DSP GROUP INC /DE/
Form 10-Q
August 09, 2016

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, 2016

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	**94-2683643**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
161 S. San Antonio Road, Suite 10 **Los Altos, California**	**94022**
(Address of Principal Executive Offices)	(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, 2016, there were 21,894,013 shares of Common Stock ($.001 par value per share) outstanding.

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DSP GROUP, INC.

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)

	June 30, 2016 Unaudited	**December 31, 2015 Audited**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,808	$ 13,704
Restricted deposit	168	168
Marketable securities and short-term deposits	22,784	18,070
Trade receivables	17,136	19,211
Other accounts receivable and prepaid expenses	2,364	3,319
Inventories	12,850	11,453
TOTAL CURRENT ASSETS	73,110	65,925
PROPERTY AND EQUIPMENT, NET	3,956	3,764
LONG-TERM ASSETS:		
Long-term marketable securities	81,962	89,714
Long-term prepaid expenses and lease deposits	1,240	743
Deferred income taxes	1,001	1,311
Severance pay fund	11,795	11,578
Investment in other companies	1,800	1,800
Intangible assets, net	3,209	3,851
Goodwill	5,276	5,276
	106,283	114,273
TOTAL ASSETS	$ 183,349	$ 183,962

Note: The balance sheet at December 31, 2015 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)

	June 30, 2016 Unaudited	**December 31, 2015 Audited**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 12,910	$ 13,103
Accrued compensation and benefits	7,476	7,788
Income tax accruals and payables	1,800	1,864
Accrued expenses and other accounts payable	5,782	5,026
Total current liabilities	27,968	27,781
LONG-TERM LIABILITIES:		
Deferred income taxes	316	476
Accrued severance pay	11,948	11,703
Accrued pensions	727	684
Total long-term liabilities	12,991	12,863
STOCKHOLDERS' EQUITY:		
Capital stock:		
Common stock, $ 0.001 par value -		
Authorized shares: 50,000,000 shares at June 30, 2016 and December 31, 2015;		
Issued and outstanding shares: 21,742,684 and 21,572,616 shares at June 30, 2016 and December 31, 2015, respectively	22	22
Additional paid-in capital	363,267	361,023
Treasury stock	(123,749)	(125,697)
Accumulated other comprehensive loss	(474)	(1,267)
Accumulated deficit	(96,676)	(90,763)
Total stockholders' equity	142,390	143,318
Total liabilities and stockholders' equity	$ 183,349	$ 183,962

Note: The balance sheet at December 31, 2015 has been derived from the audited financial statements on that date.

See notes to condensed consolidated financial statements.

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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,**	
	2016	**2015**	**2016**	**2015**
Revenues	$36,164	$37,247	$63,823	$75,282
Cost of revenues (1)	20,279	22,012	36,221	44,512
Gross profit	15,885	15,235	27,602	30,770
Operating expenses:				
Research and development, net (2)	9,036	8,855	17,925	17,971
Sales and marketing (3)	3,323	2,974	6,715	6,037
General and administrative (4)	2,275	2,460	4,558	4,981
Intangible assets amortization	321	321	642	642
Total operating expenses	14,955	14,610	29,840	29,631
Operating income (loss)	930	625	(2,238)	1,139
Interest and other income, net	273	291	565	626
Income (loss) before taxes on income	1,203	916	(1,673)	1,765
Taxes on income	123	186	160	262
Net income (loss)	$1,080	$730	$(1,833)	$1,503
Net earnings (loss) per share:				
Basic	$0.05	$0.03	$(0.08)	$0.07
Diluted	$0.05	$0.03	$(0.08)	$0.06
Weighted average number of shares used in per share computations of net earnings (loss):				
Basic	21,739	22,064	21,725	22,115
Diluted	22,845	23,717	21,725	23,801

(1) Includes equity-based compensation expense in the amount of $83 for both the three months ended June 30, 2016 and 2015, and $144 and $153 for the six months ended June 30, 2016 and 2015, respectively.

(2) Includes equity-based compensation expense in the amount of $521 and $613 for the three months ended June 30, 2016 and 2015, respectively; and $947 and $1,151 for the six months ended June 30, 2016 and 2015, respectively.

(3) Includes equity-based compensation expense in the amount of $194 and $178 for the three months ended June 30, 2016 and 2015, respectively; and $325 and $330 for the six months ended June 30, 2016 and 2015, respectively.

(4) Includes equity-based compensation expense in the amount of $461 and $537 for the three months ended June 30, 2016 and 2015, respectively; and $828 and $1,030 for the six months ended June 30, 2016 and 2015, respectively.

See notes to condensed consolidated financial statements.

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DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(U.S. dollars in thousands)

	Three Months Ended June 30,	
	2016	**2015**
Net income:	$1,080	$730
Other comprehensive income:		
Available-for-sale securities:		
Changes in unrealized gains/losses	205	(549)
Reclassification adjustments for losses included in net income	7	-
Net change	212	(549)
Cash flow hedges:		
Changes in unrealized gains/losses	(110)	454
Reclassification adjustments for (gains) losses included in net income	(14)	145
Net change	(124)	599
Change in unrealized components of defined benefit plans:		
Amortization of actuarial loss and prior service benefit	4	5
Net change	4	5
Foreign currency translation adjustments, net	18	(5)
Other comprehensive income	110	50
Comprehensive income	$1,190	$780

DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(U.S. dollars in thousands)

	Six Months Ended June 30,	
	2016	**2015**
Net income (loss):	$(1,833)	$1,503
Other comprehensive income:		
Available-for-sale securities:		
Changes in unrealized gains/losses	618	(134)
Reclassification adjustments for losses included in net income (loss)	33	26
Net change	651	(108)
Cash flow hedges:		
Changes in unrealized gains/losses	58	162
Reclassification adjustments for losses included in net income (loss)	15	625
Net change	73	787
Change in unrealized components of defined benefit plans:		
Amortization of actuarial loss and prior service benefit	8	10
Net change	8	10
Foreign currency translation adjustments, net	61	(53)
Other comprehensive income	793	636
Comprehensive income (loss)	$(1,040)	$2,139

See notes to condensed consolidated financial statements.

DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(U.S. dollars in thousands)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net cash provided by operating activities	$4,760	$2,141
Investing activities		
Purchases of marketable securities	(26,112)	(15,342)
Proceeds from maturity of marketable securities	21,500	4,068
Proceeds from sales of marketable securities	7,987	10,332
Purchases of property and equipment	(1,012)	(1,202)
Decrease in restricted deposits	-	453
Net cash provided by (used in) investing activities	2,363	(1,691)
Financial activities		
Purchase of treasury stock	(3,737)	(6,346)
Issuance of common stock and treasury stock upon exercise of stock options	666	1,138
Net cash used in financing activities	(3,071)	(5,208)
Increase (Decrease) in cash and cash equivalents	4,052	(4,758)
Erosion- due to exchange rate differences	52	(55)
Cash and cash equivalents at the beginning of the period	13,704	20,544
Cash and cash equivalents at the end of the period	$17,808	$15,731

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 June 30, 2015	**Number of Common Stock**	**Common Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Deficit**	**Other Comprehensive Income (Loss)**	**Total Stockholders' Equity**
Balance at March 31, 2015	22,227	$ 22	$ 357,185	$ (118,909)	$ (87,853)	$ (980)	$ 149,465
Net income	-	-	-	-	730	-	730
Change in accumulated other comprehensive loss	-	-	-	-	-	50	50
Purchase of treasury stock	(425)	(*)	-	(4,899)	-	-	(4,899)
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by employees and directors	193	(*)	-	1,879	(1,554)	-	325
Equity-based compensation	-	-	1,411	-	-	-	1,411
Balance at June 30, 2015	**21,995**	**$ 22**	**$ 358,596**	**$ (121,929)**	**$ (88,677)**	**$ (930)**	**$ 147,082**
Three Months Ended June 30, 2016							
Balance at March 31, 2016	21,697	$ 22	$ 362,008	$ (124,212)	$ (96,109)	$ (584)	$ 141,125
Net income	-	-	-	-	1,080	-	1,080
Change in accumulated other comprehensive income	-	-	-	-	-	110	110
Purchase of treasury stock	(132)	(*)	-	(1,270)	-	-	(1,270)
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by employees and directors	178	(*)	-	1,733	(1,647)		86
Equity-based compensation	-	-	1,259	-	-	-	1,259
Balance at June 30, 2016	**21,743**	**$ 22**	**$ 363,267**	**$ (123,749)**	**$ (96,676)**	**$ (474)**	**$ 142,390**

(*) 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)

	Number of Common Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Income (Loss)	Total Stockholders' Equity
Six Months Ended June 30, 2015							
Balance at December 31, 2014	21,844	$ 22	$ 355,906	$ (122,387)	$ (85,352)	$ (1,566)	$ 146,623
Net income	-	-	-	-	1,503	-	1,503
Change in accumulated other comprehensive income	-	-	-	-	-	636	636
Purchase of treasury stock	(550)	(1)	-	(6,345)	-	-	(6,346)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	116	(*)	-	1,124	(260)	-	864
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock units by employees and directors	585	1	26	5,679	(4,568)	-	1,138
Equity-based compensation	-	-	2,664	-	-	-	2,664
Balance at June 30, 2015	**21,995**	**$ 22**	**$ 358,596**	**$ (121,929)**	**$ (88,677)**	**$ (930)**	**$ 147,082**
Six Months Ended June 30, 2016							
Balance at December 31, 2015	21,573	$ 22	$ 361,023	$ (125,697)	$ (90,763)	$ (1,267)	$ 143,318
Net loss	-	-	-	-	(1,833)	-	(1,833)
Change in accumulated other comprehensive income	-	-	-	-	-	793	793
Purchase of treasury stock	(408)	(*)	-	(3,676)	-	-	(3,676)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	114	(*)	-	1,114	(236)	-	878
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted stock	464	(*)	-	4,510	(3,844)	-	666

units by employees and directors							
Equity-based compensation	-	-	2,244	-	-	-	2,244
Balance at June 30, 2016	**21,743**	**$ 22**	**$ 363,267**	**$ (123,749)**	**$ (96,676)**	**$ (474)**	**$ 142,390**

*) Represents an amount lower than $1.

See notes to condensed consolidated financial statements.

DSP GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(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 six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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, 2015.

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:

	June 30, 2016 (Unaudited)	**December 31, 2015 (Audited)**
Work-in-process	$ 7,278	$ 6,384
Finished goods	5,572	5,069
	$ 12,850	$ 11,453

Inventory write-off amounted to $151 and $311 for the six months ended June 30, 2016 and 2015, respectively.

NOTE C—NET EARNINGS (LOSS) PER SHARE

Basic net earnings (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 earnings (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 earnings (loss) per share:

	Three months ended June 30,		**Six months ended June 30,**	
	2016	**2015**	**2016**	**2015**
	Unaudited			
Net income (loss)	$1,080	$730	$(1,833)	$1,503
Earnings (loss) per share:				
Basic	$0.05	$0.03	$(0.08)	$0.07
Diluted	$0.05	$0.03	$(0.08)	$0.06
Weighted average number of shares of common stock outstanding during the period used to compute basic net earnings (loss) per share (in thousands)	21,739	22,064	21,725	22,115
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)	1,106	1,653	-	1,686
Weighted average number of shares of common stock used to compute diluted net earnings (loss) per share (in thousands)	22,845	23,717	21,725	23,801

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 June 30, 2016 and December 31, 2015:

	Amortized cost		Unrealized gains (losses), net		Fair value	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Short term deposits	5,632	$ 5,568	$ -	$ -	$ 5,632	$ 5,568
U.S. GSE securities	22,321	23,645	(24)	(114)	22,297	23,531
Corporate obligations	76,643	79,072	174	(387)	76,817	78,685
	$ 104,596	$ 108,285	$ 150	$ (501)	$ 104,746	$ 107,784

The amortized cost of marketable debt securities and short-term deposits at June 30, 2016, by contractual maturities, is shown below:

	Amortized cost	Unrealized gains (losses)		Fair value
		Gains	Losses	
Due in one year or less	$ 22,769	$ 19	$ (4)	$ 22,784
Due after one year to five years	81,827	290	(155)	81,962
	$ 104,596	$ 309	$ (159)	$ 104,746

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The actual maturity dates may differ from the contractual maturities because debtors may have the right to call or prepay obligations without penalties.

Management believes that as of June 30, 2016, the unrealized losses in the Company's investments in all types of marketable securities were temporary and no impairment loss was realized in the Company's condensed consolidated statement of income.

The unrealized losses related to corporate obligations were primarily due to changes in interest rates. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2016.

The total fair value of marketable securities with outstanding unrealized losses as of June 30, 2016 amounted to $34,094, while the unrealized losses for these marketable securities amounted to $159. Of the $159 unrealized losses outstanding as of June 30, 2016, a portion of which in the amount of $94 related to marketable securities that were in a loss position for more than 12 months and the remaining portion in the amount of $65 was related to marketable securities that were in a loss position for less than 12 months.

Proceeds from maturity of available-for-sale marketable securities during the six months ended June 30, 2016 and 2015 were $21,500 and $4,068, respectively. Proceeds from sales of available-for-sale marketable securities during the six months ended June 30, 2016 and 2015 were $7,987 and $10,332, respectively. Net realized loss from the sale of available-for-sale securities for the six months ended June 30, 2016 were $33 compared to net realized loss for the six months ended June 30, 2015 of $26. The Company determines realized gains or losses on the sale of marketable securities based on a specific identification method.

Marketable securities are periodically reviewed for impairment. If management concludes that any marketable security is impaired, management determines whether such impairment is other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value and the potential recovery period, and the Company's intent to sell, or whether it is more likely than not that the Company will be required to sell the marketable security before recovery of cost basis. If any impairment is considered other-than-temporary, the marketable security is written down to its fair value through a corresponding charge to financial income, net.

NOTE e—TAXES ON Income

The effective tax rate used in computing the provision for income taxes is based on projected fiscal year income before taxes, including estimated income by tax jurisdiction. Tax provision for the six months ended June 30, 2016 and 2015 does not include tax benefits associated with equity-based compensation expenses.

The total amount of net unrecognized tax benefits was $1,660 and $1,711 at June 30, 2016 and December 31, 2015, respectively. The Company accrues interest and penalties, relating to unrecognized tax benefits, in its provision for income taxes. At June 30, 2016 and December 31, 2015, the Company had accrued interest and penalties relating to unrecognized tax benefits of $272 and $180, respectively.

The Company intends to permanently reinvest earnings of its foreign operations and its current operating plans do not demonstrate a need to repatriate foreign earnings to fund the Company's U.S. operations. However, if these funds were needed for the Company's operations in the United States, the Company would be required to accrue and pay U.S. taxes as well as taxes in other countries to repatriate these funds. The determination of the amount of additional taxes related to the repatriation of these earnings is not practicable, as it may vary based on various factors such as the location of the cash and the effect of regulation in the various jurisdictions from which the cash would be repatriated.

NOTE f—SIGNIFICANT CUSTOMERS

The Company sells its products primarily through distributors and directly to original equipment manufacturers (OEMs) and original design manufacturers (ODMs) who incorporate the Company’s products into consumer products. The Company’s future performance will depend, in part, on the continued success of its distributors in marketing and selling its products. The loss of the Company’s distributors and the Company’s inability to obtain satisfactory replacements in a timely manner may harm the Company’s sales and results of operations. In addition, the Company expects that a limited number of customers, varying in identity from period-to-period, will account for a substantial portion of its revenues in any period. The loss of, or reduced demand for products from, any of the Company’s major customers could have a material adverse effect on the Company’s business, financial condition and results of operations.

Sales to VTech Holdings Ltd. ("VTech") represented 29% and 31% of the Company’s total revenues for the three months ended June 30, 2016 and 2015, respectively. Sales to VTech represented 30% and 31% of the Company’s total revenues for the six months ended June 30, 2016 and 2015, respectively.

Sales to Guo Wei Electronics Ltd. ("Guo Wei Electronics") represented 8% and 12% of the Company’s total revenues for the three months ended June 30, 2016 and 2015, respectively. Sales to Guo Wei Electronics represented 8% and 11% of the Company’s total revenues for the six months ended June 30, 2016 and 2015, respectively.

Sales to Samsung Electronics Co., Ltd (“Samsung”) represented 13% and 0% of the Company’s total revenues for the three months ended June 30, 2016 and 2015, respectively, as well as the six months ended June 30, 2016 and 2015, respectively.

Revenues derived from sales through the Company’s distributor, Ascend Technology Inc., ("Ascend Technology"), accounted for 17% and 18% of the Company’s total revenues for the three months ended June 30, 2016 and 2015, respectively. Revenues derived from sales through Ascend Technology accounted for 16% and 17% of the Company’s total revenues for the six months ended June 30, 2016 and 2015, respectively.

Revenues derived from sales through the Company’s distributor, Tomen Electronics Corporation ("Tomen Electronics"), accounted for 12% and 18% of the Company’s total revenues for the three months ended June 30, 2016 and 2015, respectively, and 10% and 16% of the Company’s total revenues for the six months ended June 30, 2016 and 2015, respectively. Tomen Electronics sells the Company’s products to a limited number of customers. One customer, Panasonic Communications Co., Ltd. ("Panasonic"), has continually accounted for a majority of the sales of Tomen Electronics. Sales to Panasonic through Tomen Electronics generated approximately 10% and 15% of the Company’s total revenues for the three months ended June 30, 2016 and 2015, respectively, and 8% and 13% of the Company’s total revenues for the six months ended June 30, 2016 and 2015, respectively.

NOTE G—DERIVATIVE INSTRUMENTS

The Company accounts for derivative instruments in accordance with FASB. ASC No. 815 "Derivatives and Hedging" ("ASC 815"). Due to the Company's global operations, it is exposed to foreign currency exchange rate fluctuations in the normal course of its business. The Company's treasury policy allows it to offset the risks associated with the effects of certain foreign currency exposures through the purchase of foreign exchange forward contracts and put options (collectively, "hedging contracts"). The policy, however, prohibits the Company from speculating on hedging contracts for profit.

To protect against the increase in value of forecasted foreign currency cash flows resulting from salary and lease payments of its Israeli facilities denominated in the Israeli currency, the New Israeli Shekels ("NIS"), during the year, the Company instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll and lease payments denominated in NIS for a period of one to twelve months with hedging contracts. Accordingly, when the dollar strengthens against the foreign currencies, the decline in present value of future foreign currency expenses is offset by losses in the fair value of the hedging contracts. Conversely, when the dollar weakens, the increase in the present value of future foreign currency cash flows is offset by gains in the fair value of the hedging contracts. These hedging contracts are designated as cash flow hedges, as defined by ASC 815 and are all effective hedges of these expenses.

In accordance with ASC 815, for derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any gain or loss on a derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item is recognized in current earnings during the period of change. As of June 30, 2016, the Company had outstanding option contracts in the amount of $8,600 and no outstanding foreign exchange forward contracts. These hedging contracts do not contain any credit-risk-related contingency features. See Note K for information on the fair value of these hedging contracts.

The fair value of derivative assets and derivative liabilities were $82 and $44, respectively, at June 30, 2016. The Company recorded a net amount of $38 in other accounts receivable in the condensed consolidated balance sheet at June 30, 2016.

The amount recorded as an expense in research and development expenses, sales and marketing expenses and general and administrative expenses in the condensed consolidated statements of income for the six months ended June 30, 2016 that resulted from the above referenced hedging transactions was $12, $1 and $2, respectively.

The amount recorded as an income in research and development expenses, sales and marketing expenses and general and administrative expenses in the condensed consolidated statements of income for the three months ended June 30, 2016 that resulted from the above referenced hedging transactions was $11, $1 and $2, respectively.

The fair value of the outstanding derivative instruments at June 30, 2016 and December 31, 2015 is summarized below:

	Balance Sheet Location	**Fair Value of Derivative Instruments**	
		June 30, 2016	**December 31, 2015**
Derivative Assets (Liabilities)			
Foreign exchange forward and options contracts	Accrued expenses and other accounts payable	$ -	$ (36)
	Other accounts receivable and prepaid expenses	38	-
		$ 38	$ (36)

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The effect of derivative instruments in cash flow hedging transactions on income and other comprehensive income ("OCI") for the three and six months ended June 30, 2016 and 2015 is summarized below:

	Gains (Losses) on Derivatives Recognized in OCI			
	for the three months ended June 30,		**for the six months ended June 30,**	
	2016	**2015**	**2016**	**2015**
Foreign exchange forward and option contracts	$(110)	$454	$58	$162

	Gains (Losses) Reclassified from OCI into Income				
		for the three months ended June 30		**for the six months ended June 30,**	
	Location	**2016**	**2015**	**2016**	**2015**
Foreign exchange forward and option contracts	Operating expenses	$14	$(145)	$(15)	$(625)

NOTE h—CONTINGENCIES

From time to time, the Company may become involved in litigation relating to claims arising from its ordinary course of business. In addition, as is typical in the semiconductor industry, the Company has been and may from time to time be notified of claims that the Company may be infringing patents or intellectual property rights owned by third parties. The Company currently believes that there are no claims or actions pending or threatened against it, the ultimate disposition of which would have a material adverse effect on the Company.

NOTE i—EQUITY-BASED COMPENSATION

Grants for the Three Months ended June 30, 2016 and June 30, 2015:

The weighted-average estimated fair value of restricted stock units ("RSUs") granted during the three months ended June 30, 2016 was $9.40 per share, with a pre-vest cancellation rate assumption of 4.32% (annualized percentage).

No employee stock options or stock appreciation rights (“SAR”) were granted during the three months ended June 30, 2016.

No employee stock options, SARs or RSUs were granted during the three months ended June 30, 2015.

Employee Stock Benefit Plans

As of June 30, 2016, the Company had two equity incentive plans from which the Company may grant future equity awards and three expired equity incentive plans from which no future equity awards may be granted but had outstanding equity awards granted prior to expiration. The Company also had one employee stock purchase plan. As of June 30, 2016, approximately 1,056,000 shares of common stock remain available for grant under the Company’s employee stock purchase plan and 644,000 shares of common stock remain available for grant under the Company’s equity incentive plans.

The table below presents a summary of information relating to the Company's stock option, RSU and SAR grants pursuant to its equity incentive plans:

	Number of Options/SARs/RSUs	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years) (3)	Aggregate Value (*)
	in thousands			in thousands
Outstanding at March 31, 2016	3,901	$ 5.67		
Options granted	-	-		
RSUs granted	24	-		
Options / SARs / RSUs cancelled/forfeited/expired	(131)	6.20		
Options / SARs exercised and RSUs vested	(337)	$ 5.69		
Outstanding at June 30, 2016 (1)	3,457	$ 5.61	2.83	$ 17,811
Exercisable at June 30, 2016 (2)	2,300	$ 7.55	2.51	$ 7,516

(*) Calculation of aggregate intrinsic value is based on the share price of the Company's common stock on June 30, 2016 ($10.61 per share).

(1) Due to the ceiling imposed on the stock appreciation right ("SAR") grants, the outstanding amount above can be exercised for a maximum of 2,971 shares of the Company's common stock as of June 30, 2016. SAR grants made prior to January 1, 2009 are convertible for a maximum number of shares of the Company's common stock equal to 50% of the SARs subject to the grant. SAR grants made on or after January 1, 2009 and before January 1, 2010 are convertible for a maximum number of shares of the Company's common stock equal to 75% of the SARs subject to the grant. SAR grants made on or after January 1, 2010 and before January 1, 2012 are convertible for a maximum number of shares of the Company's common stock equal to 66.67% of the SARs subject to the grant. SAR grants made on or after January 1, 2012 are convertible for a maximum number of shares of the Company's common stock equal to 50% of the SARs subject to the grant.

(2) Due to the ceiling imposed on the SAR grants, the exercisable amount above can be exercised for a maximum of 1,814 shares of the Company's common stock as of June 30, 2016.

(3) Calculation of weighted average remaining contractual term does not include the RSUs that were granted, which have indefinite contractual term.

Additional information about stock options, SARs and RSUs outstanding and exercisable at June 30, 2016 with exercise prices above $10.61 per share (the closing price of the Company's common stock on June 30, 2016) is as follows:

Exercise Prices	**Exercisable Number of Options/ SARs / RSUs (in thousands)**	**Weighted Average Exercise Price**	**Unexercisable Number of Options/ SARs / RSUs (in thousands)**	**Weighted Average Exercise Price**	**Total Number of Options/ SARs / RSUs (in thousands)**	**Weighted Average Exercise Price**
Above $10.61	170	$ 13.41	79	$ 11.38	249	$ 12.77
Less than $10.61	2,130	$ 7.08	1,078	$ 1.06	3,208	$ 5.06
Total	**2,300**	**$ 7.55**	**1,157**	**$ 1.76**	**3,457**	**$ 5.61**

The Company's aggregate equity-based compensation expense for the three months ended June 30, 2016 and 2015 totaled $1,259 and $1,411, respectively. The Company did not recognize any income tax benefit relating to the Company's equity-based compensation expense for the three months ended June 30, 2016 and 2015.

As of June 30, 2016, there was $5,465 of total unrecognized equity-based compensation expense related to unvested equity-based compensation awards granted under the Company’s equity incentive plans. This amount is expected to be recognized during the period from 2016 through 2020.

NOTE j—Pension Liability

The information in this note represents the net periodic pension and post-retirement benefit costs and related components in accordance with FASB ASC No. 715 "Employers’ Disclosures about Pensions and Other Post-Retirement Benefits." The components of net pension and post-retirement periodic benefit cost (income) for the three months ended June 30, 2016 and 2015 are as follows:

	June 30, 2016	**June 30, 2015**
Components of net periodic benefit cost:		
Service cost and amortization of loss	$ 10	$ 12
Interest cost	9	9
Expected return on plan assets	(1)	(2)
Net periodic benefit cost	$ 18	$ 19

The net pension liability as of June 30, 2016 amounted to $727.

NOTE k—FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis:

The Company measures its cash equivalents, short-term deposits, marketable securities and foreign currency derivative contracts at fair value. Cash equivalents, short-term deposits and marketable securities are classified within Level 1 or Level 2 value hierarchies as they are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Foreign currency derivative contracts are classified within Level 2 value hierarchy as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The following table provides information by value level for assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2016:

	Balance as of June 30, 2016	**Fair Value Measurements**		
		Level 1	**Level 2**	**Level 3**
Description				
Assets:				
Cash equivalents:				
Money market mutual funds	$1,117	$1,117	-	-
Short-term marketable securities and cash deposits:				
U.S. GSE securities	$376	-	$376	-
Corporate debt securities	$16,776	-	$16,776	-
Long-term marketable securities:				
U.S. GSE securities	$21,921	-	$21,921	-
Corporate debt securities	$60,041	-	$60,041	-
Derivative Assets	$38	-	$38	-

The following table provides information by value level for assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2015.

Description	Balance as of December 31, 2015	Fair Value Measurements Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market mutual funds	$ 1,089	$ 1,089	-	-
Short-term marketable securities and time deposits:				
U.S. GSE securities				
Corporate debt securities	$ 12,501	-	$ 12,501	-
Long-term marketable securities:				
U.S. GSE securities	$ 23,531	-	$ 23,531	-
Corporate debt securities	$ 66,184	-	$ 66,184	-
Derivative liabilities	$ (36)	-	$ (36)	-

In addition to the assets and liabilities described above, the Company’s financial instruments also include cash and cash equivalents, restricted and short-term deposits, trade receivables, other accounts receivable, trade payables, accrued expenses and other payables. The fair value of these financial instruments was not materially different from their carrying values at June 30, 2016 due to the short-term maturity of these instruments.

NOTE l—STOCKHOLDERS’ EQUITY

During the first six months of 2016, the Company repurchased 407,906 shares of common stock at an average purchase price of $9.01 per share for an aggregate purchase price of $3,676. As of June 30, 2016, 497,134 shares of common stock remained authorized for repurchase under the Company's board-authorized share repurchase program.

Repurchases of common stock are accounted for as treasury stock, and result in a reduction of stockholders’ equity. When treasury shares are reissued, the Company accounts for the reissuance in accordance with Accounting Principles Board Opinion No. 6, "Status of Accounting Research Bulletins" and charges the excess of the repurchase cost over issuance price using the weighted average method to accumulated deficit. In the case where the repurchase cost over issuance price using the weighted average method is lower than the issuance price, the Company credits the difference to additional paid-in capital.

During the first six months of 2016, the Company issued approximately 578,000 shares of common stock out of treasury stock to employees who exercised their stock options, SARs or RSUs, or purchased shares from the Company’s 1993 Employee Stock Purchase Plan.

NOTE M—SEGMENT INFORMATION

Description of segments:

The Company operates under three reportable segments.

The Company's segment information has been prepared in accordance with ASC 280, "Segment Reporting." Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the Company's chief operating decision-maker ("CODM") in deciding how to allocate resources and assess performance. The Company's CODM is its Chief Executive Officer, who evaluates the Company's performance and allocates resources based on segment revenues and operating income.

The Company's operating segments are as follows: Home, Office and Mobile. The classification of the Company’s business segments is based on a number of factors that management uses to evaluate, view and run its business operations, which include, but are not limited to, customer base, homogeneity of products and technology.

A description of the types of products provided by each business segment is as follows:

Home - Wireless chipset solutions for converged communication at home. Such solutions include integrated circuits targeted for cordless phones sold in retail or supplied by telecommunication service providers, home gateway devices supplied by telecommunication service providers which integrate the DECT/CAT-iq functionality, integrated circuits addressing home automation applications, as well as fixed-mobile convergence solutions. In this segment, (i) revenues from cordless telephony products exceeded 10% of the Company’s total revenues and amounted to 55% and 74% of the Company’s total revenues for the first half of 2016 and 2015, respectively, and 56% and 72% of the Company’s total revenues for the second quarter of 2016 and 2015, respectively, and (ii) revenues from home gateway products amounted to 8% and 12% of the Company’s total revenues for the first half of 2016 and 2015, respectively, and 7% and 11% of the Company’s total revenues for the second quarter of 2016 and 2015, respectively.

Office - Comprehensive solution for Voice-over-IP (VOIP) office products, including office solutions that offer businesses of all sizes low-cost VOIP terminals with converged voice and data applications. Revenues from the Company’s VOIP products represented 20% and 12% of its total revenues for the first six months of 2016 and 2015, respectively. Revenues from the Company’s VOIP products represented 20% and 14% of its total revenues for the second quarter of 2016 and 2015, respectively. No revenues derived from other products in the office segment exceeded 10% of the Company’s total revenues for the first six months of 2016 and 2015.

Mobile - Products for the mobile market that provides voice enhancement, always-on and far-end noise elimination targeted for mobile phone and mobile headsets and wearable devices that incorporate the Company’s noise suppression, always-on and voice quality enhancement HDClear technology. Revenues from the Company’s mobile products represented 13% of its total revenues for the second quarter and first half of 2016. No revenues were derived from this segment in the comparable periods of 2015.

Segment data:

The Company derives the results of its business segments directly from its internal management reporting system and by using certain allocation methods. The accounting policies the Company uses to derive business segment results are substantially the same as those the Company uses for consolidation of its financial statements. The CODM measures the performance of each business segment based on several metrics, including earnings from operations. The CODM uses these results, in part, to evaluate the performance of, and to assign resources to, each of the business segments.

The Company does not allocate to its business segments certain operating expenses, which it manages separately at the corporate level. These unallocated costs include primarily amortization of purchased intangible assets, equity-based compensation expenses, and certain corporate governance costs.