exemption From Registration Claimed.

Not applicable.

Item 8. Exhibits.

4.1 Talk America Executive Nonqualified Savings Plan.

5.1 Opinion of Pepper Hamilton LLP as to the validity of the securities being registered.

5.2 Opinion of Pepper Hamilton LLP as to compliance of the Plan with ERISA.

23.1 Consent of PricewaterhouseCoopers LLP regarding the financial statements of the Registrant.

23.2 Consent of PricewaterhouseCoopers, LLP regarding the financial statements of LDMI Telecommunications, Inc.

23.3 Consent of Pepper Hamilton LLP (contained in Exhibit 5.1).

24.1 Power of Attorney (contained in the signature pages hereto).

Item 9. Undertakings.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of a prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

provided, however, that clauses (1)(i) and (1)(ii) do not apply if the information required to be included in a post-effective amendment by those clauses is contained in reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned Registrant hereby undertakes that, for the purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the township of Solebury, State of Pennsylvania, on January 23, 2006.

TALK AMERICA HOLDINGS, INC.

By: /s/ Edward B. Meyercord, III
Edward B. Meyercord, III
Chief Executive Officer, President and Director (Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints each of Edward B. Meyercord, III and Aloysius T. Lawn, IV his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Edward B. Meyercord, III Edward B. Meyercord, III	Chief Executive Officer, President and Director (Principal Executive Officer)	January 23, 2006
/s/ David G. Zahka David G. Zahka	Chief Financial Officer (Principal Financial Officer)	January 23, 2006
/s/ Thomas M. Walsh Thomas M. Walsh	Senior Vice President - Finance and Treasurer (Principal Accounting Officer)	January 23, 2006

/s/ Gabriel Battista Gabriel Battista	Director	January 23, 2006
/s/ Mark S. Fowler Mark S. Fowler	Director	January 23, 2006
/s/ Ronald R. Thoma Ronald R. Thoma	Director	January 23, 2006
/s/ Robert Korzeniewski Robert Korzeniewski	Director	January 23, 2006

EXHIBIT INDEX

Exhibit Number	**Exhibit Description**
Exhibit 4.1	Talk America Executive Nonqualified Savings Plan.
Exhibit 5.1	Opinion of Pepper Hamilton LLP as to the validity of the securities being registered.
Exhibit 5.2	Opinion of Pepper Hamilton LLP as to compliance of the Plan with ERISA.
Exhibit 23.1	Consent of PricewaterhouseCoopers LLP regarding the financial statements of the Registrant.
Exhibit 23.2	Consent of PricewaterhouseCoopers, LLP regarding the financial statements of LDMI Telecommunications, Inc.
Exhibit 23.3	Consent of Pepper Hamilton LLP (contained in Exhibit 5.1).
Exhibit 24.1	Power of Attorney (contained in the signature pages hereto).

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75

Income taxes

3

-

12

-

Net loss (income)

$

(114

)

$

129

$

	41
$	75
Basic net earnings (loss) per share	
$	(0.017)
$	0.020
$	0.006
$	0.011
Diluted net earnings (loss) per share	
$	(0.017)
$	0.019
$	0.006
$	0.011

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

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
U.S. dollars in thousands, except share data

	Common shares Number	Common shares Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total other comprehensive loss	Total shareholders' equity
Balance as of January 1, 2007	6,610,708	$ -	$ 13,768	$ (10,463)	$ 166	-	$ 3,471
Stock compensation related to options granted to Telkoor's employees	-	-	41	-	-	-	41
Stock compensation related to options granted to employees	-	-	41	-	-	-	41
Comprehensive income:							
Net income (loss)	-	-	-	(114)	-	$ (114)	(114)
Foreign currency translation adjustments	-	-	-	-	92	92	92
Cumulative impact of change in accounting for uncertainties in income taxes	-	-	-	(6)	-	-	(6)
Total other comprehensive income						$ (22)	
Balance as of September 30, 2007 (unaudited)	6,610,708	$ -	$ 13,850	$ (10,583)	$ 258		$ 3,525

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Nine months ended September 30,	
	2007	**2006**
	Unaudited	
Cash flows from operating activities:		
Net (loss) income	$ (114)	$ 129
Adjustments required to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation	58	57
Stock compensation related to options granted to employees	41	18
Stock compensation related to options granted to Telkoor's employees	41	40
Decrease (increase) in trade receivables, net	479	(176)
Increase in prepaid expenses and other receivables	(17)	(26)
Increase in inventories	(389)	(231)
Increase in accounts payable and related parties- trade payables	359	318
Increase (decrease) in deferred revenues and other current liabilities	(126)	3
Net cash provided by operating activities	332	132
Cash flows from investing activities:		
Restricted cash	-	180
Purchase of property and equipment	(31)	(19)
Net cash provided by (used in) investing activities	(31)	161
Cash flows from financing activities:		
Exercise of options of a director	-	162
Net cash provided by financing activities	-	162
Effect of exchange rate changes on cash and cash equivalents	53	57
Increase in cash and cash equivalents	354	512
Cash and cash equivalents at the beginning of the period	1,494	1,409
Cash and cash equivalents at the end of the period	$ 1,848	$ 1,921
Supplemental disclosure of non-cash activities:		
Adjustments on account of change in accounting for uncertainties in income taxes	$ 6	$ -
Conversion of a convertible note	$ -	$ 250

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

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, sale and distribution 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, 2006, 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, 2007, and for the nine months ended September 30, 2007 and 2006 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of the financial condition and results of operations, contained in the Company Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006. The results of operations for the three and nine months ended September 30, 2007, are not necessarily indicative of the results for the entire fiscal year ending December 31, 2007.

b. Accounting for stock-based compensation:

The Company has several stock-based employee compensation plans, which are described more fully in Note 5. Prior to January 1, 2006, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related Interpretations, as permitted by FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), using the modified-prospective-transition method.

Under that transition method, compensation cost recognized in the first quarter of 2006 includes compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). On December 31, 2005, the Company accelerated all of its unvested outstanding employees' stock options, and therefore, no compensation costs were included for share-based payments granted prior to January 1, 2006 in the first quarter of 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company and its subsidiaries apply SFAS 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 123 requires use of an option valuation model to measure the fair value of the options at the grant date.

c. FIN 48, "Uncertainty in Income Taxes":

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109" (“FIN 48"). FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarified the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48 effective January 1, 2007. As a result of the implementation of FIN 48, the Company recorded an increase of $ 6 associated with the liability for unrecognized tax benefits, which was accounted for as a reduction to the retained earnings balance as of January 1, 2007. There have been no changes to the unrecognized tax benefits during the current period.

NOTE 3:- INVENTORIES

		September 30, 2007 Unaudited
Raw materials, parts and supplies	$	215
Work in progress		317
Finished products		1,482
	$	2,014

NOTE 4:- ACCOUNTING FOR STOCK BASED COMPENSATION

a. Share Option Plans:

1. Under the Company's stock option plans, options may be granted to employees, officers, consultants, service providers and directors of the Company or its subsidiaries.

2. As of September 30, 2007, the Company has authorized, by several Incentive Share Option Plans, the grant of options to officers, management, other key employees and others of up to 2,272,200 of the Company's Common shares. As of September 30, 2007, an aggregate of 668,715 of the Company's options are still available for future grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 4:- ACCOUNTING FOR STOCK BASED COMPENSATION (Cont.)

3. The options granted generally become fully exercisable after four years and expire no later than 10 years from the approval date of the option plan under the terms of grant. Any options that are forfeited or cancelled before expiration become available for future grants.

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

	Nine months ended September 30, 2007					
	Amount of options		Weighted average exercise price	Weighted average remaining contractual term (years)		Aggregate intrinsic value *)
Outstanding at the beginning of the period	901,225	$	1.12	6.63		
Granted	100,000	$	1.61			
Forfeited	30,035	$	0.98			
Outstanding at the end of the period	971,190	$	1.18	6.22	$	646,320
Exercisable options at the end of the period	798,890	$	1.05	5.33	$	585,845

*) Calculation of aggregate intrinsic value is based on the share price of the Company's Common shares as of September 30, 2007 ($ 1.77 per share).

Grants for the nine months ended September 30, 2006:

Under the provisions of SFAS 123(R), the fair value of each option is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Because Black-Scholes option valuation models incorporate various judgmental assumptions for inputs, those assumptions are disclosed. Expected volatility is based exclusively on historical volatility of the entity's stock as allowed by

SFAS 123(R). The Company uses historical information with respect to the employee options exercised to estimate the expected term of options granted, representing the period of time that options granted are expected to be outstanding The risk-free interest rate of period within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 4:- ACCOUNTING FOR STOCK BASED COMPENSATION (Cont.)

	Nine months ended September 30, 2007 Unaudited
Expected volatility	93.6%-107.1%
Divided Yield	0%
Expected life of up to (in years)	5-7
Risk free interest rate	4.38%-5.09%

As of September 30, 2007, there was $169 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a period of 4 years.

b. Employee Stock Ownership Plan:

The Company has an Employee Stock Ownership Plan ("ESOP") covering eligible employees. The ESOP provides for the Employee Stock Ownership Trust ("ESOT") to distribute shares of the Company's Common shares as retirement benefits to the participants. The Company has not distributed shares since 1998. As of September 30, 2007, the outstanding Common shares held by the ESOT amount to 167,504 shares.

NOTE 5:- NET EARNINGS (LOSS) PER SHARE

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

1. Numerator:

	Nine months ended September 30,		Three months ended September 30,	
	2007	2006	2007	2006
	Unaudited			
Net income (loss) available to Common shareholders	$ (114)	$ 129	$ 41	$ 75

2. Denominator:

Denominator for basic net earnings per share of weighted average number of Common shares	6,610,708	6,322,032	6,610,708	6,845,468
Effect of dilutive securities:				
Employee stock options	-	384,506	284,418	313,109
Convertible note	-	112,683	-	-
Denominator for diluted net earnings per Common share	6,610,708	6,819,221	6,895,126	7,158,577

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 6:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHIC 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, 2007 (unaudited)			
	DPC	DPL	Eliminations	Total
Revenues	$ 3,886	$ 4,420	$ -	$ 8,306
Intersegment revenues	118	-	(118)	-
Total revenues	$ 4,004	$ 4,420	$ (118)	$ 8,306
Depreciation expense	$ 13	$ 45	$ -	$ 58
Operating income (loss)	$ (247)	$ 94	$ -	$ (153)
Financial income, net and income taxes				$ 39
Net income (loss)	$ (218)	$ 104	$ -	$ (114)
Expenditures for segment assets as of September 30, 2007	$ -	$ 31	$ -	$ 31
Identifiable assets as of September 30, 2007	$ 2,680	$ 3,351	$ -	$ 6,031

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 6:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

	Nine months ended September 30, 2006 (unaudited)			
	DPC	**DPL**	**Eliminations**	**Total**
Revenues	$ 4,375	$ 5,070	$ -	$ 9,445
Intersegment revenues	405	-	(405)	-
Total revenues	$ 4,780	$ 5,070	$ (405)	$ 9,445
Depreciation expense	$ 13	$ 44	$ -	$ 57
Operating income	$ 125	$ 18	$ -	$ 143
Financial expenses, net				(14)
Net income (loss)	$ (30)	$ 159	$ -	$ 129
Expenditures for segment assets as of September 30, 2006	$ 14	$ 5	$ -	$ 19
Identifiable assets as of September 30, 2006	$ 2,963	$ 3,304	$ -	$ 6,267

	Three months ended September 30, 2007 (unaudited)			
	DPC	**DPL**	**Eliminations**	**Total**
Revenues	$ 1,572	$ 1,456	$	$ $3,028
Intersegment revenues	30		(30)	
Total revenues	$ 1,602	$ 1,456	$ (30)	$ 3,028
Depreciation expense	$ 4	$ 20	$ -	$ 24
Operating income (loss)	$ (17)	$ 39	$ -	$ 22
Financial income, net and income taxes				$ 19
Net income (loss)	$ (7)	$ 48	$ -	$ 41
Expenditures for segment assets as of September 30, 2007	$ -	$ 6	$ -	$ 6
Identifiable assets as of September 30, 2007	$ 2,680	$ 3,351	$ -	$ 6,031

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 6:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

	Three months ended September 30, 2006 (unaudited)			
	DPC	DPL	Eliminations	Total
Revenues	$ 1,514	$ 1,890	$ -	$ 3,404
Intersegment revenues	87	-	(87)	-
Total revenues	$ 1,601	$ 1,890	$ (87)	$ 3,404
Depreciation expenses	$ 4	$ 14	$ -	$ 18
Operating income (loss)	$ 1	$ 76	$ -	$ 77
Financial expenses, net				$ (2)
Net income (loss)	$ 1	$ 74	$ -	$ 75
Expenditures for segment assets as of September 30, 2006	$ 12	$ 3	$ -	$ 15
Identifiable assets as of September 30, 2006	$ 2,963	$ 3,304	$ -	$ 6,267

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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, 2006. Readers of this report are cautioned not to put undue reliance on "forward looking" statements that 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, selling and distributing switching power supplies to the industrial, telecommunication, and data communication, medical and military industries. Revenues are generated from sales to distributors, who will then resell our products to end customers who are often referred to as OEM’s (original equipment manufacturers) and direct sales to OEM’s that may involve the use of manufacturer representatives. Domestic refers to as revenue or operations that is principally in North America, while International refers to revenue or operations that is principally out of Europe. Domestically and in Europe, the company will sell to ‘Commercial’ customers who typically buy standard or modified standard product that are sellable to multiple customers while ‘military’ customers typically utilize custom power supplies and Commercial Off The Shelf Supplies (COTS) that are typically sold to multiple customers. Digital Power custom supplies for the Military are typically sold through its European Subsidiary, Digital Power Limited.

We have continued our efforts to increase sales of our products to existing and new customers, and have continued our strategy to utilize our contract manufactures in Asia and our Design Partners. While we believe our revenues have increased to a sufficient amount to exceed our expenses, we may be subject to net losses in an individual quarter. We believe that our cash and cash equivalents will be sufficient to fund those losses for at least 12 months.

The Company’s corporate office, which contains our administrative, sales, and engineering functions, is located in Fremont, California. In addition the Company has a wholly owned subsidiary, Digital Power Limited ("DPL"), located in Salisbury, England.

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007, COMPARED TO SEPTEMBER 30, 2006

REVENUES

Total revenues for the Company decreased by 11.0% to $3,028,000 for the three months ended September 30, 2007, from $3,404,000 for the three months ended September 30, 2006. Revenue from the military products of the Company decreased by 18.3% to $568,000 for the three months ended September 30, 2007, from $697,000 for the three months ended September 30, 2006. Revenue from the commercial products of the Company decreased by 9.2% to $2,460,000 from $2,707,000 for the three months ended September 30, 2006. The decrease in military product revenues is mainly due to scheduling and lead-time requirements of customer orders. The decrease in commercial product revenue is mainly attributed to maturation of older product lines. The company is replacing the older product lines with newer product lines, but is subject to uncertainties such as customer design cycles, competition, and customer requirements that may impact revenue in a specific quarter or quarters.

Revenues from the domestic operations of the Company increased by 3.9% to $1,572,000 for the three months ended September 30, 2007, from $1,514,000 for the three months ended September 30, 2006.

Revenues from the Company’s European operations of DPL decreased 23.0% to $1,456,000 for the three months ended September 30, 2007, from $1,890,000 for the three months ended September 30, 2006. The decrease in the company’s European operations is mainly attributed to with existing and new customers.

For the nine months ended September 30, 2007, revenues for the Company decreased by 12.1% to $8,306,000 from $9,445,000 for the nine months ended September 30, 2006. The decrease in product revenue is mainly attributed to maturation issues related to older product lines. The company is replacing the older product lines with newer product lines, but is subject to uncertainties such as customer design cycles, competition, and customer requirements that may impact revenue in a specific quarter or quarters.

Revenues attributed to the domestic operations of the Company decreased by 11.2% to $3,886 for the nine months ended September 30, 2007 from $4,375,000 for the nine months ended September 30, 2006. The decrease in product revenue is mainly attributed to maturation issues related to older product lines. The company is replacing the older product lines with newer product lines, but is subject to uncertainties such as customer design cycles, competition, and customer requirements that may impact revenue in a specific quarter or quarters.

Revenues from the Company’s European operations of DPL decreased by 12.8% to $4,420,000 for the nine month ended September 30, 2007 from $5,070,000 for the nine months ended September 30, 2006.

GROSS MARGINS

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Gross margins were 26.1% for the three months ended September 30, 2007, compared to 26.7% for the three months ended September 30, 2006. Gross margins decrease to 25.6% for the nine months ended September 30, 2007 compared to 27.0% for the nine months ended September 30, 2006, the decrease in gross margins is mainly due to write-off provision for obsolete inventory in the amount of $140,000 during the quarter ended June 30, 2007.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 6.1% of revenues for the three months ended September 30, 2007, compared to 5.1% for the three months ended September 30, 2006. Engineering and product development expenses were 7.1% of revenues for the nine months ended September 30, 2007, compared to 5.1% of revenues for the nine months ended September 30, 2006. Actual dollar expenditures increased by $105,000 mainly due to safety and consulting expenditures.

SELLING AND MARKETING

Selling and marketing expenses were 7.9% of revenues for the three months ended September 30, 2007, compared to 8.6% for the three months ended September 30, 2006. Selling and marketing expenses were 8.6% of revenues for the nine months ended September 30, 2007, compared to 9.6% for the nine months ended September 30, 2006. Actual dollar expenditures decreased by $193,000 mainly due decrease in salary and consulting expenses.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were 11.4% of revenues for the three months ended September 30, 2007, compared to 10.8% for the three months ended September 30, 2006. In actual dollars, expenditures decreased by $22,000. General and administrative expenses were 11.8% of revenues for the nine months ended September 30, 2007, compared to 10.8% for the nine months ended September 30, 2006. Actual dollar expenditures decreased by $38,000. The decrease is mainly due to reduction in legal and consulting expenses.

FINANCIAL INCOME AND EXPENSES

Financial income net was $7,000 for the three months ended September 30, 2007, compared to financial expense net of $2,000 for the three months ended September 30, 2006. Financial income was $36,000 for the nine months ended September 30, 2007, compared to financial expenses of $14,000 for the nine months ended September 30, 2006. Financial income resulted mainly from interest income received.

NET INCOME (LOSS)

For the three months ended September 30, 2007, the Company had net income of $41,000 compared to a net income of $75,000 for the three months ended September 2006. Net loss for the nine months ended September 30, 2007 was $114,000 compared to net income of $129,000 for the nine months ended September 30, 2006. Net loss is mainly due to decrease in revenues, decrease in gross margin offset partially by reduction in operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2007, the Company had cash, cash equivalents $1,848,000 and working capital of $3,384,000. This compares with cash and cash equivalents of $1,921,000 and working capital of $3,200,000 at September 30, 2006. The increase in working capital is mainly due to a decrease in accounts payable and a decrease in deferred revenue offset partially by decrease in trade receivables.

Cash provided by operating activities for the Company totaled $332,000 for the nine months ended September 30, 2007, compared to cash provided from operating activities of $132,000 for the nine months ended September 30, 2006. Cash provided by operating activity was mainly due to increase in accounts payable and related parties trade payables due to timing differences, decrease in trade receivable due to increase effort on collection, offset partially by increase in inventory. Cash used by investing activities was $31,000 for the nine months ended September 30, 2007, compared to cash provided in investing activities of $161,000 for the nine months ended September 30, 2006. The cash used by investing activities was mainly for purchase of equipment.

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.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-QSB, our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, have concluded that, as of that date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in internal control over financial reporting. There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with management’s evaluation during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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

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

Exhibits

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 Certification of the Chief Executive Officer & Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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: November 14, 2007

/s/ Jonathan Wax
Jonathan Wax,
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2007

/s/ Uri Friedlander
Uri Friedlander,
Chief Financial Officer
(Principal Financial Officer)