

DSP GROUP INC /DE/
Form 10-Q
November 09, 2018

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, 2018

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)

5 Shenkar Street, Herzelia 4672505 Israel 94022

(Address of Principal Executive Offices) (Zip Code)

94-2683643

(I.R.S. employer identification number)

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 every Interactive Data File required to be submitted 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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period of complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

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 2, 2018, there were 22,196,248 shares of Common Stock (\$.001 par value per share) outstanding.

INDEX

DSP GROUP, INC.

	<u>Page No.</u>
<i>PART I. FINANCIAL INFORMATION</i>	
Item 1. Financial Statements (Unaudited)	
Condensed consolidated balance sheets—September 30, 2018 and December 31, 2017	3
Condensed consolidated statements of operations—Three and nine month periods ended September 30, 2018 and 2017	5
Condensed consolidated statements of cash flows—Nine month periods ended September 30, 2018 and 2017	8
Condensed consolidated statements of stockholders’ equity—Three and nine month periods ended September 30, 2018 and 2017	10
Notes to condensed consolidated financial statements—September 30, 2018	12
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	40
Item 4. Controls and Procedures	40
<i>PART II. OTHER INFORMATION</i>	
Item 1. Legal Proceedings	40
Item 1A. Risk Factors	40
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 3. Defaults Upon Senior Securities	58
Item 4. Mine Safety Disclosure	58
Item 5. Other Information	58
Item 6. Exhibits	58
SIGNATURES	59

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, 2018 Unaudited	December 31, 2017 Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,359	\$ 21,324
Restricted deposits	503	524
Marketable securities and short-term deposits	34,410	24,697
Trade receivables	21,448	13,416
Other accounts receivable and prepaid expenses	2,843	3,167
Inventories	8,247	9,422
TOTAL CURRENT ASSETS	78,810	72,550
PROPERTY AND EQUIPMENT, NET	2,854	3,184
NON-CURRENT ASSETS:		
Long-term marketable securities and deposits	73,398	82,669
Long-term prepaid expenses and lease deposits	1,642	1,541
Deferred income taxes	855	1,043
Severance pay fund	14,755	15,190
Intangible assets, net	1,503	2,779
Goodwill	6,243	6,243
TOTAL NON-CURRENT ASSETS	98,396	109,465
TOTAL ASSETS	\$ 180,060	\$ 185,199

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

3

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

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

	September 30,	December 31,
	2018	2017
	Unaudited	Audited
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$9,393	\$8,660
Accrued compensation and benefits	7,702	8,699
Income tax accruals and payables	857	1,232
Accrued expenses and other accounts payable	3,783	2,888
TOTAL CURRENT LIABILITIES	21,735	21,479
NON-CURRENT LIABILITIES:		
Deferred income taxes	146	424
Accrued severance pay	14,944	15,463
Accrued pensions	868	883
TOTAL NON-CURRENT LIABILITIES	15,958	16,770
STOCKHOLDERS' EQUITY:		
Capital stock:		
Common stock, \$ 0.001 par value -		
Authorized shares: 50,000,000 shares at September 30, 2018 and December 31, 2017;		
Issued and outstanding shares: 22,332,016 and 22,432,660 shares at September 30, 2018 and		
December 31, 2017, respectively		
	22	22
Additional paid-in capital	377,162	372,041
Treasury stock at cost	(121,286)	(118,397)
Accumulated other comprehensive loss	(2,658)	(1,874)
Accumulated deficit	(110,873)	(104,842)
TOTAL STOCKHOLDERS' EQUITY	142,367	146,950
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 180,060	\$ 185,199

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues	\$32,619	\$34,277	\$91,381	\$93,511
Cost of revenues (1)	16,315	18,270	46,311	50,760
Gross profit	16,304	16,007	45,070	42,751
Operating expenses:				
Research and development, net (2)	9,614	9,214	27,503	27,565
Sales and marketing (3)	3,640	3,635	11,468	10,640
General and administrative (4)	2,362	2,483	7,612	7,342
Intangible assets amortization	425	425	1,276	1,275
Total operating expenses	16,041	15,757	47,859	46,822
Operating income (loss)	263	250	(2,789)	(4,071)
Financial income	492	382	1,291	1,216
Income (loss) before taxes on income	755	632	(1,498)	(2,855)
Taxes on income (tax benefit)	350	54	139	19
Net income (loss)	\$405	\$578	\$(1,637)	\$(2,874)
Income (loss) per share:				
Basic	\$0.02	\$0.03	\$(0.07)	\$(0.13)
Diluted	\$0.02	\$0.02	\$(0.07)	\$(0.13)
Weighted average number of shares used in per share computations of net earnings (loss) per share:				
Basic	22,449	22,276	22,603	22,186
Diluted	23,338	23,243	22,603	22,186

(1) Includes equity-based compensation expense in the amount of \$114 and \$84 for the three months ended September 30, 2018 and 2017, and \$320 and \$275 for the nine months ended September 30, 2018 and 2017, respectively.

(2) Includes equity-based compensation expense in the amount of \$781 and \$576 for the three months ended September 30, 2018 and 2017, respectively; and \$2,134 and \$1,815 for the nine months ended September 30, 2018 and 2017, respectively.

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Includes equity-based compensation expense in the amount of \$283 and \$273 for the three months ended (3) September 30, 2018 and 2017, respectively; and \$954 and \$870 for the nine months ended September 30, 2018 and 2017, respectively.

Includes equity-based compensation expense in the amount of \$574 and \$505 for the three months ended (4) September 30, 2018 and 2017, respectively; and \$1,703 and \$1,566 for the nine months ended September 30, 2018 and 2017, respectively.

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(U.S. dollars in thousands)

	Three months ended	
	September 30,	
	2018	2017
Net income:	\$405	\$578
Other comprehensive income (loss):		
Available-for-sale securities:		
Changes in unrealized (losses) gains	26	(61)
Reclassification adjustments for losses included in net loss	(1)	1
Net change	25	(60)
Cash flow hedges:		
Changes in unrealized (losses) gains	13	(29)
Reclassification adjustments for (gains) losses included in net loss	7	(19)
Net change	20	(48)
Change in unrealized components of defined benefit plans:		
Amortization of actuarial loss and prior service benefit	5	6
Foreign currency translation adjustments, net	(10)	35
Other comprehensive (loss) income	40	(67)
Comprehensive loss	\$445	\$511

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

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

	Nine months ended	
	September 30, 2018 2017	
Net loss:	\$(1,637)	\$(2,874)
Other comprehensive income (loss):		
Available-for-sale securities:		
Changes in unrealized (losses) gains	(797)	299
Reclassification adjustments for losses included in net loss	36	59
Net change	(761)	358
Cash flow hedges:		
Changes in unrealized (losses) gains	(16)	163
Reclassification adjustments for (gains) losses included in net loss	16	(172)
Net change	-	(9)
Change in unrealized components of defined benefit plans:		
Amortization of actuarial loss and prior service benefit	15	16
Foreign currency translation adjustments, net	(38)	29
Other comprehensive (loss) income	(784)	394
Comprehensive loss	\$(2,421)	\$(2,480)

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

DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(U.S. dollars in thousands)

	Nine months ended	
	September 30,	2017
	2018	2017
<u>Cash flows from operating activities:</u>		
Net income (loss)	\$(1,637)	\$(2,874)
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation	1,255	1,355
Equity-based compensation expenses related to employees' stock options, SARs and RSUs	5,111	4,526
Realized losses from sale of marketable securities, net	36	59
Capital loss from sale and disposal of property and equipment	-	19
Amortization of intangible assets	1,276	1,276
Accrued interest and amortization of premium on marketable securities and deposits	548	386
Change in operating assets and liabilities:		
Deferred income tax assets and liabilities, net	(92)	(56)
Trade receivables, net	(8,067)	(858)
Other accounts receivable and prepaid expenses	305	(801)
Inventories	1,146	(912)
Long-term prepaid expenses and lease deposits	(123)	(154)
Trade payables	737	(554)
Accrued compensation and benefits	1,038	719
Income tax accruals	(366)	(231)
Accrued expenses and other accounts payable	849	(659)
Accrued severance pay, net	(9)	124
Accrued pensions	28	14
Net cash provided by operating activities	2,035	1,379
<u>Cash flows from investing activities:</u>		
Purchase of marketable securities	(18,992)	(28,812)
Purchase of short-term deposits	(5,000)	(3,000)
Proceeds from maturity of marketable securities	14,399	18,474
Proceeds from sales of marketable securities	4,810	12,988
Proceeds from redemption of short-term deposits	3,000	425
Purchases of property and equipment	(946)	(715)
Other investing activities	(104)	-

Net cash used in investing activities	\$(2,833) \$(640)
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8

	Nine months ended	
	September 30, 2018	2017
<u>Cash flows from financing activities:</u>		
Issuance of common stock and treasury stock upon exercise of stock options	\$455	\$959
Purchase of treasury stock	(9,610)	(4,365)
Net cash used in financing activities	(9,155)	(3,406)
Increase (decrease) in cash and cash equivalents	(9,953)	(2,667)
Cash and cash equivalents at the beginning of the year	21,848	17,822
Cash (erosion) due to exchange rate differences	(33)	57
Cash and cash equivalents at the end of the year	\$11,862	\$15,212

The accompanying notes are an integral part of the unaudited interim 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	Accumulated	
							common	stock
September 30, 2017	stock	stock	capital	stock	deficit	income	comprehensive	stockholders'
						(loss)	income	equity
Balance at June 30, 2017	22,151	\$ 22	\$ 369,209	\$(120,855)	\$(102,867)	\$ (1,391)	\$ 144,118	
Net income	-	-	-	-	578	-	578	
Change in accumulated other comprehensive income	-	-	-	-	-	(67)	(67))
Purchase of treasury stock	(131)	*	-	(1,563)	-	-	(1,563))
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	114	*	-	1,117	(163)	-	954	
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by employees and directors	142	*	-	1,392	(1,099)	-	293	
Equity-based compensation	-	-	1,438	-	-	-	1,438	
Balance at September 30, 2017	22,276	\$ 22	\$ 370,647	\$(119,909)	\$(103,551)	\$ (1,458)	\$ 145,751	
Three months ended								
September 30, 2018								
Balance at June 30, 2018	22,461	\$ 22	\$ 375,410	\$(119,200)	\$(110,420)	\$ (2,698)	\$ 143,114	
Net income	-	-	-	-	405	-	405	
Change in accumulated other comprehensive income	-	-	-	-	-	40	40	
Purchase of treasury stock	(317)	*	-	(3,958)	-	-	(3,958))
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	112	*	-	1,106	(105)	-	1,001	

Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by employees and directors	76	*)	-	766	(753)	-	13
Equity-based compensation	-	-		1,752	-	-	-	-	1,752
Balance at September 30, 2018	22,332	\$ 22		\$377,162	\$(121,286)	\$(110,873)	\$ (2,658) \$ 142,367

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

The accompanying notes are an integral part of the unaudited interim 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		Additional	Treasury	Accumulate	Other	Total
	of	Common					
September 30, 2017	common	stock	capital	stock	deficit	income	equity
	stock					(loss)	
Balance at December 31, 2016	21,932	\$ 22	\$ 366,121	\$(122,632)	\$ (96,112)	\$ (1,852)	\$ 145,547
Net loss	-	-	-	-	(2,874)	-	(2,874)
Change in accumulated other comprehensive income	-	-	-	-	-	394	394
Purchase of treasury stock	(379)	*)	-	(4,365)	-	-	(4,365)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	227	*)	-	2,225	(330)	-	1,895
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by employees and directors	496	*)	-	4,863	(4,235)	-	628
Equity-based compensation	-	-	4,526	-	-	-	4,526
Balance at September 30, 2017	22,276	\$ 22	\$ 370,647	\$(119,909)	\$ (103,551)	\$ (1,458)	\$ 145,751
Nine months ended							
September 30, 2018							
Balance at December 31, 2017	22,433	\$ 22	\$ 372,041	\$(118,397)	\$ (104,842)	\$ (1,874)	\$ 146,950
Net loss	-	-	-	-	(1,637)	-	(1,637)
Cumulative effect adjustment on retained earnings (**)	-	-	-	-	94	-	94
Change in accumulated other comprehensive income	-	-	-	-	-	(784)	(784)
Purchase of treasury stock	(804)	(1)	-	(9,827)	-	-	(9,828)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	230	*)	-	2,275	(269)	-	2,006

Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by employees and directors	473	1	10	4,663	(4,219)	-	455
Equity-based compensation	-	-	5,111	-	-	-	5,111
Balance at September 30, 2018	22,332	\$ 22	\$ 377,162	\$(121,286)	\$(110,873)	\$(2,658)	\$ 142,367

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

(**) Resulting from adoption of ASC 606.

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

DSP GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(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 nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2017, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2018, have been applied consistently in these unaudited interim condensed consolidated financial statements, except for changes associated with recent accounting standards for revenue recognition as detailed below in "Recently Adopted Accounting Pronouncements."

Recently Adopted Accounting Pronouncements.

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. On January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers" and all the related amendments (collectively "ASC 606") using the modified retrospective method. The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the revenue recognition standards in effect for those periods. The reported results for

the first nine months of 2018 reflect the application of ASC 606 guidance while the reported results for 2017 were prepared under the guidance of ASC 605, "Revenue Recognition (ASC 605)". The impact of the Company's adoption of ASC 606 on the Company's balance sheet was a decrease in accumulated deficit as of January 1, 2018 of \$94.

Under ASC 606, certain product sales through the Company's distributors where revenue was previously deferred until the distributors resold the Company's products to the end customers are now recognized when products are delivered to the distributor. Revenues are recognized when control of the promised goods or services are transferred to our customers in an amount that reflects the consideration that we expect to receive in exchange for those goods or services.

The Company determines revenue recognition through the following steps:

identification of the contract with a customer;

identification of the performance obligations in the contract;

determination of the transaction price;

allocation of the transaction price to the performance obligations in the contract; and

recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company's contracts with customers for the sale of products generally include one performance obligation. The Company has concluded that revenue from sale of products should be recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

In accordance with the ASC 606 requirements, the disclosure of the impact of adoption of ASC 606 on the Company's consolidated income statement and balance sheet was as follows (in thousands):

	For the three months ended September 30, 2018		
	As	Prior to Adoption	Effect of Change Higher/(Lower)
	Reported of ASC 606		
Income statement			
Revenues	\$32,619	\$ 31,553	\$ 1,066
Cost of revenues	16,315	15,934	382
Gross margin:	16,304	15,619	684
Operating expenses:			
Research and development, net	9,614	9,614	