DSP GROUP INC /DE/
Form 10-Q
November 10, 2008
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2008

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 0-23006

DSP GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**94-2683643** **(I.R.S. employer identification number)**
2580 North First Street, Suite 460, San Jose ,California **(Address of Principal Executive Offices)**	**95131** **(Zip Code)**

Registrant s telephone number, including area code: (408) 986-4300

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x 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 x 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 x

As of November 3, 2008, there were 26,850,831 shares of Common Stock ($.001 par value per share) outstanding.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DSP GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(US dollars in thousands, except share and per share data)

	September 30, 2008 Unaudited	December 31, 2007 Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 64,089	$ 69,586
Restricted deposit	115	
Marketable securities	9,700	63,682
Trade receivables, net	44,233	51,636
Deferred income taxes	547	4,011
Other accounts receivable and prepaid expenses	12,921	7,705
Inventories	21,847	16,361
Related party receivable	2,761	468
TOTAL CURRENT ASSETS	156,213	213,449
PROPERTY AND EQUIPMENT, NET	16,451	14,270
LONG-TERM ASSETS:		
Long-term marketable securities	46,647	34,469
Long-term prepaid expenses and lease deposits	1,704	694
Deferred income taxes	8,842	5,109
Severance pay fund	8,123	6,883
Intangible assets, net	77,672	95,234
Goodwill	142,614	142,735
	285,602	285,124
TOTAL ASSETS	$ 458,266	$ 512,843

Note: The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date.

See notes to condensed consolidated financial statements.

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DSP GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(US dollars in thousands, except share and per share data)

	September 30, 2008 Unaudited	December 31, 2007 Audited
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 20,736	$ 18,817
Accrued compensation and benefits	12,734	19,130
Income tax accruals and payables	15,105	14,136
Accrued expenses and other accounts payable	11,824	13,292
Related party payable	11,714	11,814
TOTAL CURRENT LIABILITIES	72,113	77,189
LONG-TERM LIABILITIES:		
Accrued severance pay	8,491	7,303
Other long-term liability	455	1,364
Accrued pensions	1,091	1,758
Deferred tax liabilities	1,613	372
TOTAL LONG-TERM LIABILITIES	11,650	10,797
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Preferred stock, $ 0.001 par value -		
Authorized shares: 5,000,000 at September 30, 2008 and December 31, 2007; Issued and outstanding shares: none at September 30, 2008 and December 31, 2007		
Common stock, $ 0.001 par value -		
Authorized shares: 50,000,000 at September 30, 2008 and December 31, 2007; Issued and outstanding: 27,550,760 and 31,229,810 shares at September 30, 2008 and December 31, 2007, respectively	28	31
Additional paid-in capital	311,296	300,542
Treasury stock	(102,662)	(63,804)
Accumulated other comprehensive income (loss)	(378)	1,025
Retained earnings	166,219	187,063
TOTAL STOCKHOLDERS EQUITY	374,503	424,857
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 458,266	$ 512,843

Note: The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date.

See notes to condensed consolidated financial statements.

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DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(US dollars in thousands, except per share amounts)

	Three months ended September 30,		Nine Months Ended September 30,	
	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)
Revenues	$ 87,368	$ 61,866	$ 234,250	$ 163,590
Cost of revenues (1) (2)	54,503	37,201	148,462	98,434
Gross profit	32,865	24,665	85,788	65,156
Operating expenses:				
Research and development (3)	17,908	13,874	56,825	39,095
Sales and marketing (4)	5,483	4,680	17,124	12,987
General and administrative (5)	4,539	3,271	13,336	10,196
In process R&D write-off		10,120		10,120
Intangible assets amortization	5,702	3,057	17,200	3,057
Restructuring costs and other	1,870		1,870	
Total operating expenses	35,502	35,002	106,355	75,455
Operating loss	(2,637)	(10,337)	(20,567)	(10,299)
Interest and other income (loss), net	(185)	2,569	1,948	9,148
Loss before taxes on income	(2,822)	(7,768)	(18,619)	(1,151)
Taxes on income (tax benefit) (6)	208	(272)	(630)	2,016
Net loss	$ (3,030)	$ (7,496)	$ (17,989)	$ (3,167)
Net loss per share:				
Basic	$ (0.11)	$ (0.25)	$ (0.62)	$ (0.11)
Diluted	$ (0.11)	$ (0.25)	$ (0.62)	$ (0.11)

(1) Includes $59,726 and $7,711 with a related party for the nine months ended September 30, 2008 and 2007, respectively. The three months ended September 30, 2008 and 2007 includes $19,981 and $7,711, respectively, with a related party.

(2) Includes equity-based compensation expense in the amount of $208 and $143 for the three months ended September 30, 2008 and 2007, respectively, and equity-based compensation expense in the amount of $712 and $475 for the nine months ended September 30, 2008 and 2007, respectively.

(3) Includes equity-based compensation expense in the amount of $1,641 and $1,450 for the three months ended September 30, 2008 and 2007, respectively, and equity-based compensation expense in the amount of $5,624 and $5,467 for the nine months ended September 30, 2008 and 2007, respectively.

(4) Includes equity-based compensation expense in the amount of $356 and $329 for the three months ended September 30, 2008 and 2007, respectively, and equity-based compensation expense in the amount of $1,292 and $1,216 for the nine months ended September 30, 2008 and 2007, respectively.

(5) Includes equity-based compensation expense in the amount of $1,000 and $958 for the three months ended September 30, 2008 and 2007, respectively, and equity-based compensation expense in the amount of $3,122 and $3,583 for the nine months ended September 30, 2008 and 2007, respectively.

(6) Includes tax benefit resulting from equity-based compensation expense in the amount of $111 and $113 for the three months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008 and 2007, the figures include tax benefit resulting from equity-based compensation expense in the amount of $360 and $456, respectively.

See notes to condensed consolidated financial statements.

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DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(US dollars in thousands)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net cash provided by operating activities	$ 8,214	$ 23,159
Investing activities		
Purchase of marketable securities and short-term investments	(44,430)	(56,675)
Proceeds from maturity and sale of marketable securities and short-term investments	83,338	242,681
Proceeds from sale of property and equipment		46
Purchases of property and equipment	(7,955)	(2,613)
Payment of transaction costs related to the acquisition of the cordless and VoIP terminals business of NXP B.V. (1)	(843)	(201,081)
Net cash provided by investing activities	30,110	(17,642)
Financial activities		
Purchase of treasury stock	(43,710)	(7,730)
Issuance of common stock and treasury stock for cash upon exercise of options	101	3,055
Net cash used in financing activities	(43,609)	(4,675)
Increase (decrease) in cash and cash equivalents	$ (5,285)	$ 842
Cash erosion due to exchange rate differences	(212)	6
Cash and cash equivalents at the beginning of the period	$ 69,586	$ 37,344
Cash and cash equivalents at the end of the period	$ 64,089	$ 38,192

(1) On September 4, 2007, the Company acquired certain assets and assumed certain liabilities of the cordless and VoIP terminals business of NXP B.V.

See notes to condensed consolidated financial statements.

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DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(UNAUDITED)

(US dollars in thousands)

Three Months Ended September 30, 2007	Number of Common Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Other Comprehensive Income (Loss)	Total Comprehensive Income (Loss)	Total Stockholders Equity
Balance at June 30, 2007	28,163	$ 28	$ 223,902	$ (47,544)	$ 196,637	$ (1,533)		$ 371,490
Net loss					(7,496)		$ (7,496)	(7,496)
Unrealized gain from hedging activities, net						618	618	618
Unrealized gain from marketable securities						843	843	843
Unrealized gain from foreign currency translation adjustments, net						641	641	641
Total comprehensive loss							$ (5,394)	
Equity-based compensation			2,880					2,880
Issuance of shares related to the acquisition of the cordless and VoIP terminals business of NXP B.V.	4,187	4	71,391					71,395
Issuance of treasury stock upon purchase of ESPP shares	49	(*		1,095	(242)			853
Issuance of treasury stock upon exercise of stock options by employees	22	(*		495	(192)			303
Balance at September 30, 2007	**32,421**	**$ 32**	**$ 298,173**	**$ (45,954)**	**$ 188,707**	**$ 569**		**$ 441,527**
Three Months Ended September 30, 2008								
Balance at June 30, 2008	28,091	$ 28	$ 308,090	$ (100,747)	$ 171,298	$ 1,327		$ 379,996
Net loss					(3,030)		$ (3,030)	(3,030)
Realized gain from hedging activities, net						67	67	67
Realized gain from decrease in pension liability, net						301	301	301
Unrealized loss from marketable securities						(497)	(497)	(497)
Unrealized loss from foreign currency transaction adjustments, net						(1,576)	(1,576)	(1,576)
Total comprehensive loss							$ (4,735)	
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	209	(*		3,295	(2,049)			1,246
Issuance of treasury stock upon exercise of stock options by employees								
Purchase of treasury stock	(750)			(5,210)				(5,210)
Equity-based compensation			3,206					3,206
Balance at September 30, 2008	**27,551**	**$ 28**	**$ 311,296**	**$ (102,662)**	**$ 166,219**	**$ (378)**		**$ 374,503**

(* Represents an amount lower than $1.

See notes to condensed consolidated financial statements.

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DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(UNAUDITED)

(US dollars in thousands)

Nine Months Ended September 30, 2007	Number of Common Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Other Comprehensive Income (Loss)	Total Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2006	28,378	$ 28	$ 216,041	$ (44,546)	$ 195,198	$ 28		$ 366,749
Net loss					(3,167)		$ (3,167)	(3,167)
Unrealized gain from hedging activities, net						457	457	457
Unrealized loss from marketable securities						(557)	(557)	(557)
Unrealized gain from foreign currency translation adjustments, net						641	641	641
Total comprehensive loss							$ (2,625)	
Purchase of treasury stock	(421)	(*		(7,730)				(7,730)
Equity-based compensation			10,741					10,741
Issuance of shares related to the acquisition of the cordless and VoIP terminals business from NXP B.V.	4,187	4	71,391					71,395
Issuance of treasury stock upon purchase of ESPP shares	93	(*		2,125	(457)			1,668
Issuance of treasury stock upon exercise of stock options by employees	184	(*		4,197	(1,382)			2,815
Cumulative impact of change in accounting for uncertainties in income taxes (FIN-48)					(1,485)			(1,485)
Balance at September 30, 2007	**32,421**	**$ 32**	**$ 298,173**	**$ (45,954)**	**$ 188,707**	**$ 569**		**$ 441,527**
Balance at December 31, 2007	31,230	$ 31	300,542	$ (63,804)	$ 187,063	$ 1,025		$ 424,857
Net loss					(17,989)		$ (17,989)	(17,989)
Realized gain from hedging activities, net						(168)	(168)	(168)
Realized gain from decrease in pension liability, net						301	301	301
Unrealized loss from marketable securities, net						(1,288)	(1,288)	(1,288)
Unrealized loss from foreign currency translation adjustments, net						(248)	(248)	(248)
Total comprehensive loss							$ (19,393)	
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	291	(*		4,900	(2,810)			2,090
Issuance of treasury stock upon exercise of stock options by employees	8	(*		146	(45)			101
Purchase of treasury stock	(3,978)	(3)	3	(43,904)				(43,904)
Equity-based compensation			10,751					10,751

Balance at September 30, 2008	**27,551**	**$ 28**	**$ 311,296**	**$ (102,662)**	**$ 166,219**	**$ (378)**	**$ 374,503**

(* 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

September 30, 2008

(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 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 and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. 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, 2007.

NOTE B RESTRUCTURING COSTS AND OTHER

Following the acquisition (the Acquisition) of the cordless and VoIP terminals business (the CIPT Business) of NXP B.V. (NXP), the Company approved a plan to restructure certain operations of the CIPT Business to eliminate redundant costs resulting from the Acquisition and improve operational efficiencies.

The restructuring costs associated with exiting activities of the CIPT Business totaled $6,000, consisting primarily of employee severance costs. These costs were recognized as a liability assumed in the Acquisition and included in the allocation of the cost to acquire the CIPT Business and, accordingly, have resulted in an increase in goodwill. The Company finalized the initial restructuring plan as of June 30, 2008. All restructuring costs relating to the initial restructuring plan were paid in cash.

During the third quarter of 2008, the Company initiated an additional restructuring plan to improve operating efficiency at its various operating sites and to reduce its operating expenses for 2009. The restructuring plan is expected to be completed by September 30, 2009. As a significant majority of the restructuring associated with the additional restructuring plan occurred during the third quarter of 2008, the Company recognized an expense of $1,870 mainly for employee contract termination costs on its statement of operations. This expense amount is net of $540 of gain resulting from adjustments made to the Company s employee pension liabilities associated with employees whose employment was terminated in connection with the restructuring plan (See Note K).

As of September 30, 2008, payments aggregating $170 were made in connection with the additional restructuring plan. The total liability balance for the additional restructuring plan is $2,240.

NOTE C INVENTORIES

Inventories are stated at the lower of cost or market value. Cost is determined using the average cost method. 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:

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Work-in-process	$ 4,818	$ 4,437
Finished goods (*)	17,029	11,924

	$	21,847	$	16,361

(*) The finished products inventory includes $567 and $585 of inventory held in consignment by other parties as of September 30, 2008 and December 31, 2007, respectively. Write-off of inventory amounted to $1,344 and $803 for the nine months ended September 30, 2008 and 2007, respectively.

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NOTE D NET EARNINGS PER SHARE

Basic net earnings per share are computed based on the weighted average number of shares of common stock outstanding during the period. For the same periods, diluted net earnings per share further include the effect of dilutive stock options and stock appreciation rights outstanding during the period, all in accordance with Statement of Financial Accounting Standard (SFAS) No. 128 Earnings per Share. The following table sets forth the computation of basic and diluted net earnings per share:

	Three months ended September 30,		Nine month ended September 30,	
	2008	2007	2008	2007
	Unaudited			
Net loss	$ (3,030)	$ (7,496)	$ (17,989)	$ (3,167)
Loss per share:				
Basic	$ (0.11)	$ (0.25)	$ (0.62)	$ (0.11)
Diluted	$ (0.11)	$ (0.25)	$ (0.62)	$ (0.11)
Weighted average number of shares of common stock outstanding during the period used to compute basic net earnings per share	27,728	29,436	28,885	28,716
Incremental shares attributable to exercise of outstanding options (assuming proceeds would be used to purchase treasury stock)		113		187
Weighted average number of shares of common stock used to compute diluted net earnings per share	27,728	29,549	28,885	28,903

NOTE E INVESTMENTS IN MARKETABLE SECURITIES

The Company accounts for investments in marketable securities in accordance with SFAS No. 115 Accounting for Certain 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 marketable securities at September 30, 2008 and December 31, 2007:

	Amortized cost		Unrealized gains (losses), net		Estimated fair value	
	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
U.S. government obligations and political subdivisions	$ 22,006	$ 58,249	$ (78)	$ (117)	$ 21,928	$ 58,132
Corporate obligations	35,852	40,125	(1,433)	(106)	34,419	40,019
	$ 57,858	$ 98,374	$ (1,511)	$ (223)	$ 56,347	$ 98,151

The amortized cost of available-for-sale debt securities at September 30, 2008, by contractual maturities, is shown below:

	Amortized cost	Unrealized gains (losses) Gains	(Losses)	Estimated fair value
Due in one year or less	$ 9,867	$ 10	$ (177)	$ 9,700
Due after one year to five years	47,991	56	(1,400)	46,647
	$ 57,858	$ 66	$ (1,577)	$ 56,347

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

The unrealized losses in the Company s investments in all types of marketable securities were caused mainly by overall market conditions. Since the Company has the ability and intent to hold these investments until a recovery of fair value, the investments were not considered to be other than temporarily impaired at September 30, 2008, except with respect to one of the Company s securities as further explained below.

The Company determined that the decline in the fair value of one of its securities was other than temporary, notwithstanding its intent to hold such investment until maturity. The amortized cost of available-for-sale debt securities at September 30, 2008 set forth in the table above includes write down of $671 associated with the referenced security. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in cost.

NOTE F 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. The difference between the effective tax rate and the statutory rate primarily is due to foreign tax holiday and tax-exempt income in Israel and Switzerland as further described below. Tax provision for the three and nine months ended September 30, 2008 included a tax benefit associated with equity-based compensation expenses in the amount of $111 and $360, respectively. Tax provision for the three and nine months ended September 30, 2007 included a tax benefit associated with equity-based compensation expenses in the amount of $113 and $456, respectively.

In connection with the Acquisition, the Company applied for a tax ruling with the Swiss tax authorities to determine the tax rate applicable to the taxable income generated by the Company s Swiss subsidiary, including the amortization period for tax purposes of goodwill and all other intangible assets acquired in the Acquisition. The Swiss tax ruling process was finalized during the second quarter of 2008. Pursuant to the tax ruling, the Company s Swiss subsidiary will be entitled to reduced tax rates of approximately 10% to 15% depending on the source of income and a tax amortization period of 5 to 10 years for the goodwill and other intangible assets acquired in the Acquisition.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48), which establishes a single model to address accounting for uncertain tax positions. FIN 48 clarified the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was $ 13,673 and $13,244 at September 30, 2008 and December 31, 2007, respectively. The Company accrues interest and penalties, related to unrecognized tax benefits, in its provision for income taxes. At September 30, 2008 and December 31, 2007, the Company had accrued interest and penalties related to unrecognized tax benefits of $3,400 and $2,700, respectively. A change in the amount of unrecognized tax benefit is reasonably possible within the next 12 months due to the examination by the U.S. Internal Revenue Service of the Company s U.S. federal income tax returns for 2003 and 2004 and the Company s appeal of the Internal Revenue Service s initial determination. The Company currently cannot make an estimate of the range of change in the amount of the unrecognized tax benefits due to the ongoing status of the examination.

With respect to DSP Group Ltd., the Company s Israeli subsidiary, the Company is no longer subject to income tax audits for years before 2004.

NOTE G SIGNIFICANT CUSTOMERS

The Company sells its products to customers primarily through a network of distributors and original equipment manufacturer (OEM) representatives. The Company s future performance will depend, in part, on the continued success of its distributors and representatives in marketing and selling its products. The loss of the Company s distributors and representatives 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. A significant amount of its revenues will continue to be derived from a limited number of large customers. 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.

Revenues derived from sales through one distributor, Tomen Electronics Corporation (Tomen Electronics), accounted for 22% and 40% of the Company s total revenues for the three months ended September 30, 2008 and 2007, respectively. Additionally, Tomen Electronics accounted for 23% and 46% of the Company s total revenues for the nine months ended September 30, 2008 and 2007, respectively. The Japanese market and the original equipment manufacturers (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 14% of the Company s revenues for the three and nine months ended September 30, 2008, respectively. Sales to Panasonic through Tomen Electronics generated approximately 24% and 29% of our revenues for the three and nine months ended September 30, 2007, respectively. Additionally, sales to Uniden through Tomen Electronics or directly to Uniden represented 15% and 9% of our total revenues for the three months ended September 30, 2008 and 2007, respectively. Sales to Uniden represented 13% and 16% of our total revenues for the nine months ended September 30, 2008 and 2007 respectively.

Sales to Hong Kong-based VTech represented 20% and 13% of the Company s total revenues for the three months ended September 30, 2008 and 2007, respectively. Sales to VTech represented 21% and 5% of the Company s total revenues for the nine months ended September 30, 2008 and 2007, respectively. Sales to Hong Kong-based CCT Telecom represented 9% and 14% of our total revenues for both the three and nine months ended September 30, 2008 and 2007, respectively. Sales to Hong Kong-based SunCorp represented 6% and 7% of our total revenues for the three months ended September 30, 2008 and 2007, respectively. Sales to SunCorp represented 4% and 10% of our total revenues for the nine months ended September 30, 2008 and 2007, respectively.

NOTE H DERIVATIVE INSTRUMENTS

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133) requires companies to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value.

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 during 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.

To protect against the increase in value of forecasted foreign currency cash flow resulting from salary and rent payments in New Israeli Shekels (NIS) during the year, the Company has instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll and lease payments of its Israeli facilities denominated in NIS for a period of one to twelve months with put options and forward contracts.

These forward contracts and put options are designated as cash flow hedges, as defined by SFAS No. 133, and are all effective as hedges of these expenses.

As of September 30, 2008 and December 31, 2007, the Company recorded comprehensive income of $313 and $481, respectively, from its put options and forward contracts in respect to anticipated payroll and rent payments expected in 2008. Such amounts will be recorded into earnings during the remainder of 2008 and 2009.

NOTE I 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. For example, in a lawsuit against Microsoft Corporation, AT&T asserted that the Company s TrueSpeech 8.5 algorithm includes certain elements covered by a patent held by AT&T. AT&T sued Microsoft, one of the Company s TrueSpeech 8.5 licensees, for infringement. The Company was not named in AT&T s suit against Microsoft. During 2002, the Company created a provision, which was included in the cost of product revenues, in respect of this legal exposure. 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 Company.

NOTE J ACCOUNTING FOR EQUITY-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R), Share-Based Payment (SFAS 123(R)). SFAS 123(R) establishes accounting for equity-based awards exchanged for employee services. Accordingly, equity-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee s requisite service period. The Company previously applied APB 25, Accounting for Stock Issued to Employees and related interpretations and provided the required pro forma disclosures required under SFAS 123, Accounting for Stock-Based Compensation (SFAS 123). The Company elected to adopt the modified prospective application method as provided by SFAS 123(R), and, accordingly, the Company recorded compensation costs as the requisite service rendered for the unvested portion of previously issued awards that remain outstanding at the initial date of adoption and any awards issued, modified, repurchased or cancelled after the effective date of SFAS 123(R). Upon adoption of SFAS 123(R), the Company also changed its method of valuation for equity-based awards granted beginning in fiscal year 2006 to an exercise multiple-based lattice option-pricing model (EMLM /binomial model) from the Black-Scholes option-pricing model (Black-Scholes model), which was previously used to present the Company s pro forma information required under SFAS 123. For options granted prior to 2006, the Company did not change its valuation method. Binomial models have evolved such that the currently available models are more capable of incorporating the features of the Company s employee stock options than closed-form models such as the Black-Scholes model.

Grants for three months ended September 30, 2008 and September 30, 2007:

The weighted average estimated fair value of employee stock options and share appreciation rights (SAR) granted during the three months ended September 30, 2008 and 2007 was $2.80 and $5.49 per share, respectively, using the binomial model with the following weighted average assumptions (annualized percentages):

	Three months ended September 30, 2008	Three months ended September 30, 2007
Volatility	52.05%	33.83%
Risk-free interest rate	3.14%	4.61%
Dividend yield	0%	0%
Pre-vest cancellation rate	3.57%	5.05%
Post-vest cancellation rate	1.85%	1.50%

Suboptimal exercise factor	1.83	1.66

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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 option s remaining contractual life and the extent to which the option is in-the-money (*i.e.*, the average stock price during the period is above the strike 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 grants made by the Company. The expected life for options granted during the three months ended September 30, 2008 and 2007 derived from the binomial model was 4.91 and 4.45 years, respectively.

Employee Stock Benefit Plans

As of September 30, 2008, the Company had five stock option plans and one employee stock purchase plan. Pursuant to the 2008 Annual Meeting of Stockholders held on May 19, 2008, the Company s stockholders approved an increase of 300,000 shares authorized for issuance under the Company s 1993 Director Stock Option Plan and an increase of 500,000 shares authorized for issuance under the Company s 1993 Employee Stock Purchase Plan.

As of September 30, 2008, after giving effect to the above increases in the stock option plans, approximately 402,000 shares of common stock remain available for grant under the Company s employees stock purchase plan and approximately 2,627,000 shares of common stock remain available for grant under the Company s stock option plans.

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

	Number of Options/ SAR Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (*) (in thousands)
Outstanding at July 1, 2008	8,883,391	$ 18.53		
Options granted	30,000	$ 7.12		
SAR units granted (**)	80,500	$ 7.22		
Options / SAR units cancelled/forfeited/expired	(408,678)	$ 15.15		
Options exercised				
Outstanding at September 30, 2008 (***)	8,585,213	$ 18.54	4.91	50,550
Exercisable at September 30, 2008 (****)	3,905,831	$ 22.98	3.52	

(*) Calculation of aggregate intrinsic value is based on the share price of the Company s common stock as of September 30, 2008 ($7.65 per share).

(**) Each SAR grant is convertible for a maximum number of shares of the Company s common stock equal to 50% of the SAR units subject to the grant.

(***) Due to the ceiling imposed on the SAR grants, the outstanding amount can be exercised for a maximum of 6,168,729 shares of the Company s common stock.

(****) Due to the ceiling imposed on the SAR grants, the currently exercisable amount can be exercised for a maximum of 3,370,039 shares of the Company s common stock.

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Additional information about stock options and SAR units outstanding and exercisable at September 30, 2008 with exercise prices above $7.65 per share (the closing price of the Company s Common Stock at September 30, 2008) is as follows:

	Exercisable		Unexercisable		Total	
Exercise Prices	**Number of Options/ SAR Units**	**Weighted Average Exercise Price**	**Number of Options/ SAR Units**	**Weighted Average Exercise Price**	**Number of Options/ SAR Units**	**Weighted Average Exercise Price**
Less than $7.65			110,500	$ 7.19	110,500	$ 7.19
Above $7.65	3,905,831	$ 22.98	4,568,882	$ 15.02	8,474,713	$ 18.69
Total	3,905,831	$ 22.98	4,679,382	$ 14.84	8,585,213	$ 18.54

The Company s aggregate compensation expense for the three months ended September 30, 2008 and 2007 totaled $3,205 and $2,880, respectively. The total income tax benefit recognized in the income statement related to the Company s equity-based compensation expense for the three months ended September 30, 2008 and 2007 was $111 and $113, respectively.

The Company s aggregate compensation expense for the nine months ended September 30, 2008 and 2007 totaled $10,750 and $10,742, respectively. The total income tax benefit recognized in the income statement related to the Company s equity-based compensation expense for the nine months ended September 30, 2008 and 2007 was $360 and $456, respectively.

As of September 30, 2008, there was $12,522 of total unrecognized compensation expense related to unvested equity-based compensation awards granted under the Company s stock option plans. This amount is expected to be recognized during the periods from 2008 through 2012.

NOTE K PENSION LIABILITY

The Company acquired the CIPT Business on September 4, 2007. This business sponsored various defined benefits schemes for their employees, including pension funds, early retirement benefits, lump sum retirement indemnities and jubilee awards in several countries.

The largest of these plans that the Company assumed in connection with the Acquisition is the Swiss pension fund that insures the retirement, disability and death benefits of the employees who were formerly covered by the NXP Semiconductors Switzerland AG scheme. The Swiss pension plan is currently the only pension plan externally funded through a foundation. The difference between the liability (the Projected Benefit Obligation or PBO as defined in SFAS No. 87 Employers Accounting for Pensions (SFAS No. 87)) and the market value of the plan assets is accounted for in the financial statements of the Company. The other defined benefits plans that the Company assumed in connection with the Acquisition that are accounted for in the Company s financial statements are the pension plans in Germany, Hong Kong and India. Consistent with the requirements of local law, the Company deposits funds for certain plans with insurance companies, third-party trustees, or into government-managed accounts, and/or accrue for the unfunded portion of the obligation.

The liabilities for these plans have been calculated in accordance with SFAS No. 87. The net pension liability as of September 30, 2008 amounted to $1,091.

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The following table provides the components of net periodic benefits cost for the nine months ended September 30, 2008:

	September 30, 2008
Components of net periodic benefits	
Service cost	$ 225
Interest expenses	397
Expected return on plan assets	(473)
Amortization of net gain	
Curtailment gain (1)	(537)
Exchange rate expenses	22
Net periodic benefit income	$ (366)

(1) The gain above is a result of the implementation of the additional restructuring plan in the third quarter of 2008 and adjustments made to certain employee pension liabilities associated with employees whose employment was terminated in connection with the restructuring plan (See Note B).

NOTE L FAIR VALUE MEASUREMENTS

As discussed in Note N, the Company adopted SFAS No. 157 Fair Value Measurements (as impacted by FSP Nos. 157-1 and 157-2) (SFAS No. 157) effective January 1, 2008, with respect to fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company s financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities.

SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1- observable inputs such as quoted prices in active markets;

Level 2- inputs, other than the quoted market prices in active markets, which are observable, either directly or indirectly; and

Level 3- unobservable inputs in which there are little or no market data, which requires the reporting entity to develop its own assumptions.

Assets and liabilities are to be measured at fair value using one or more of the three valuations techniques noted in SFAS No. 157. The valuation techniques are as follows:

(a) Market approach prices and other relevant information generated by market transactions involving identical or comparable assets;

(b) Cost approach amount that would be required to replace the service capacity of an asset (replacement cost); and

(c) Income approach techniques to convert future amounts to a single present amount based on expectations (including present value techniques, option pricing and excess earnings models).

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The following table provides information by level for assets and liabilities that are measured at fair value, as defined by SFAS No. 157, on a recurring basis as of September 30, 2008:

Description	Fair Value	Fair Value Measurements Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 64,089	$ 64,089		
Short-term marketable securities	$ 9,700	$ 9,700		
Long-term marketable securities	$ 46,647	$ 46,647		
Derivative assets	$ 313		$ 313	

NOTE M STOCKHOLDERS EQUITY

On January 30, 2008, the Company s board of directors approved an increase of additional 2.9 million shares available for repurchase under the Company s share repurchase program. Also on January 30, 2008, the Company s board of directors approved the Company s entry into a share repurchase plan, in accordance with Rule 10b(5)-1 of the Securities Exchange Act of 1934, as amended, for up to 5,000,000 shares of the Company s common stock, which plan became effective on February 7, 2008.

During the first nine months of 2008, the Company repurchased 3,978,378 shares of its common stock at an average purchase price of $11.04 per share for an aggregate amount of approximately $43,900 (approximately $43,700 was paid in cash as of September 30, 2008). During the third quarter of 2008, the Company repurchased 749,567 shares of its common stock at an average purchase price of $6.951 per share for an aggregate amount of approximately $5,200 (approximately $5,000 was paid in cash as of September 30, 2008). Pursuant to the share repurchase program, 1,075,334 shares of the Company s common stock remain authorized for repurchase as of September 30, 2008.

NOTE N NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements (SFAS No. 157), which establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This statement applies to other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued Staff Positions (FSPs) No. 157-1 and No. 157-2, which, respectively, removed leasing transactions from the scope of SFAS No. 157 and deferred SFAS No. 157 s effective date for one year relative to certain nonfinancial assets and liabilities. As a result, the application of the definition of fair value and related disclosures of SFAS No. 157 (as impacted by these two FSPs) was effective for the Company beginning on January 1, 2008 on a prospective basis with respect to fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company s financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. This adoption did not have a material impact on the Company s consolidated results of operations or financial condition. The remaining aspects of SFAS No. 157 for which the effective date was deferred under FSP No. 157-2 are currently being evaluated by the Company. Areas impacted by the deferral relate to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment. The effects of these remaining aspects of SFAS No. 157 are to be applied by the Company to fair value measurements prospectively beginning on January 1, 2009. The Company does not expect them to have a material impact on the Company s consolidated results of operations or financial condition. Refer to Note L for disclosures required by SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits an entity to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. An entity reports unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected are recognized in earnings as incurred and not deferred. SFAS No. 159 also established presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 was effective for financial statements issued for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company). On the effective date, an entity could elect the fair value option for eligible

items that existed on that date. The entity was required to report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. The Company did not elect the fair value option for eligible items that existed as of January 1, 2008.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) Business Combinations (SFAS No. 141(R)). Under SFAS No. 141(R), an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period that impact income tax expenses. In addition, acquired in-process research and development (IPR&D) is capitalized as an intangible asset and amortized over its estimated useful life. The adoption of SFAS No. 141(R) will change the Company s accounting treatment for business combinations on a prospective basis beginning in the first quarter of fiscal year 2009.

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161), which will require increased disclosures about an entity s strategies and objectives for using derivative instruments; the location and amounts of derivative instruments in an entity s financial statements; how derivative instruments and related hedged items are accounted for under SFAS No. 133, and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. Certain disclosures will also be required with respect to derivative features that are credit risk-related. SFAS No. 161 is effective for the Company beginning on January 1, 2009 on a prospective basis. The Company does not expect this standard to have a material impact on the Company s consolidated results of operations or financial condition.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(r) and other GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FSP 142-3 is effective for the Company beginning in the first quarter of fiscal year 2009. The Company is currently evaluating the impact of FSP 142-3 on its consolidated financial statements.

In February 2008, the FASB issued FSP No. FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (FSP 140-3). FSP 140-3 provides guidance for evaluating whether to account for a transfer of a financial asset and repurchase financing as a single transaction or as two separate transactions. FSP 140-3 is effective prospectively for financial statements issued for fiscal years beginning after November 15, 2008. FSP 140-3 is effective for the Company beginning in the first quarter of fiscal year 2009. The Company is currently evaluating the impact of FSP 140-3 on its consolidated financial statements.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussions in this Quarterly Report on Form 10-Q should be read in conjunction with our accompanying financial statements and the related notes thereto. This Quarterly Report on Form 10-Q contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended. All statements included or incorporated by reference in this Quarterly Report, other than statements that are purely historical, are forward-looking statements. Words such as anticipates, expects, intends, plans, believes, seeks, estimates and similar expressions also identify forward looking statements. The forward looking statements in this Quarterly Report on Form 10-Q are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward looking statements and include, without limitation, statements regarding:

Our expectation that sales from DECT and 2.4GHz products and, to a lesser extent, 5.8GHz products, will continue to represent a significant percentage of our revenue for the remainder of 2008 and in future periods;

Our belief that U.S. sales of our 2.4GHz and 5.8GHz products will continue to decrease during the fourth quarter of 2008 with a sharper decrease in sales of our 5.8GHz products;

Our belief that for the long term, the rapid deployment of new communication access methods, as well as the projected lack of growth in fixed-line telephony, will reduce our total revenues derived from, and unit sales of, cordless telephony products;

Our expectation that the shift from 2.4GHz and 5.8GHz products to DECT 6.0 products in the U.S. market will continue at a fast pace during the fourth quarter of 2008;

Our belief that revenues from our DECT products will continue to increase in absolute number and as a percentage of total revenues in 2008 as compared to 2007;

Our belief that price sensitivity in the market will continue for the remainder of 2008 and in 2009;

Our expectation that the cost-cutting measures implemented during the third quarter of 2008 will reduce our operating expenses in 2009;

Our belief that our future growth will depend on our success in maintaining our presence in the European DECT market, expanding our market share in other developing markets, maintaining our market share during the shift from the traditional 2.4GHz and 5.8 GHz products to DECT 6.0 products in the U.S. market and the general market deployment and acceptance of our DECT and CoIP products;

Our belief that our Hong Kong-based customers will continue to increase in future periods in absolute dollars and as a percentage of total revenues; and

Our belief that our available cash and cash equivalents at September 30 2008 should be sufficient to finance our operations for both the short and long term.

All forward-looking statements included in this Quarterly Report on Form 10-Q are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement. Many factors may cause actual results to differ materially from those expressed or implied by the forward-looking statements contained in this report. These factors include, but are not

limited to, fluctuations in sales of our 5.8GHz and DECT 6.0 products; successful implementation of the restructuring plan to reduce 2009 operating expenses; slower than expected change in the nature of residential communications domain; unexpected delays in the introduction of new products or failure of such products to achieve broad market acceptance; our ability to develop and produce new products at competitive costs; decline or fluctuations in gross margins and the effect on revenues and profitability; and general market demand for products that incorporate our technology in the market, as well as those risks described in Part II Item 1A Risk Factors of this Form 10-Q.

Overview

The following discussion and analysis is intended to provide an investor with a narrative of our financial results and an evaluation of our financial condition and results of operations. The discussion should be read in conjunction with our consolidated financial statements and notes thereto.

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Acquisition of the Cordless and VoIP Terminals Business of NXP B.V.

On September 4, 2007, we acquired the cordless and VoIP terminals business (the CIPT Business) of NXP B.V. (NXP) (the Acquisition). In connection with the Acquisition, we paid NXP approximately $200 million in cash and issued 4,186,603 shares of our common stock to NXP. We also agreed to a contingent cash payment of up to $75 million payable based on future revenue performance of the products of the CIPT Business for the first four financial quarters following the closing of the Acquisition. Such revenue milestones were not achieved and no cash payments were made to NXP.

Information contained in this Quarterly Report, including forward looking information and discussions about our business and market trends, should be read in light of the Acquisition.

Business

DSP Group is a fabless semiconductor company that is a leader in providing chipsets to telephone equipment and design manufacturers (OEMs and ODMs) for incorporation into consumer products for the short-range residential wireless communications market.

In recent years, we have become a worldwide leader in developing and marketing Total Telephony Solutions for the wireless residential market by taking advantage of the market transformation from analog-based technologies to digital-based technologies for telephony products and the shift from 900MHz to 2.4GHz to 5.8GHz technologies. One additional primary factor that contributed to our success in recent years is our penetration of the DECT market in Europe and our current presence in the U.S. DECT market (known as DECT 6.0).

Our current primary focus is digital cordless telephony with sales of our in-house developed Cordless over Internet Protocol (CoIP), 1.9GHz (Digital Enhanced Cordless Telephony (DECT)), 2.4GHz and 5.8GHz chipsets representing approximately 89% of our total revenues for the first nine months of 2008. Our revenues were $234.3 million for the first nine months of 2008, an increase of 43% in comparison to the same period during 2007. This increase was mainly the result of increased sales of our DECT products, mainly due to the Acquisition, which increase was partially offset by decreased sales of our 2.4GHz and 5.8GHz products. During the first nine months of 2008, we experienced a decrease in sales of 2.4 GHz and 5.8GHz products in the U.S. market, our primary market, where the shift to DECT 6.0 products is occurring faster than anticipated. We believe that U.S. sales of our 2.4GHz and 5.8GHz products will continue