DSP GROUP INC /DE/
Form 10-Q
May 12, 2014

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 March 31, 2014

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)
2161 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 May 1, 2014, there were 22,147,089 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)

	March 31, 2014 Unaudited	**December 31, 2013 Audited**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,464	$ 23,578
Restricted deposit	67	77
Marketable securities and short-term deposits	13,458	13,895
Trade receivables	22,569	21,195
Deferred income taxes	90	92
Other accounts receivable and prepaid expenses	3,071	2,641
Inventories	12,193	12,334
TOTAL CURRENT ASSETS	65,912	73,812
PROPERTY AND EQUIPMENT, NET	2,863	2,837
LONG-TERM ASSETS:		
Long-term marketable securities	89,220	90,162
Long-term prepaid expenses and lease deposits	103	100
Severance pay fund	11,493	11,168
Investment in other companies	2,200	2,200
Intangible assets, net	6,313	6,710
Goodwill	5,276	5,276
	114,605	115,616
TOTAL ASSETS	$ 183,380	$ 192,265

Note: The balance sheet at December 31, 2013 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 BALANCE SHEETS

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

	March 31, 2014 Unaudited	December 31, 2013 Audited
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 12,634	$ 14,149
Accrued compensation and benefits	6,288	9,845
Income tax accruals and payables	1,965	1,985
Accrued expenses and other accounts payable	5,174	5,532
Total current liabilities	26,061	31,511
LONG-TERM LIABILITIES:		
Deferred income taxes	1,087	1,183
Accrued severance pay	11,517	11,179
Accrued pensions	988	981
Total long-term liabilities	13,592	13,343
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Capital stock:		
Preferred stock, $ 0.001 par value - Authorized shares: 5,000,000 at March 31, 2014 and December 31, 2013; Issued and outstanding shares: none at March 31, 2014 and December 31, 2013	-	-
Common stock, $ 0.001 par value - Authorized shares: 50,000,000 shares at March 31, 2014 and December 31, 2013; Issued and outstanding shares: 22,126,569 and 22,349,780 shares at March 31, 2014 and December 31, 2013, respectively	22	22
Additional paid-in capital	351,937	350,494
Treasury stock	(120,360)	(118,749)
Accumulated other comprehensive loss	(943)	(821)
Accumulated deficit	(86,929)	(83,535)
Total stockholders' equity	143,727	147,411
Total liabilities and stockholders' equity	$ 183,380	$ 192,265

Note: The balance sheet at December 31, 2013 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 March 31, 2014	**2013**
Revenues	$32,886	$39,650
Cost of revenues (1)	19,872	23,944
Gross profit	13,014	15,706
Operating expenses:		
Research and development, net (2)	8,205	9,151
Sales and marketing (3)	3,086	3,051
General and administrative (4)	2,717	2,622
Intangible assets amortization	397	418
Total operating expenses	14,405	15,242
Operating income (loss)	(1,391)	464
Financial income, net	412	570
Income (loss) before taxes on income	(979)	1,034
Taxes on income (income tax benefit)	9	(138)
Net income (loss)	$(988)	$1,172
Net earnings (loss) per share:		
Basic	$(0.04)	$0.05
Diluted	$(0.04)	$0.05
Weighted average number of shares used in per share computations of net income (loss):		
Basic	22,378	21,897
Diluted	22,378	22,246

(1) Includes equity-based compensation expense in the amount of $82 and $63 for the three months ended March 31, 2014 and 2013, respectively.

(2) Includes equity-based compensation expense in the amount of $644 and $468 for the three months ended March 31, 2014 and 2013, respectively.

(3) Includes equity-based compensation expense in the amount of $162 and $135 for the three months ended March 31, 2014 and 2013, respectively.

(4) Includes equity-based compensation expense in the amount of $555 and $377 for the three months ended March 31, 2014 and 2013, respectively.

See notes to condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(U.S. dollars in thousands)

	Three Month Ended March 31, 2014	2013
Net income (loss):	$(988)	$1,172
Other comprehensive income (loss):		
Available-for-sale securities:		
Changes in unrealized gain/loss	(60)	363
Reclassification adjustments for gains included in net income (loss)	(60)	(163)
Net change	(120)	200
Cash flow hedges:		
Changes in unrealized gains	3	176
Reclassification adjustments for (gains) losses included in net income (loss)	(2)	(141)
Net change	1	35
Change in unrealized components of defined benefit plans:		
Amortization of actuarial loss and prior service benefit	3	3
Net change	3	3
Foreign currency translation adjustments, net	(6)	(36)
Other comprehensive income (loss)	(122)	202
Comprehensive income (loss)	$(1,110)	$1,374

See notes to condensed consolidated financial statements

DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(U.S. dollars in thousands)

	Three Months Ended March 31, 2014	2013
Net cash used in operating activities	$(4,919)	$(327)
Investing activities		
Purchases of marketable securities	(23,848)	(15,911)
Proceeds from maturity of marketable securities	3,020	6,056
Proceeds from sales of marketable securities	21,851	7,937
Purchases of property and equipment	(360)	(446)
Net cash (used in) provided by investing activities	663	(2,364)
Financial activities		
Purchase of treasury stock	(5,263)	-
Issuance of common stock and treasury stock upon exercise of stock options	412	237
Net cash (used in) provided by financing activities	(4,851)	237
Decrease- in cash and cash equivalents	$(9,107)	$(2,454)
Erosion- due to exchange rate differences	(7)	(5)
Cash and cash equivalents at the beginning of the period	$23,578	$21,684
Cash and cash equivalents at the end of the period	$14,464	$19,225

See notes to condensed consolidated financial statements.

DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(U.S. dollars in thousands)

	Number of Common Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated deficit	Other Comprehensive Income (Loss)	Total Stockholders' Equity
Three Months Ended March 31, 2013							
Balance at December 31, 2012	21,674	$ 22	$ 346,335	$ (125,724)	$ (79,394)	$ 988	$ 142,227
Net income		-	-	-	1,172	-	1,172
Change in accumulated other comprehensive income		-	-	-	-	202	202
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	190	*)	-	1,867	(1,022)	-	845
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted share units by employees and directors	89	*)	-	872	(635)	-	237
Equity-based compensation	-	-	1,043	-	-	-	1,043
Balance at March 31, 2013	21,953	$ 22	$ 347,378	$ (122,985)	$ (79,879)	$ 1,190	$ 145,726
Three Months Ended March 31, 2014							
Balance at December 31, 2013	22,350	$ 22	$ 350,494	$ (118,749)	$ (83,535)	$ (821)	$ 147,411
Net loss		-	-	-	(988)	-	(988)
Change in accumulated other comprehensive income		-	-	-	-	(122)	(122)
Purchase of treasury stock	(596)	(1)	-	(5,262)	-	-	(5,263)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	185	1	-	1,813	(980)	-	834
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted share units by employees and directors	188	*)	-	1,838	(1,426)	-	412
Equity-based compensation	-	-	1,443	-	-	-	1,443

Balance at March 31, 2014	22,127	$ 22	$ 351,937	$ (120,360)	$ (86,929)	$ (943)	$ 143,727

(*) Represents an amount lower than $1.

See notes to condensed consolidated financial statements.

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DSP GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(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 months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

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:

	March 31, 2014 (Unaudited)	**December 31, 2013** (Audited)
Work-in-process	$ 7,431	$ 5,412
Finished goods	4,762	6,922
	$ 12,193	$ 12,334

Inventory write-off amounted to $49 for the three months ended March 31, 2014. For the three months ended March 31, 2013, the Company recorded $160 of income due to the utilization of inventory that was written off in the past.

NOTE C—NET INCOME (LOSS) 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 March 31,	
	2014	**2013**
Net income (loss)	$(988)	$1,172
Income (loss) per share:		
Basic	$(0.04)	$0.05
Diluted	$(0.04)	$0.05
Weighted average number of shares of common stock outstanding during the period used to compute basic net income (loss) per share (in thousands)	22,378	21,897
Incremental shares attributable to exercise of outstanding options, stock appreciation rights and restricted shares units (assuming proceeds would be used to purchase treasury stock) (in thousands)	-	349
Weighted average number of shares of common stock used to compute diluted net income (loss) per share (in thousands)	22,378	22,246

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 March 31, 2014 and December 31, 2013:

	Amortized cost		**Unrealized gains (losses), net**		**Fair value**	
	March 31, 2014	**December 31, 2013**	**March 31, 2014**	**December 31, 2013**	**March 31, 2014**	**December 31, 2013**
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Short term deposits	$2,905	$2,911	$-	$ -	$2,905	$2,911
U.S. GSE securities	2,667	3,093	(8)	(11)	2,659	3,082
Corporate obligations	97,618	98,444	(504)	(380)	97,114	98,064
	$103,190	$104,448	$(512)	$ (391)	$102,678	$104,057

The amortized cost of marketable debt securities and short-term deposits at March 31, 2014, by contractual maturities, is shown below:

	Amortized cost	**Unrealized gains (losses)**		**Fair value**
		Gains	**Losses**	
Due in one year or less	$ 10,538	$16	$ (1)	$10,553

Due after one year to five years	89,747	122	(649)	89,220
	$ 100,285	$ 138	$ (650)	$ 99,773

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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 March 31, 2014, 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 March 31, 2014.

The total fair value of marketable securities with outstanding unrealized losses as of March 31, 2014 amounted to $54,287, while the unrealized losses for these marketable securities amounted to $650. Of the $650 unrealized losses outstanding as of March 31, 2014, a portion of which in the amount of $282 related to marketable securities that were in a loss position for more than 12 months and the remaining portion in the amount of $368 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 three months ended March 31, 2014 and 2013 were $3,020 and $6,056, respectively. Proceeds from sales of available-for-sale marketable securities during the three months ended March 31, 2014 and 2013 were $21,851 and $7,937, respectively. Net realized gains from the sale of available-for-sale securities for the three months ended March 31, 2014 and 2013 were $60 and $163, respectively. 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 three months ended March 31, 2014 and 2013 does not include tax benefits associated with equity-based compensation expenses. As of March 31, 2014 and December 31, 2013, the Company did not record any significant changes to its deferred tax assets due to its current estimation of future taxable income.

The total amount of net unrecognized tax benefits was $1,890 and $1,892 at March 31, 2014 and December 31, 2013, respectively. The Company accrues interest and penalties, relating to unrecognized tax benefits, in its provision for income taxes. At both March 31, 2014 and December 31, 2013, the Company had accrued interest and penalties relating to unrecognized tax benefits of $408.

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. represented 35% and 34% of the Company's total revenues for the three months ended March 31, 2014 and 2013, respectively. Sales to CCT Telecom Holdings Ltd represented 9% and 10% of the Company's total revenues for the three months ended March 31, 2014 and 2013, respectively.

Revenues derived from sales through one distributor, Tomen Electronics Corporation ("Tomen Electronics"), accounted for 20% and 14% of the Company's total revenues for the three months ended March 31, 2014 and 2013, respectively. The Japanese market and the OEMs that operate in that market are among the largest suppliers in the world with significant market share in the U.S. market for residential wireless products. 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 12% and 10% of the Company's total revenues for the three months ended March 31, 2014 and 2013, 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 March 31, 2014, the Company had no outstanding foreign exchange forward contracts and outstanding option contracts in the amount of $5,500. 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 $19 and $18, respectively, at March 31, 2014. The Company recorded a net amount of $1 in other accounts receivable and prepaid expenses in the condensed consolidated balance sheets at March 31, 2014.

The amount recorded as income in research and development expenses, sales and marketing expenses and general and administrative expenses in the condensed consolidated statements of income for the quarter ended March 31, 2014 that resulted from the above referenced hedging transactions was $2, $0 and $0, respectively.

The fair value of the outstanding derivative instruments at March 31, 2014 and December 31, 2013 is summarized below:

		Fair Value of Derivative Instruments	
	Balance Sheet Location	As of March 31, 2014	As of December 31, 2013
Derivative Assets			
Foreign exchange forward contracts and put options	Other accounts receivable and prepaid expenses (*)	1	-
Total		$ 1	$ -

(*) Estimated to be reclassified into earnings during 2014.

The effect of derivative instruments in cash flow hedging transactions on income and other comprehensive income ("OCI") for the three months ended March 31, 2014 and 2013 is summarized below:

	Gains on Derivatives Recognized in OCI for the three months ended March 31,	
	2014	2013
Foreign exchange forward and put options contracts	$ 3	$ 176

Gains (losses) on Derivatives Reclassified from OCI into Income

for the three

	Location	months ended March 31, 2014	2013
Foreign exchange forward and put options contracts	Operating expenses	$2	$141

NOTE h—CONTINGENCIES

From time to time, the Company may become involved in litigation relating to claims arising from its ordinary course of business. Also, 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 March 31, 2014 and March 31, 2013:

The weighted average estimated fair value of employee stock options and restricted stock units ("RSU") granted during the three months ended March 31, 2014 and 2013 was $6.62 and $4.30 per share, respectively, using the binomial model, with the following weighted average assumptions (annualized percentages):

	Three months ended March 31, 2014	Three months ended March 31, 2013
Volatility (1)	43.14%	46.23%
Risk-free interest rate (1)	2.64%	1.40%
Dividend yield (1)	0%	0%
Pre-vest cancellation rate	3.94%	3.75%
Post-vest cancellation rate (1)	4.09%	1.31%
Suboptimal exercise factor (1)	1.61	1.75

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The expected life of employee stock options is impacted by all of the underlying assumptions used in the Company's model. The binomial model assumes that employees' exercise behavior is a function of the remaining contractual life of the stock option and the extent to which the stock option is in-the-money (*i.e.*, the average stock price during the period is above the exercise price of the stock option). The binomial model estimates the probability of exercise as a function of these two variables based on the history of exercises and cancellations of past option and SAR grants made by the Company. The expected life for options granted during the three months ended March 31, 2014 and 2013 derived from the binomial model was 3.27 and 4.53 years, respectively.

(1) The RSUs granted during the three months ended March 31, 2014 and 2013 were not included in the average calculated numbers in the table above since those assumptions were not used in the RSU calculation.

Employee Stock Benefit Plans

As of March 31, 2014, 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 March 31, 2014, approximately 529,000 shares of common stock remain available for grant under the Company's employee stock purchase plan and 565,000 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 January 1, 2014	6,537	$8.68		
Options granted	232	$9.15		
RSUs granted	332	-		
Options / SARs / RSUs cancelled/forfeited/expired	(608)	$21.38		
Options / SARs / RSUs exercised	(264)	$4.32		
Outstanding at March 31, 2014 (1)	6,229	$7.18	3.46	13,639

Exercisable at March 31, 2014 (2)	4,153	$8.57	2.63	4,716

(*) Calculation of aggregate intrinsic value is based on the share price of the Company's common stock on March 31, 2014 ($8.64 per share).

(1) Due to the ceiling imposed on the SAR grants, the outstanding amount above can be exercised for a maximum of 4,636 shares of the Company's common stock as of March 31, 2014. 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 2,837 shares of the Company's common stock as of March 31, 2014.

(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 March 31, 2014 with exercise prices above $8.64 per share (the closing price of the Company's common stock on March 31, 2014) 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 $8.64	1,471	$ 11.64	124	$ 9.71	1,595	$ 11.49
Less than $8.64	2,682	$ 6.88	1,952	$ 4.07	4,634	$ 5.70
Total	4,153	$ 8.57	2,076	$ 4.40	6,229	$ 7.18

The Company's aggregate equity-based compensation expense for the three months ended March 31, 2014 and 2013 totaled $1,443 and $1,043, respectively. The Company did not recognize any income tax benefit relating to the Company's equity-based compensation expense for the three months ended March 31, 2014 and 2013.

As of March 31, 2014, there was $6,605 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 2014 through 2018.

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 quarter ended March 31, 2014 and 2013 are as follows:

	March 31, 2014	March 31, 2013
Components of net periodic benefit cost:		
Service cost and amortization of loss	$ 4	$ 4
Interest cost	7	9
Expected return on plan assets	(1)	(2)
Net periodic benefit cost	$ 10	$ 11

The net pension liability as of March 31, 2014 amounted to $988.

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 March 31, 2014:

	Balance as of March 31, 2014	**Fair Value Measurements**		
		Level 1	**Level 2**	**Level 3**
Description				
Assets:				
Cash equivalents:				
Time deposits	$702	-	$702	-
Money market mutual funds	$4,045	$4,045	-	-
Short-term marketable securities and cash deposits:				
Time deposits	$2,905	-	$2,905	-
U.S. GSE securities	$251	-	$251	-
Corporate debt securities	$10,302	-	$10,302	-
Long-term marketable securities:				
U.S. GSE securities	$2,408	-	$2,408	-
Corporate debt securities	$86,812	-	$86,812	-
Derivative assets	$1	-	$1	-

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, 2013.

Description	Balance as of December 31, 2013	Fair Value Measurements Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Time deposits	$ 913	-	$913	-
Money market mutual funds	$ 3,762	$3,762	-	-
Short-term marketable securities and time deposits:				
U.S. GSE securities	$ 251	-	$251	-
Corporate debt securities	$ 10,733	-	$10,733	-
Time deposits	$ 2,911	-	$2,911	-
Long-term marketable securities:				
U.S. GSE securities	$ 2,831	-	$2,831	-
Corporate debt securities	$ 87,331	-	$87,331	-

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 March 31, 2014 due to the short-term maturity of these instruments.

NOTE l—STOCKHOLDERS’ EQUITY

During the first quarter of 2014, the Company repurchased 596,098 shares of common stock at an average purchase price of $8.83 per share for approximately $5,263,000. As of March 31, 2014, 2,021,729 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 three months of 2014, the Company issued approximately 373,000 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, residential gateway devices supplied by telecommunication service providers which integrate the DECT/CAT-iq functionality and also address home automation applications, as well as fixed-mobile convergence solutions.

Office - Comprehensive solution for Voice-over-IP (VoIP) office products, including office solutions that offer businesses of all size low-cost VoIP terminals with converged voice and data applications.

Mobile - Products for the mobile market that provides voice enhancement and far-end noise elimination targeted for mobile phone and mobile headsets.

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 restructuring charges, amortization of purchased intangible assets, equity-based compensation expenses, proxy contest related expenses incurred during the second quarter of 2013 and certain corporate governance costs.

Selected operating results information for each business segment was as follows for the three months ended March 31, 2014 and 2013:

	Three months ended March 31,			
	Revenues		Income (loss) from operations	
	2014	2013	2014	2013
Home	$30,705	$37,240	$4,604	$6,601
Office	$2,181	$2,410	$(568)	$(1,645)
Mobile	$-	$-	$(3,016)	$(2,430)
Total	$32,886	$39,650	$1,020	$2,526

The reconciliation of segment operating results information to the Company's consolidated financial information was as follows:

	Three months ended March 31,	
	2014	2013
Income (loss) from operations	$1,020	$2,526
Unallocated corporate, general and administrative expenses	(570)	(601)
Equity-based compensation expenses	(1,443)	(1,043)
Intangible assets amortization expenses	(397)	(418)
Financial income, net	412	570
Total consolidated income (loss) before taxes	$(978)	$1,034

NOTE N —ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in accumulated balances of other comprehensive income for the three months ended March 31, 2014:

	Unrealized gains (losses) on available-for-sale marketable securities	Unrealized gains (losses) on Cash Flow Hedges	Unrealized gains (losses) on components of defined benefit plans	Unrealized gains (Losses) on foreign currency translation	Total
	$(391				

Beginning
balance