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DSP Group, Inc. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) Your first question comes from the line of Daniel Amir with Lazard. Please proceed.

Daniel Amir – Lazard Capital Markets

Good morning. A couple questions, here. First of all, on your revised guidance for the year, I mean, how much is that related to your customer going into bankruptcy, how much is that related more to issues of pricing in the DECT market, or to the Japanese sales that I guess are now expected to be lower as well?

Eli Ayalon

We assume, for the customer, that is now under the kind of Chapter 11 in Canada a reduction of \$17 million for the year, minus what we have shipped in Q1. And here, Boaz will help me – how much did we ship to that customer in Q1?

Boaz Edan

About \$1 million.

Eli Ayalon

About \$1 million. So, some \$16 million of the reduction was related to that customer. And the rest are the trends that we have described.

Daniel Amir – Lazard Capital Markets

Okay. Now with regards to the pricing environment, I guess this is not necessarily something new. I guess you have highlighted this in the past couple of quarters. I mean, is the issue that the transformation to DECT 6.0 is much faster than you expected, or is it that ASPs are coming down faster than you had expected on the DECT 6.0?

Eli Ayalon

No. As a matter of fact, if we look at the performance of Q1 in terms of ASPs – so, ASPs basically did not change in Q1, compared to the previous – excuse me, in our projection for Q2, compared to the projection we have given in January. What we see here is that DECT 6.0 – these are the products of

DECT that are sold in the U.S. – more than doubled in that period of time, between Q4 and Q1. DECT 6.0 accounted, in Q1, for some 20% of the total sales, and in Q4, they were only 7% of the total sales. On the other hand, 5.8 products were reduced by almost half, something less than half. Now, taking into account, as I explained, the differences in ASPs, this shows an accelerated reduction in the U.S. in the prices. Now, something else, if we analyze the sales of all products, including DECT 6.0, sold to the U.S. market, we see a deviation between the two projections, the one that we had in January, and the one that we have now, of something like \$3 million, \$3.5 million. This means that the other products sold in the U.S. are expected to grow faster now. Now, these are the trends that we can see, and we have quantified them, comparing the quarters. For that reason, and taking into account the customer that is under the CCAA protection, we decided to update these figures.

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