

DSP GROUP INC /DE/
Form 10-Q
November 09, 2015

United States
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the Quarterly Period Ended September 30, 2015

or

**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 1-35256

DSP GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of

incorporation or organization)

161 S. San Antonio Road, Suite 10

Los Altos, California

(Address of Principal Executive Offices) (Zip Code)

94-2683643

(I.R.S. employer identification number)

94022

Registrant's telephone number, including area code: **(408) 986-4300**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of November 3, 2015, there were 21,642,273 shares of Common Stock (\$.001 par value per share) outstanding.

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PART 1. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****DSP GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(U.S. dollars in thousands, except share and per share data)**

	September 30, 2015 Unaudited	December 31, 2014 Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,492	\$ 20,544
Restricted deposit	168	623
Marketable securities and short-term deposits	17,702	11,508
Trade receivables	22,699	20,298
Deferred income taxes	743	775
Other accounts receivable and prepaid expenses	3,370	1,902
Inventories	12,084	15,635
TOTAL CURRENT ASSETS	69,258	71,285
PROPERTY AND EQUIPMENT, NET	3,513	2,843
LONG-TERM ASSETS:		
Long-term marketable securities	86,262	92,269
Long-term prepaid expenses and lease deposits	1,261	1,162
Deferred income taxes	102	149
Severance pay fund	11,337	10,860
Investment in other companies	2,200	2,200
Intangible assets, net	4,172	5,135
Goodwill	5,276	5,276
	110,610	117,051
TOTAL ASSETS	\$ 183,381	\$ 191,179

Note: The balance sheet at December 31, 2014 has been derived from the audited financial statements on that date.

See notes to condensed consolidated financial statements.

DSP GROUP, INC.**CONDENSED CONSOLIDATED BALANCE SHEETS**

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

	September 30,	December 31,
	2015	2014
	Unaudited	Audited
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 10,841	\$ 15,282
Accrued compensation and benefits	7,407	9,408
Income tax accruals and payables	1,570	1,151
Accrued expenses and other accounts payable	5,894	5,852
Total current liabilities	25,712	31,693
LONG-TERM LIABILITIES:		
Deferred income taxes	590	845
Accrued severance pay	11,440	10,929
Accrued pensions	1,018	1,089
Total long-term liabilities	13,048	12,863
STOCKHOLDERS' EQUITY:		
Capital stock:		
Common stock, \$ 0.001 par value -		
Authorized shares: 50,000,000 shares at September 30, 2015 and December 31, 2014;		
Issued and outstanding shares: 21,692,599 and 21,843,950 shares at September 30, 2015 and	22	22
December 31, 2014, respectively		
Additional paid-in capital	359,857	355,906
Treasury stock	(124,522)	(122,387)
Accumulated other comprehensive loss	(810)	(1,566)
Accumulated deficit	(89,926)	(85,352)
Total stockholders' equity	144,621	146,623
Total liabilities and stockholders' equity	\$ 183,381	\$ 191,179

Note: The balance sheet at December 31, 2014 has been derived from the audited financial statements on that date.

See notes to condensed consolidated financial statements.

DSP GROUP, INC.**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(U.S. dollars in thousands, except per share amounts)

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2015	2014	2015	2014
Revenues	\$35,219	\$36,715	\$110,501	\$105,877
Cost of revenues (1)	20,646	22,187	65,158	63,554
Gross profit	14,573	14,528	45,343	42,323
Operating expenses:				
Research and development, net (2)	8,709	8,083	26,680	24,313
Sales and marketing (3)	3,071	2,892	9,108	8,925
General and administrative (4)	2,409	2,580	7,390	7,941
Intangible assets amortization	321	397	963	1,191
Total operating expenses	14,510	13,952	44,141	42,370
Operating income (loss)	63	576	1,202	(47)
Interest and other income, net	245	186	871	895
Income before taxes on income	308	762	2,073	848
Taxes on income (income tax benefit)	141	(11)	403	(25)
Net income	\$167	\$773	\$1,670	\$873
Net income per share:				
Basic	\$0.01	\$0.04	\$0.08	\$0.04
Diluted	\$0.01	\$0.03	\$0.07	\$0.04
Weighted average number of shares used in per share computations of net income:				
Basic	21,830	21,830	22,020	22,064
Diluted	22,868	23,073	23,490	22,829

Includes equity-based compensation expense in the amount of \$75 and \$71 for the three months ended September (1)30, 2015 and 2014, respectively; and \$228 and \$237 for the nine months ended September 30, 2015 and 2014, respectively.

Includes equity-based compensation expense in the amount of \$546 and \$568 for the three months ended (2)September 30, 2015 and 2014, respectively; and \$1,697 and \$1,869 for the nine months ended September 30, 2015 and 2014, respectively.

Includes equity-based compensation expense in the amount of \$161 and \$150 for the three months ended (3) September 30, 2015 and 2014, respectively; and \$491 and \$481 for the nine months ended September 30, 2015 and 2014, respectively.

Includes equity-based compensation expense in the amount of \$479 and \$507 for the three months ended (4) September 30, 2015 and 2014, respectively; and \$1,509 and \$1,613 for the nine months ended September 30, 2015 and 2014, respectively.

See notes to condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**(U.S. dollars in thousands)**

	Three Months Ended September 30, 2015 2014	
Net income:	\$167	\$773
Other comprehensive income:		
Available-for-sale securities:		
Changes in unrealized gain/loss	397	(404)
Reclassification adjustments for losses (gains) included in net income	-	3
Net change	397	(401)
Cash flow hedges:		
Changes in unrealized gains/losses	(240)	(528)
Reclassification adjustments for (gains) losses included in net income	(4)	97
Net change	(244)	(431)
Change in unrealized components of defined benefit plans:		
Amortization of actuarial loss and prior service benefit	5	3
Net change	5	3
Foreign currency translation adjustments, net	(38)	5
Other comprehensive income (loss)	120	(824)
Comprehensive income (loss)	\$287	\$(51)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (U.S. dollars in thousands)

	Nine months ended September 30, 2015 2014	
Net income:	\$1,670	\$873
Other comprehensive income:		
Available-for-sale securities:		
Changes in unrealized gains/losses	263	(134)
Reclassification adjustments for losses (gains) included in net income	26	(62)
Net change	289	(196)
Cash flow hedges:		
Changes in unrealized gains/losses	(77)	(516)
Reclassification adjustments for losses included in net income	620	92
Net change	543	(424)
Change in unrealized components of defined benefit plans:		
Amortization of actuarial loss and prior service benefit	15	9
Net change	15	9
Foreign currency translation adjustments, net	(91)	(1)
Other comprehensive income (loss)	756	(612)
Comprehensive income	\$2,426	\$261

DSP GROUP, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(U.S. dollars in thousands)

	Nine Months Ended September 30,	
	2015	2014
Net cash used in operating activities	\$3,954	\$3,734
Investing activities		
Purchases of marketable securities	(26,340)	(50,205)
Proceeds from maturity of marketable securities	14,157	9,896
Proceeds from sales of marketable securities	11,492	40,821
Purchases of property and equipment	(1,629)	(1,002)
Decrease (increase) in restricted deposits	455	(327)
Net cash used in investing activities	(1,865)	(817)
Financial activities		
Purchase of treasury stock	(11,194)	(12,484)
Issuance of common stock and treasury stock upon exercise of stock options	1,138	514
Net cash used in financing activities	(10,056)	(11,970)
Decrease- in cash and cash equivalents	(7,967)	(9,053)
Erosion- due to exchange rate differences	(85)	(16)
Cash and cash equivalents at the beginning of the period	20,544	23,578
Cash and cash equivalents at the end of the period	12,492	14,509

See notes to condensed consolidated financial statements.

DSP GROUP, INC.**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****(UNAUDITED)****(U.S. dollars in thousands)**

Three Months Ended	Number of	Common	Additional	Treasury	Accumulated	Other	Total
September 30, 2014	Common	Stock	Paid-In	Stock	Deficit	Comprehensive	Stockholders'
	Stock		Capital			Income	Equity
						(Loss)	
Balance at June 30, 2014	21,843	\$ 22	\$ 353,398	\$(122,713)	\$ (86,092)	\$ (609)	\$ 144,006
Net income	-	-	-	-	773	-	773
Change in accumulated other comprehensive loss	-	-	-	-	-	(824)	(824)
Purchase of treasury stock	(505)	(1)	-	(4,588)	-	-	(4,589)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	124	1	-	1,217	(329)	-	889
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by employees and directors	78	*)	-	755	(681)	-	74
Equity-based compensation	-	-	1,296	-	-	-	1,296
Balance at September 30, 2014	21,540	\$ 22	\$ 354,694	\$(125,329)	\$ (86,329)	\$ (1,433)	\$ 141,625
Three Months Ended							
September 30, 2015							
Balance at June 30, 2015	21,995	\$ 22	\$ 358,596	\$(121,929)	\$ (88,677)	\$ (930)	\$ 147,082
Net income	-	-	-	-	167	-	167
Change in accumulated other comprehensive income	-	-	-	-	-	120	120
Purchase of treasury stock	(540)	*)	-	(4,912)	-	-	(4,912)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	117	*)	-	1,141	(238)	-	903
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by	121	*)	-	1,178	(1,178)	-	-

employees and directors							
Equity-based compensation	-	-	1,261	-	-	-	1,261
Balance at September 30, 2015	21,693	\$ 22	\$ 359,857	\$(124,522)	\$ (89,926)	\$ (810)	\$ 144,621

(*)Represents an amount lower than \$1.

See notes to condensed consolidated financial statements.

DSP GROUP, INC.**CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY****(UNAUDITED)****(U.S. dollars in thousands and shares in thousands)**

Nine Months Ended	Number of Common Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Other	Total
						Comprehensive Income (Loss)	Stockholders' Equity
September 30, 2014							
Balance at December 31, 2013	22,350	\$ 22	\$ 350,494	\$(118,749)	\$ (83,535)	\$ (821)	\$ 147,411
Net income	-	-	-	-	873	-	873
Change in accumulated other comprehensive loss	-	-	-	-	-	(612)	(612)
Purchase of treasury stock	(1,414)	(1)	-	(12,483)	-	-	(12,484)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	311	1	-	3,031	(1,309)	-	1,723
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by employees and directors	293	*)	-	2,872	(2,358)	-	514
Equity-based compensation	-	-	4,200	-	-	-	4,200
Balance at September 30, 2014	21,540	\$ 22	\$ 354,694	\$(125,329)	\$ (86,329)	\$ (1,433)	\$ 141,625
Nine Months Ended September 30, 2015							
Balance at December 31, 2014	21,843	\$ 22	\$ 355,906	\$(122,387)	\$ (85,352)	\$ (1,566)	\$ 146,623
Net income	-	-	-	-	1,670	-	1,670
Change in accumulated other comprehensive income	-	-	-	-	-	756	756
Purchase of treasury stock	(1,090)	(1)	-	(11,259)	-	-	(11,260)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	233	*)	-	2,269	(500)	-	1,769
	705	1	26	6,855	(5,744)		1,138

Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by employees and directors

Equity-based compensation	-	-	3,925	-	-	-	3,925
Balance at September 30, 2015	21,693	\$ 22	\$ 359,857	\$(124,522)	\$ (89,926)	\$ (810)	\$ 144,621

*)Represents an amount lower than \$1.

See notes to condensed consolidated financial statements.

DSP GROUP, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2015****(UNAUDITED)****(U.S. dollars in thousands, except share and per share data)****NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K of DSP Group, Inc. (the "Company") for the year ended December 31, 2014.

NOTE B—INVENTORIES

Inventories are stated at the lower of cost or market value. The Company periodically evaluates the quantities on hand relative to current and historical selling prices, and historical and projected sales volume. Based on these evaluations, provisions are made in each period to write inventory down to its net realizable value. Inventories are composed of the following:

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Work-in-process	\$ 5,284	\$ 6,795
Finished goods	6,800	8,840

\$ 12,084 \$ 15,635

Inventory write-off amounted to \$384 and \$48 for the nine months ended September 30, 2015 and 2014, respectively.

NOTE C—NET INCOME PER SHARE

Basic net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during the period. For the same periods, diluted net income (loss) per share further includes the effect of dilutive stock options, stock appreciation rights and restricted share units outstanding during the period, all in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 260 "Earnings per Share." The following table sets forth the computation of basic and diluted net income (loss) per share:

	Three months ended September 30, 2015		Nine months ended September 30, 2014	
	2015	2014	2015	2014
	Unaudited			
Net income	\$167	\$773	\$1,670	\$873
Income per share:				
Basic	\$0.01	\$0.04	\$0.08	\$0.04
Diluted	\$0.01	\$0.03	\$0.07	\$0.04
Weighted average number of shares of common stock outstanding during the period used to compute basic net income per share (in thousands)	21,830	21,830	22,020	22,064
Incremental shares attributable to exercise of outstanding options, stock appreciation rights and restricted stock units (assuming proceeds would be used to purchase treasury stock) (in thousands)	1,038	1,243	1,470	765
Weighted average number of shares of common stock used to compute diluted net income per share (in thousands)	22,868	23,073	23,490	22,829

NOTE D—MARKETABLE SECURITIES and time deposits

The Company accounts for investments in marketable securities in accordance with FASB ASC No.320-10 "Investments in Debt and Equity Securities." Management determines the appropriate classification of its investments in government and corporate marketable debt securities at the time of purchase and reevaluates such determinations at each balance sheet date.

The Company classifies marketable securities as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported in other comprehensive income. The amortized cost of marketable securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and interest are included in financial income, net. Interest and dividends on securities are included in financial income, net. The following is a summary of available-for-sale securities at September 30, 2015 and December 31, 2014:

Amortized cost		Unrealized gains (losses), net		Fair value	
September 30,	December 31,	September 30,	December 31,	September 30,	December 31,
2015	2014	2015	2014	2015	2014
(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	