

DSP GROUP INC /DE/  
Form 10-Q  
August 09, 2012  
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**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 June 30, 2012

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 001-35256

**DSP GROUP, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**2580 North First Street, Suite 460**

**San Jose, California**  
(Address of Principal Executive Offices)

**94-2683643**  
(I.R.S. employer  
identification number)

**95131**  
(Zip Code)

**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 August 3, 2012, there were 21,774,619 shares of Common Stock (\$.001 par value per share) outstanding.

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****DSP GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

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

	<b>June 30, 2012 Unaudited</b>	<b>December 31, 2011 Audited</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 22,046	\$ 18,109
Restricted deposit	121	128
Marketable securities and short-term deposits	18,832	30,626
Trade receivables, net	25,562	25,643
Deferred income taxes	135	89
Other accounts receivable and prepaid expenses	3,439	5,343
Inventories	16,842	16,434
<b>TOTAL CURRENT ASSETS</b>	<b>86,977</b>	<b>96,372</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>4,637</b>	<b>5,803</b>
<b>LONG-TERM ASSETS:</b>		
Long-term marketable securities	70,793	69,046
Long-term prepaid expenses and lease deposits	344	466
Severance pay fund	10,191	9,974
Intangible assets, net	9,498	10,688
Goodwill	3,707	3,707
	94,533	93,881
<b>TOTAL ASSETS</b>	<b>\$ 186,147</b>	<b>\$ 196,056</b>

Note: The balance sheet at December 31, 2011 has been derived from the audited financial statements on that date.

See notes to condensed consolidated financial statements.

**Table of Contents****DSP GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

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

	June 30, 2012 Unaudited	December 31, 2011 Audited
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 17,359	\$ 17,989
Accrued compensation and benefits	7,849	8,236
Income tax accruals and payables	2,648	2,582
Accrued expenses and other accounts payable	6,314	7,555
<b>Total current liabilities</b>	<b>34,170</b>	<b>36,362</b>
<b>LONG-TERM LIABILITIES:</b>		
Accrued severance pay	10,475	10,278
Accrued pensions	811	792
<b>Total long-term liabilities</b>	<b>11,286</b>	<b>11,070</b>
<b>COMMITMENTS AND CONTINGENCIES STOCKHOLDERS EQUITY:</b>		
<b>Capital stock:</b>		
Preferred stock, \$ 0.001 par value		
Authorized shares: 5,000,000 at June 30, 2012 and December 31, 2011; Issued and outstanding shares: none at June 30, 2012 and December 31, 2011		
Common stock, \$ 0.001 par value		
Authorized shares: 50,000,000 shares at June 30, 2012 and December 31, 2011;	22	23
Issued and outstanding shares: 21,555,318 and 22,501,644 shares at June 30, 2012 and December 31, 2011, respectively		
Additional paid-in capital	344,296	341,352
Treasury stock	(127,337)	(122,236)
Accumulated other comprehensive loss	(646)	(1,756)
Accumulated deficit	(75,644)	(68,759)
<b>Total stockholders equity</b>	<b>140,691</b>	<b>148,624</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 186,147</b>	<b>\$ 196,056</b>

Note: The balance sheet at December 31, 2011 has been derived from the audited financial statements on that date.

See notes to condensed consolidated financial statements.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	\$ 44,191	\$ 58,517	\$ 87,695	\$ 107,293
Cost of revenues (1)	27,680	36,767	55,206	68,315
Gross profit	16,511	21,750	32,489	38,978
Operating expenses:				
Research and development (2)	11,421	14,210	23,397	28,400
Sales and marketing (3)	3,761	4,159	7,795	8,178
General and administrative (4)	2,803	3,600	5,831	6,670
Intangible assets amortization	593	2,198	1,186	4,394
Restructuring expenses (income)	693		693	(590)
Total operating expenses	19,271	24,167	38,902	47,052
Operating loss	(2,760)	(2,417)	(6,413)	(8,074)
Interest and other income, net	587	411	1,067	880
Loss before taxes on income	(2,173)	(2,006)	(5,346)	(7,194)
Taxes on income (income tax benefit)	51	35	140	(589)
Net loss	\$ (2,224)	\$ (2,041)	\$ (5,486)	\$ (6,605)
Net loss per share:				
Basic and diluted	\$ (0.10)	\$ (0.09)	\$ (0.25)	\$ (0.28)
Weighted average number of shares used in per share computations of net loss:				
Basic	21,751	23,381	22,151	23,410
Diluted	21,751	23,381	22,151	23,410
Comprehensive loss	\$ (2,794)	\$ (1,233)	\$ (4,376)	\$ (5,895)

(1) Includes equity-based compensation expense in the amount of \$95 and \$102 for the three months ended June 30, 2012 and 2011, respectively; and \$205 and \$234 for the six months ended June 30, 2012 and 2011, respectively.

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- (2) Includes equity-based compensation expense in the amount of \$686 and \$724 for the three months ended June 30, 2012 and 2011, respectively; and \$1,457 and \$1,606 for the six months ended June 30, 2012 and 2011, respectively.
- (3) Includes equity-based compensation expense in the amount of \$217 and \$257 for the three months ended June 30, 2012 and 2011, respectively; and \$468 and \$563 for the six months ended June 30, 2012 and 2011, respectively.
- (4) Includes equity-based compensation expense in the amount of \$460 and \$790 for the three months ended June 30, 2012 and 2011, respectively; and \$814 and \$1,309 for the six months ended June 30, 2012 and 2011, respectively.

See notes to condensed consolidated financial statements.

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

(U.S. dollars in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Net cash provided by operating activities</b>	\$ 1,684	\$ 767
<b>Investing activities</b>		
Purchase of marketable securities	(34,371)	(32,478)
Purchase of deposits	(27)	(13,000)
Proceeds from maturity of marketable securities	15,625	31,333
Proceeds from sales of marketable securities	16,097	3,915
Proceeds from maturity of deposits	13,000	10,000
Purchases of property and equipment	(525)	(1,581)
<b>Net cash provided by (used in) investing activities</b>	<b>9,799</b>	<b>(1,811)</b>
<b>Financing activities</b>		
Purchase of treasury stock	(7,513)	(2,161)
Issuance of treasury stock for cash upon exercise of options		367
<b>Net cash used in financing activities</b>	<b>(7,513)</b>	<b>(1,794)</b>
<b>Increase (Decrease) in cash and cash equivalents</b>	<b>\$ 3,970</b>	<b>\$ (2,838)</b>
<b>Cash erosion due to exchange rate differences</b>	<b>(33)</b>	<b>61</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>\$ 18,109</b>	<b>\$ 33,912</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 22,046</b>	<b>\$ 31,135</b>

See notes to condensed consolidated financial statements.



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

	Number of Common Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Income (Loss)	Total Stockholders Equity
<b>Three Months Ended June 30, 2011</b>							
Balance at March 31, 2011	23,388	\$ 23	\$ 336,971	\$ (117,493)	\$ (55,316)	\$ 257	\$ 164,442
Net loss					(2,041)		(2,041)
Change in unrealized loss from hedging activities, net						54	54
Change in unrealized gain from marketable securities, net						531	531
Change in foreign currency translation adjustments, net						223	223
Purchase of treasury stock	(139)	*)		(1,131)			(1,131)
Issuance of treasury stock upon exercise of stock options and stock appreciation rights by employees	65	*)		682	(488)		194
Equity-based compensation			1,873				1,873
<b>Balance at June 30, 2011</b>	<b>23,314</b>	<b>\$ 23</b>	<b>\$ 338,844</b>	<b>\$ (117,942)</b>	<b>\$ (57,845)</b>	<b>\$ 1,065</b>	<b>\$ 164,145</b>
<b>Three Months Ended June 30, 2012</b>							
Balance at March 31, 2012	22,042	\$ 22	\$ 342,838	\$ (124,315)	\$ (73,372)	\$ (76)	\$ 145,097
Net loss					(2,224)		(2,224)
Change in unrealized loss from hedging activities, net						(352)	(352)
Change in unrealized gain from marketable securities, net						(176)	(176)
Change in foreign currency translation adjustments, net						(42)	(42)
Purchase of treasury stock	(492)	*)		(3,070)			(3,070)
Issuance of treasury stock upon exercise of stock options and stock appreciation rights by employees	5			48	(48)		
Equity-based compensation			1,458				1,458
<b>Balance at June 30, 2012</b>	<b>21,555</b>	<b>\$ 22</b>	<b>\$ 344,296</b>	<b>\$ (127,337)</b>	<b>\$ (75,644)</b>	<b>\$ (646)</b>	<b>\$ 140,691</b>

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

See notes to condensed consolidated financial statements.



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

	Number of Common Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Income (Loss)	Total Stockholders Equity
<b>Six Months Ended June 30, 2011</b>							
Balance at December 31, 2010	23,253	\$ 23	\$ 335,132	\$ (119,280)	\$ (49,127)	\$ 355	\$ 167,103
Net loss					(6,605)		(6,605)
Change in unrealized loss from hedging activities, net						66	66
Change in unrealized gain from marketable securities, net						339	339
Change in unrealized gain from pensions, net						37	37
Change in foreign currency translation adjustments, net						268	268
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	214	*)		2,278	(1,259)		1,019
Issuance of treasury stock upon exercise of stock options and stock appreciation rights by employees	115	*)		1,221	(854)		367
Purchase of treasury stock	(268)	*)		(2,161)			(2,161)
Equity-based compensation			3,712				3,712
Balance at June 30, 2011	<b>23,314</b>	<b>\$ 23</b>	<b>\$ 338,844</b>	<b>\$ (117,942)</b>	<b>\$ (57,845)</b>	<b>\$ 1,065</b>	<b>\$ 164,145</b>
<b>Six Months Ended June 30, 2012</b>							
Balance at December 31, 2011	22,502	\$ 23	\$ 341,352	\$ (122,236)	\$ (68,759)	\$ (1,756)	\$ 148,624
Net loss					(5,486)		(5,486)
Change in unrealized loss from hedging activities, net						210	210
Change in unrealized gain from marketable securities, net						920	920
Change in unrealized gain from pensions, net						1	1
Change in foreign currency translation adjustments, net						(21)	(21)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	228	*)		2,331	(1,319)		1,012
Issuance of treasury stock upon exercise of stock options and stock appreciation rights by employees	8	*)		80	(80)		