DSP GROUP INC /DE/
Form 10-Q
November 12, 2013

United States
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2013

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)
2580 North First Street, Suite 460 **San Jose, California**	**95131**
(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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 5, 2013, there were 22,561,793 shares of Common Stock ($.001 par value per share) outstanding.

INDEX

DSP GROUP, INC.

		Page No.
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	
	Condensed consolidated balance sheets— September 30, 2013 and December 31, 2012	2
	Condensed consolidated statements of income— Three and nine months ended September 30, 2013 and 2012	4
	Condensed consolidated statements of cash flows— Nine months ended September 30, 2013 and 2012	5
	Condensed consolidated statements of stockholders' equity— Three and nine months ended September 30, 2013 and 2012	6
	Notes to condensed consolidated financial statements— September 30, 2013	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	35
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	35
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 3.	Defaults Upon Senior Securities	50
Item 4.	Mine Safety Disclosure	50
Item 5.	Other Information	50
Item 6.	Exhibits	51
SIGNATURES		52

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DSP GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2013 Unaudited	**December 31, 2012 Audited**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,271	$ 21,684
Restricted deposit	76	121
Marketable securities and short-term deposits	16,668	20,201
Trade receivables, net	22,658	20,403
Deferred income taxes	92	101
Other accounts receivable and prepaid expenses	3,932	3,656
Inventories	13,133	12,916
TOTAL CURRENT ASSETS	73,830	79,082
PROPERTY AND EQUIPMENT, NET	3,029	3,706
LONG-TERM ASSETS:		
Long-term marketable securities and deposits	91,131	78,333
Long-term prepaid expenses and lease deposits	152	208
Severance pay fund	10,802	10,197
Intangible assets, net	7,128	8,380
Goodwill	5,276	5,276
	114,489	102,394
TOTAL ASSETS	$ 191,348	$ 185,182

Note: The balance sheet at December 31, 2012 has been derived from the audited financial statements on that date.

See notes to condensed consolidated financial statements.

DSP GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2013 Unaudited	**December 31, 2012 Audited**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 13,136	$ 14,027
Accrued compensation and benefits	7,798	7,545
Income tax accruals and payables	2,062	1,894
Accrued expenses and other accounts payable	5,371	6,514
Total current liabilities	28,367	29,980
LONG-TERM LIABILITIES:		
Deferred income taxes	1,280	1,569
Accrued severance pay	11,111	10,436
Accrued pensions	1,012	970
Total long-term liabilities	13,403	12,975
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Capital stock:		
Preferred stock, $ 0.001 par value - Authorized shares: 5,000,000 at September 30, 2013 and December 31, 2012; Issued and outstanding shares: none at September 30, 2013 and December 31, 2012	-	-
Common stock, $ 0.001 par value - Authorized shares: 50,000,000 shares at September 30, 2013 and December 31, 2012; Issued and outstanding shares: 22,557,716 and 21,673,779 shares at September 30, 2013 and December 31, 2012, respectively	23	22
Additional paid-in capital	349,468	346,335
Treasury stock	(117,042)	(125,724)
Accumulated other comprehensive income (loss)	(626)	988
Accumulated deficit	(82,245)	(79,394)
Total stockholders' equity	149,578	142,227

Total liabilities and stockholders' equity	$ 191,348	$ 185,182

Note: The balance sheet at December 31, 2012 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 COMPREHENSIVE INCOME (UNAUDITED)

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

	Three Months Ended		**Nine Months Ended**	
	September 30,		September 30,	
	2013	**2012**	**2013**	**2012**
Revenues	$35,381	$36,666	$115,723	$124,361
Cost of revenues (1)	21,576	22,764	70,050	77,970
Gross profit	13,805	13,902	45,673	46,391
Operating expenses:				
Research and development, net (2)	8,147	9,632	26,481	33,029
Sales and marketing (3)	2,767	3,502	8,492	11,297
General and administrative (4)	2,576	2,329	9,046	8,160
Intangible assets amortization	418	592	1,254	1,778
Restructuring expenses	-	1,315	-	2,008
Total operating expenses	13,908	17,370	45,273	56,272
Operating income (loss)	(103)	(3,468)	400	(9,881)
Financial income, net	512	666	1,837	1,732
Income (loss) before taxes on income	409	(2,802)	2,237	(8,149)
Taxes on income (income tax benefit)	11	(387)	(83)	(247)
Net income (loss)	$398	$(2,415)	$2,320	$(7,902)
Net income (loss) per share:				
Basic	$0.02	$(0.11)	$0.10	$(0.36)
Diluted	$0.02	$(0.11)	$0.10	$(0.36)
Weighted average number of shares used in per share computations of net income (loss):				
Basic	22,522	21,775	22,159	22,025
Diluted	23,048	21,775	22,723	22,025

(1) Includes equity-based compensation expense in the amount of $65 and $72 for the three months ended September 30, 2013 and 2012, respectively, and equity-based compensation expense in the amount of $191 and $277 for the nine months ended September 30, 2013 and 2012, respectively.

(2) Includes equity-based compensation expense in the amount of $474 and $538 for the three months ended September 30, 2013 and 2012, respectively, and equity-based compensation expense in the amount of $1,412 and $1,995 for the nine months ended September 30, 2013 and 2012, respectively.

(3) Includes equity-based compensation expense in the amount of $115 and $173 for the three months ended September 30, 2013 and 2012, respectively, and equity-based compensation expense in the amount of $383 and $641 for the nine months ended September 30, 2013 and 2012, respectively.

(4) Includes equity-based compensation expense in the amount of $391 and $324 for the three months ended September 30, 2013 and 2012, respectively, and equity-based compensation expense in the amount of $1,147 and $1,138 for the nine months ended September 30, 2013 and 2012, respectively.

See notes to condensed consolidated financial statements.

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

	Three months Ended September 30,	
	2013	**2012**
Net income (loss):	$398	$(2,415)
Other comprehensive loss:		
Available-for-sale securities:		
Changes in unrealized gain/loss	459	1,523
Reclassification adjustments for gains included in net income (loss)	(183)	(218)
Net change	276	1,305
Cash flow hedges:		
Changes in unrealized gains	93	66
Reclassification adjustments for (gains) losses included in net income (loss)	(292)	194
Net change	(199)	260
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	7	-
Other comprehensive income	87	1,568
Comprehensive income (loss)	$485	$(847)

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

	Nine months Ended September 30, 2013	2012
Net income (loss):	$2,320	$(7,902)
Other comprehensive income (loss):		
Available-for-sale securities:		
Changes in unrealized gains/loss	(537)	2,683
Reclassification adjustments for gains included in net income (loss)	(726)	(459)
Net change	(1,263)	2,224
Cash flow hedges:		
Changes in unrealized gains	355	112
Reclassification adjustments for (gains) losses included in net income (loss)	(695)	359
Net change	(340)	471
Change in unrealized components of defined benefit plans:		
Amortization of actuarial loss and prior service benefit	8	1
Net change	8	1
Foreign currency translation adjustments, net	(19)	(18)
Other comprehensive income (loss)	(1,614)	2,678
Comprehensive income (loss)	$706	$(5,224)

DSP GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(U.S. dollars in thousands)

	Nine Months Ended September 30, 2013	**2012**
Net cash provided by operating activities	$4,973	$880
Investing activities		
Purchase of marketable securities	(53,331)	(52,023)
Purchase of deposits	-	(27)
Proceeds from maturity of marketable securities	15,180	19,860
Proceeds from sales of marketable securities	27,814	27,658
Proceeds from maturity of deposits	-	13,000
Proceeds from sales of property and equipment	-	81
Purchases of property and equipment	(925)	(830)
Net cash provided by (used in) investing activities	(11,262)	7,719
Financial activities		
Purchase of treasury stock	-	(7,513)
Issuance of treasury stock for cash upon exercise of options	1,848	-
Net cash provided by (used in) financing activities	1,848	(7,513)
Increase (decrease) in cash and cash equivalents	$(4,441)	$1,086
Cash (erosion) due to exchange rate differences	28	(26)
Cash and cash equivalents at the beginning of the period	$21,684	$18,109
Cash and cash equivalents at the end of the period	$17,271	$19,169

See notes to condensed consolidated financial statements.

DSP GROUP, INC.

CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(U.S. dollars and shares in thousands)

Three Months Ended September 30, 2012	**Number of Common Stock**	**Common Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated deficit**	**Other Comprehensive Income (Loss)**	**Total Stockholders' Equity**
Balance at June 30, 2012	21,555	$ 22	$ 344,296	$ (127,337)	$ (75,644)	$ (646)	$ 140,691
Net loss	-	-	-	-	(2,415)	-	(2,415)
Change in unrealized gain from hedging activities, net	-	-	-	-	-	260	260
Change in unrealized gain from marketable securities, net	-	-	-	-	-	1,305	1,305
Change in foreign currency translation adjustments, net	-	-	-	-	-	3	3
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	219	*)	-	2,155	(1,189)	-	966
Issuance of treasury stock upon exercise of stock options and stock appreciation rights by employees	1	*)	-	7	(7)	-	-
Equity-based compensation	-	-	1,107	-	-	-	1,107
Balance at September 30, 2012	**21,775**	**$ 22**	**$ 345,403**	**$ (125,175)**	**$ (79,255)**	**$ 922**	**$ 141,917**
Three Months Ended September 30, 2013							
Balance at June 30, 2013	22,172	$ 22	$ 348,423	$ (120,829)	$ (80,297)	$ (713)	$ 146,606
Net income	-	-	-	-	398	-	398
	-	-	-	-	-	(199)	(199)

Change in unrealized gain from hedging activities, net							
Change in unrealized loss from marketable securities, net	-	-	-	-	-	276	276
Change in unrealized gain from pensions, net	-	-	-	-	-	3	3
Change in foreign currency translation adjustments, net	-	-	-	-	-	7	7
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	184	*)	-	1,802	(984)	-	818
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted share units by employees	202	1	-	1,985	(1,362)	-	624
Equity-based compensation	-	-	1,045	-	-	-	1,045
Balance at September 30, 2013	**22,558**	**$ 23**	**$ 349,468**	**$ (117,042)**	**$ (82,245)**	**$ (626)**	**$ 149,578**

(*) Represents an amount lower than $1.

See notes to condensed consolidated financial statements.

DSP GROUP, INC.

CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(U.S. dollars and shares in thousands)

	Number of Common Stock	**Common Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated deficit**	**Other Comprehensive Income (Loss)**	**Total Stockholders' Equity**
Nine Months Ended September 30, 2012							
Balance at December 31, 2011	22,502	$ 23	$ 341,352	$ (122,236)	$ (68,759)	$ (1,756)	$ 148,624
Net income (loss)		-	-	-	(7,902)		(7,902)
Change in unrealized gain from hedging activities, net		-	-	-	-	471	471
Change in unrealized loss from marketable securities, net		-	-	-	-	2,224	2,224
Change in unrealized gain from pensions, net		-	-	-	-	1	1
Change in foreign currency translation adjustments, net		-	-	-	-	(18)	(18)
Purchase of treasury stock	(1,183)	(1)	-	(7,512)	-	-	(7,513)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	447	*)	-	4,486	(2,507)	-	1,979
Issuance of treasury stock upon exercise of stock options and stock appreciation rights by employees	9	*)	-	87	(87)	-	-
Equity-based compensation	-	-	4,051	-	-	-	4,051
Balance at September 30, 2012	**21,775**	**$ 22**	**$ 345,403**	**$ (125,175)**	**$ (79,255)**	**$ 922**	**$ 141,917**
Nine Months Ended September 30, 2013							
	21,674	$ 22	$ 346,335	$ (125,724)	$ (79,394)	$ 988	$ 142,227

Balance at December 31, 2012							
Net income		-	-	-	2,320		2,320
Change in unrealized gain from hedging activities, net		-	-	-	-	(340)	(340)
Change in unrealized loss from marketable securities, net		-	-	-	-	(1,263)	(1,263)
Change in unrealized gain from pensions, net		-	-	-	-	8	8
Change in foreign currency translation adjustments, net		-	-	-	-	(19)	(19)
Issuance of treasury stock upon purchase of common stock under employee stock purchase plan	374	*)	-	3,669	(2,005)	-	1,664
Issuance of treasury stock upon exercise of stock options, stock appreciation rights and restricted share units by employees	510	1	-	5,013	(3,166)	-	1,848
Equity-based compensation	-	-	3,133	-	-	-	3,133
Balance at September 30, 2013	**22,558**	**$ 23**	**$ 349,468**	**$ (117,042)**	**$ (82,245)**	**$ (626)**	**$ 149,578**

(*) Represents an amount lower than $1.

See notes to condensed consolidated financial statements.

9

DSP GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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 and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012.

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:

	September 30, 2013 (Unaudited)	**December 31, 2012** (Audited)
Work-in-process	$ 6,345	$ 6,821
Finished goods	6,788	6,095
	$ 13,133	$ 12,916

Inventory write-off amounted to $38 for the nine months ended September 30, 2012. For the nine months ended September 30, 2013, the Company recorded $177 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 September 30,		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
	Unaudited			
Net income (loss)	$398	$(2,415)	$2,320	$(7,902)
Net income (loss) per share:				
Basic	$0.02	$(0.11)	$0.10	$(0.36)
Diluted	$0.02	$(0.11)	$0.10	$(0.36)
Weighted average number of shares of common stock outstanding during the period used to compute basic net income (loss) per share (in thousands)	22,522	21,775	22,159	22,025
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)	526	-	564	-
Weighted average number of shares of common stock used to compute diluted net income (loss) per share (in thousands)	23,048	21,775	22,723	22,025

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 on securities are included in financial income, net. The following is a summary of available-for-sale securities and short term deposits at September 30, 2013 and December 31, 2012:

	Amortized cost		**Unrealized gains (losses), net**		**Estimated fair value**	
	September 30, 2013	**December 31, 2012**	**September 30, 2013**	**December 31, 2012**	**September 30, 2013**	**December 31, 2012**
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Short -term deposits	$2,902	$ 2,708	$-	$ -	$2,902	$ 2,708
U.S. GSE securities	3,600	1,506	(13)	4	3,587	1,510
Corporate obligations	101,639	93,398	(329)	918	101,310	94,316
	$108,141	$ 97,612	$(342)	$ 922	$107,799	$ 98,534

The amortized cost of short and long-term deposits and available-for-sale debt securities at September 30, 2013, by contractual maturities, is shown below:

	Amortized cost	**Unrealized gains (losses)**		**Estimated fair value**
		Gains	**Losses**	
Due in one year or less	$ 16,627	$43	$ (2)	$ 16,668

Due after one year to six years	91,514	412	(795)	91,131
	$ 108,141	$455	$ (797)	$ 107,799

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 September 30, 2013, 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.

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.

The total fair value of marketable securities with outstanding unrealized losses as of September 30, 2013 amounted to $63,864. Of the $797 unrealized losses outstanding as of September 30, 2013 and presented in the table above, a portion in the amount of $71, was outstanding for more than 12 months and the remaining portion in the amount of $726 was outstanding for less than 12 months.

Proceeds from maturity of available-for-sale marketable securities during the nine months ended September 30, 2013 and 2012 were $15,180 and $19,860, respectively. Proceeds from sales of available-for-sale marketable securities during the nine months ended September 30, 2013 and 2012 were $27,814 and $27,658, respectively. Net realized gains from the sale of available-for sale marketable securities for the nine months ended September 30, 2013 and 2012 were $726 and $459, respectively. The Company determines realized gains or losses on the sale of available-for-sale marketable securities based on a specific identification method.

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 and nine months ended September 30, 2013 and September 30, 2012 does not include tax benefits associated with equity-based compensation expenses. During the three and nine months ended September 30, 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 $1,858 and $1,815 at September 30, 2013 and December 31, 2012, respectively. The Company accrues interest and penalties, relating to unrecognized tax benefits, in its provision for income taxes. At September 30, 2013 and December 31, 2012, the Company had accrued interest and penalties relating to unrecognized tax benefits of $478 and $435, respectively.

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 Hong Kong-based VTech Holdings Ltd. ("VTech") represented 35% and 33% of the Company's total revenues for the three months ended September 30, 2013 and 2012, respectively. Sales to VTech represented 36% and 35% of the Company's total revenues for the nine months ended September 30, 2013 and 2012, respectively.

Revenues derived from sales through one distributor, Tomen Electronics Corporation ("Tomen Electronics"), accounted for 24% and 21% of the Company's total revenues for the three months ended September 30, 2013 and 2012, respectively. Tomen Electronics accounted for 18% and 22% of the Company's total revenues for the nine months ended September 30, 2013 and 2012, 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 18% and 15% of the Company's total revenues for the three months ended September 30, 2013 and 2012, respectively. Sales to Panasonic through Tomen Electronics generated 13% and 16% of the Company's total revenues for the nine months ended September 30, 2013 and 2012, respectively.

Additionally, sales to Uniden America Corp. (“Uniden”) represented 2% and 7% of the Company’s total revenues for the three months ended September 30, 2013 and 2012, respectively. Sales to Uniden represented 4% and 11% of the Company’s total revenues for the nine months ended September 30, 2013 and 2012, respectively.

Sales to CCT Telecom Holdings Ltd. (“CCT”) represented 8% and 12% of the Company’s total revenues for the three months ended September 30, 2013 and 2012, respectively. Sales to CCT represented 9% and 8% of the Company’s total revenues for the nine months ended September 30, 2013 and 2012, 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 September 30, 2013, the Company had outstanding option contracts in the amount of $2,150. 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 $144 and $1, respectively, at September 30, 2013. The Company recorded a net amount of $143 in other accounts receivable and prepaid expenses in the condensed consolidated balance sheets at September 30, 2013.

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 nine months ended September 30, 2013 that resulted from the above referenced hedging transactions was $545, $54 and $96, respectively. 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 three months ended September 30, 2013 that resulted from the above referenced hedging transactions was $229, $23 and $40, respectively.

The fair value of the outstanding derivative instruments at September 30, 2013 and December 31, 2012 is summarized below:

	Balance Sheet Location	Fair Value of Derivative Instruments	
		As of September 30, 2013	As of December 31, 2012
Derivative Assets			
Foreign exchange forward contracts and put options	Other accounts receivable and prepaid expenses (*)	$143	$ 484
Total		$143	$ 484

*) Estimated to be reclassified into earnings for the remainder of 2013.

The effect of derivative instruments in cash flow hedging transactions on income and other comprehensive income ("OCI") for the three and nine months ended September 30, 2013 and 2012 is summarized below:

	Gains on Derivatives Recognized in OCI			
	for the three months ended		for the nine months ended	
	September 30,		September 30,	
	2013	**2012**	**2013**	**2012**
Foreign exchange forward contracts	$93	$ 66	$355	$112

Gains (Losses) Reclassified from OCI into Income

for the three months | for the nine months

		ended		ended	
		September 30,		September 30,	
	Location	**2013**	**2012**	**2013**	**2012**
Foreign exchange forward contracts	Operating expenses	$292	$(194)	$695	$(359)

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—ACCOUNTING FOR EQUITY-BASED COMPENSATION

Grants for Three Months ended September 30, 2013:

The weighted-average estimated fair value of restricted stock units ("RSUs") granted during the three months ended September 30, 2013 was $7.58 per share with the following weighted-average assumptions (annualized percentages):

	Three months ended September 30, 2013	
Pre-vest cancellation rate	3.66	%

Employee Stock Benefit Plans

As of September 30, 2013, the Company had three equity incentive plans from which the Company may grant future equity awards and two 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 September 30, 2013, approximately 714,000 shares of common stock remain available for grant under the

Company’s employee stock purchase plan and 1,833,852 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, SAR and restricted stock unit ("RSU") 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 June 30, 2013	8,269	$ 9.19		
Options granted	-	-		
SARs granted	-	-		
RSUs granted	192	-		
Options / SARs/RSUs cancelled/forfeited/expired	(509)	$ 17.84		
Options / SARs / RSUs exercised	(659)	$ 6.80		
Outstanding at September 30, 2013 (1)	7,293	$ 8.56	3.24	$ 6,064
Exercisable at September 30, 2013 (2)	5,178	$ 10.03	2.47	$ 1,367

(*) Calculation of aggregate intrinsic value is based on the share price of the Company's common stock on September 30, 2013 ($7.05 per share).

(1) Due to the ceiling imposed on the SAR grants, the outstanding amount equals to a maximum of 5,154 shares of the Company's common stock issuable upon exercise. 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 SAR units 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 SAR units 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 SAR units 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 SAR units subject to the grant.

(2) Due to the ceiling imposed on the SAR grants, the currently exercisable amount equals to a maximum of 3,445 shares of the Company's common stock exercisable.

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

Additional information about stock options, SARs and RSUs outstanding and exercisable at September 30, 2013 with exercise prices above $7.05 per share (the closing price of the Company's common stock on September 30, 2013) is as follows (in thousands, except per share amounts):

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 $7.05	3,851	$ 11.41	533	$ 7.56	4,384	$ 10.94
Less than $7.05	1,327	$ 6.02	1,582	$ 4.08	2,909	$ 4.96
Total	5,178	$ 10.03	2,115	$ 4.96	7,293	$ 8.56

The Company's aggregate equity-based compensation expense for the three months ended September 30, 2013 and 2012 totaled $1,045 and $1,107, respectively. The Company did not recognize any income tax benefits relating to its equity-based compensation expense for the three months ended September 30, 2013 and 2012.

The Company's aggregate equity-based compensation expenses for the nine months ended September 30, 2013 and 2012 totaled $3,133 and $4,051, respectively. The Company did not recognize any income tax benefits relating to its equity-based compensation expense for the nine months ended September 30, 2013 and 2012.

As of September 30, 2013, there was $4,312 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 2013 through 2017.

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 nine months ended September 30, 2013 and 2012 are as follows (in thousands):

	September 30, 2013	September 30, 2012
Components of net periodic benefit cost		
Service cost	$ 13	$ 57
Interest cost	27	35
Expected return on plan assets	(7)	(4)
Net periodic benefit cost	**$ 33**	**$ 88**

The net pension liability as of September 30, 2013 amounted to $1,012.

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 September 30, 2013.

Description	Balance as of September 30, 2013	Fair Value Measurements Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Time deposits	$ 272	-	$272	-
Money market mutual funds	$ 3,063	$3,063	-	-
Short-term marketable securities and cash deposits:				
U.S. GSE securities	$ 252	-	$252	-
Corporate debt securities	$ 13,514	-	$13,514	-
Time deposits	$ 2,902	-	$2,902	-
Long-term marketable securities:				
U.S. GSE securities	$ 3,335	-	$3,335	-
Corporate debt securities	$ 87,796	-	$87,796	-
Derivative assets	$ 143	-	$143	-

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, 2012.

Description	Balance as of December 31, 2012	Level 1	Fair Value Measurements Level 2	Level 3
Assets:				
Cash equivalents:				
Time deposits	$ 1,668	-	$ 1,668	-
Money market mutual funds	$ 3,548	$3,548	-	-

Short-term marketable securities and time deposits:				
U.S. GSE securities	$ -	-	$ -	-
Corporate debt securities	$ 17,493	-	$ 17,493	-
Time deposits	$ 2,708	-	$ 2,708	-
Long-term marketable securities:				
U.S. GSE securities	$ 1,510	-	$ 1,510	-
Corporate debt securities	$ 76,823	-	$ 76,823	-
Derivative assets	$ 484	-	$ 484	-

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 September 30, 2013 due to the short-term maturity of these instruments.

NOTE l—STOCKHOLDERS' EQUITY

No shares were repurchased under the Company's board authorized share repurchase program during the first nine months of 2013. As of September 30, 2013, 307,749 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 nine months of 2013, the Company issued approximately 884,000 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—Restructuring Costs and Other

a. During the third quarter of 2012, the Company initiated a restructuring plan in order to improve operating efficiencies and reduce its operating expenses for fiscal year 2012 and subsequent periods. As part of this restructuring plan, the Company executed termination agreements with certain of its employees. During the third quarter of 2012, the Company recorded an expense in the amount of $1,315, consisting mainly of employee severance costs and the future expected under-utilization of existing development tool agreements with expiry dates in 2013 and 2014. All restructuring payments related to this restructuring plan were paid as of September 30, 2013.

b. During the second quarter of 2012, as part of the Company's plan to improve operating efficiencies and reduce its operating expenses for fiscal year 2012, it restructured its operations. As part of this restructuring plan, the Company executed termination agreements with certain of its employees. During the second quarter of 2012, the Company recorded an expense in the amount of $693, consisting mainly of employee severance costs. The Company anticipates that the remaining accrued restructuring cost balance of $39 will be paid out in cash throughout the remainder of 2013.

18

note N—SEGMENT INFORMATION

Description of segments:

Up to the second quarter of 2012, the Company operated under one reporting segment. During the third quarter of 2012, following a change in the manner management evaluates financial information, the Company determined that it operates under three reportable segments in accordance with ASC 280 “Disclosure about Segments of an Enterprise and Related Information.”

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. Management measures the performance of each business segment based on several metrics, including earnings from operations. Management 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.

The Company does not allocate any assets to segments and, therefore, no amount of assets is reported to management and disclosed in the financial information for segments.

Selected operating results information for each business segment was as follows for the three months ended September 30, 2013 and 2012:

	Three months ended September 30			
	Revenues		**Income (loss) from operations**	
	2013	**2012**	**2013**	**2012**
Home	$33,492	$34,726	$5,381	$3,225
Office	$1,889	$1,940	$(731)	$(701)
Mobile	$-	$-	$(2,609)	$(2,542)
Total	$35,381	$36,666	$2,041	$(18)

Selected operating results information for each business segment was as follows for the nine months ended September 30, 2013 and 2012:

	Nine months ended September 30			
	Revenues		Income (loss) from operations	
	2013	**2012**	**2013**	**2012**
Home	$109,146	$119,269	$19,650	$10,138
Office	$6,577	$5,092	$(4,321)	$(4,099)
Mobile	$-	$-	$(7,369)	$(5,851)
Total	$115,723	$124,361	$7,960	$188

The reconciliation of segment operating results information to the Company's consolidated financial information was as follows for the three and nine months ended September 30, 2013:

	Three months	**Nine months**
Income from operations	$2,041	$7,960
Unallocated corporate, general and administrative expenses	(681)	(1,770)
Proxy contest related expenses included in general and administrative expenses	-	(1,403)
Equity-based compensation expenses	(1,045)	(3,133)
Intangible assets amortization expenses	(418)	(1,254)
Financial income, net	512	1,837
Total consolidated income before taxes	$409	$2,237

The reconciliation of segment operating results information to the Company's consolidated financial information was as follows for the three and nine months ended September 30, 2012:

	Three months	**Nine months**
Income (loss) from operations	$(18)	$188
Unallocated corporate, general and administrative expenses	(436)	(2,232)

Restructuring expenses	(1,315)	(2,008)
Equity-based compensation expenses	(1,107)	(4,051)
Intangible assets amortization expenses	(592)	(1,778)
Financial income, net	666	1,732
Total consolidated loss before taxes	$ (2,802)	$ (8,149)

20

NOTE O —ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the three months ended September 30, 2013:

	Unrealized gains (losses) on available-for-sale marketable securities	Unrealized gains (losses) on Cash Flow Hedges	Unrealized gains (losses) on components of definded benefit plans	Unrealized gains (losses) on foreign currency translation	Total
Beginning balance	$ (617)	$ 342	$ (232)	$ (206)	$ (713)
Other comprehensive income before reclassifications	459	93	-	7	559
Amounts reclassified from accumulated other comprehensive income (loss)	(183)	(292)	3	-	(472)
Net current period other comprehensive income (loss)	276	(199)	3	7	87
Ending balance	$ (341)	$ 143	$ (229)	(199)	$ (626)

The following table provides details about reclassifications out of accumulated other comprehensive income for the three months ended September 30, 2013:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive	Affected Line Item in the Statement of Income (Loss)

	Income (Loss) (In millions)		
Gains on available-for-sale marketable securities	$	(183	) Financial income, net
		-	Provision for income taxes
		(183	) Total, net of income taxes
Gains on cash flow hedges -			
		(229	) Research and development
		(23	) Sales and marketing
		(40	) General and administrative
		(292	) Total, before income taxes
		-	Provision for income taxes
		(292	) Total, net of income taxes
losses on components of defined benefit plans		2	Research and development
		1	Sales and marketing
		3	Total, before income taxes
		-	Provision for income taxes
		3	Total, net of income taxes
Total reclassifications for the period		(472	) Total, net of income taxes

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the nine months ended September 30, 2013:

	Unrealized gains (losses) on available-for-sale marketable securities	**Unrealized gains (losses) on Cash Flow Hedges**	**Unrealized gains (losses) on components of definded benefit plans**	**Unrealized gains (losses) on foreign currency translation**	**Total**
Beginning balance	$ 922	$ 483	$ (237)	$ (180)	$988
Other comprehensive income (loss) before reclassifications	(537)	355	-	(19)	(201)
Amounts reclassified from accumulated other comprehensive income (loss)	(726)	(695)	8	-	(1,413)
Net current period other comprehensive income (loss)	(1,263)	(340)	8	(19)	(1,614)
Ending balance	$ (341)	$ 143	$ (229)	(199)	$(626)

The following table provides details about reclassifications out of accumulated other comprehensive income (loss) for the nine months ended September 30, 2013:

Details about Accumulated Other Comprehensive Income (Loss) Components	**Amount Reclassified from Accumulated Other Comprehensive**	**Affected Line Item in the Statement of Income (Loss)**

	Income (Loss) (In millions)	
Gains on available-for-sale marketable securities	$ (726)	Financial income, net
	-	Provision for income taxes
	(726)	Total, net of income taxes
Gains on cash flow hedges		
	(545)	Research and development
	(54)	Sales and marketing
	(96)	General and administrative
	(695)	Total, before income taxes
	-	Provision for income taxes
	(695)	Total, net of income taxes
losses on components of defined benefit plans	5	Research and development
	3	Sales and marketing
	8	Total, before income taxes
	-	Provision for income taxes
	8	Total, net of income taxes
Total reclassifications for the period	(1,413)	Total, net of income taxes

22

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

This report and certain information incorporated herein by reference contain forward-looking statements, which are provided under the "safe harbor" protection of the Private Securities Litigation Reform Act of 1995. All statements included or incorporated by reference in this report, other than statements that are purely historical in nature, are forward-looking statements. Forward-looking statements are generally written in the future tense and/or are preceded by words such as "will," "may," "should," "could," "expect," "suggest," "believe," "anticipate," "intend," "plan," or other similar words. Forward-looking statements include statements regarding:

Our belief that sales of DECT products will continue to represent a substantial percentage of our revenues for the remainder of 2013;

Our belief that our past research and development investments in new technologies are materializing;

Our belief that the rapid deployment of new communication access methods, including mobile, wireless broadband, cable and other connectivity, the traditional cordless telephony market using fixed-line telephony is declining and will continue to decline, which will reduce our revenues derived from, and unit sales of, cordless telephony products;

Our belief that the market will remain price sensitive for the rest of 2013 for our traditional cordless telephony products and expect that price erosion and the decrease in the average selling prices of such products to continue;

Our anticipation that annualized revenues generated from our next generation products to increase in 2013 as compared to 2012;

Our believe that commercial shipments of products incorporating our next generation products will continue during the remainder of 2013;

Our expectation that our fourth quarter and annual 2013 revenues to be less than the revenues for the comparable periods in 2012;

Our anticipation that our operating expenses for 2013 will decrease as compared to 2012; and

Our belief that our available cash and cash equivalents at September 30, 2013 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, our dependence on one primary distributor, our OEM relationships and competition, 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 investors 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 condensed consolidated financial statements and notes thereto.

Business Overview

DSP Group is a leading global provider of wireless chipset solutions for converged communications, delivering system solutions that combine semiconductors and software with reference designs. We provide a broad portfolio of wireless chipsets integrating DECT, Wi-Fi, and VoIP technologies with state-of-the-art application processors. We also enable converged voice, audio, video and data connectivity for next-generation consumer products, including home gateways, IP phones, multimedia phones and home automation. Our current primary focus is digital cordless telephony with sales of our in-house developed DECT, 2.4GHz and 5.8GHz chipsets representing approximately 88% of our total revenues for the first nine months of 2013.

We believe that our operating results for the first nine months of 2013, highlighted by a return to GAAP profitability, demonstrate the success of the company's strategic plan and the value of our research and development investments in recent years. Despite continued weakness in the company's cordless products, which negatively impacted the top line on a year-over-year basis, changes to the company's cost structure, as implemented in 2012, continue to yield positive operational results.

Our revenues were $115.7 million for the first nine months of 2013, a decrease of 7.0% in comparison to the same period of 2012. The decrease in our revenues for the first nine months of 2013 in comparison to the same period of 2012 was mainly due to a decrease in sales of DECT 6.0 products for the U.S. market, offset to some extent by an increase in DECT product sales for the European and Japanese domestic markets. Revenues derived from the sale of DECT products represented 83% of our total revenues for the first nine months of 2013, as compared to 82% of our total revenues for the first nine months of 2012. Our gross margin increased to 39.5% of our total revenues for the first nine months of 2013 from 37.3% for the first nine months of 2012, primarily due to (i) a decrease in the provision for slow and obsolete inventories, (ii) an improvement in the production yield and direct contribution of certain of our products, (iii) a change in the mix of products sold and customers, and (iv) a decrease in other production expenses, such as engineering, shipping and payroll expenses. Our operating income was $0.4 million for the first nine months of 2013, as compared to an operating loss of $9.9 million for the first nine months of 2012. The change from operating loss to operating income was mainly as a result of a decrease in operating expenses in all expense categories (except for general and administrative expenses) during the first nine months of 2013, as well as due to the improvement in gross margin, as compared to the first nine months of 2012, offset to some extent by (i) a decrease in total revenues during the first nine months of 2013, as compared to the first nine months of 2012, and (ii) an increase in general and administrative expenses during the first nine months of 2013, as compared to the first nine months of 2012, mainly due to the proxy contest related expenses. Our operating expenses decreased by 20% to $45.3 million for the first nine months of 2013, as compared to $56.3 million for the first nine months of 2012. As a result of the two cost reduction programs that we implemented during 2012, we expect that our 2013 operating expenses will decrease as compared to 2012.

Notwithstanding our success in reducing our operating expenses, revenues derived from our cordless products are continuing to decline. This is primarily due to the lack of growth of the cordless telephony market, as well as continuing decline in the average selling prices of all of our cordless products. The cordless telephony market is undergoing a challenging period of transition. With the rapid deployment of new communication access methods, including mobile, wireless broadband, cable and other connectivity, the traditional cordless telephony market using fixed-line telephony will likely continue to decline, which will continue to reduce our revenues derived from, and unit sales of, cordless telephony products. Furthermore, our business also may be significantly affected by the outcome of the competition between cellular phone operators and fixed-line operators for the provision of residential communication. A significant majority of our revenues are currently generated from sales of chipsets used in cordless phones that are based on fixed-line telephony. If we are unable to develop new technologies to address alternative connectivity methods, our business could be materially adversely affected. As a result, we expect our fourth quarter and annual 2013 revenues to be less than the revenues for the comparable periods in 2012.

Therefore, in order to increase our revenues and offset the declining revenues generated from our cordless products, we need to introduce new products and penetrate new markets. We recently unveiled our revolutionary HDClear solution, a comprehensive voice enhancement product for mobile devices. Incorporating proprietary noise cancellation algorithms, HDClear improves user experience and delivers high voice quality and call intelligibility. This technology will enable people to use their cell phones for conversation in virtually any condition, whether in a car, on a train or in other noisy surroundings. HDClear will also facilitate the use of speech recognition and voice commands by eliminating background noise.

In addition, we are concentrating our development efforts on other next generation products. Our next generation products also include: (i) DECT/CAT-iq integrated circuits targeted for residential gateway devices supplied by telecommunication service providers; such products integrate the DECT/CAT-iq functionality, as well as address home automation applications and fixed-mobile convergence solutions, which products are included in our home segment; and (ii) VoIP products for enterprise, which products are included in our office segment. We hope to leverage our strong technology base and customer relationships to maximize growth and revenue opportunities.

We are seeing evidence that our past research and development investments in new technologies materialize. We have achieved a number of design wins for our next generation products. Commercial shipments for some products have begun with more shipments to occur during the remainder of 2013. Aggregate revenues derived from our next generate products were 14.7%, and 11.1% of our total revenues for the first nine months of 2013 and 2012, respectively. Based on a strong pipeline of design wins, our current mix of next generation products and anticipated commercialization schedules of customers incorporating our next generation products, we anticipate annualized revenues generated from our next generation products to increase in 2013 as compared to 2012.

However, we can provide no assurances about our success in introducing new products and penetrating new markets, as well as our predictions regarding market trends. For example, although a number of potential customers have expressed interest, we have not achieved a design win for our HDClear product for mobile devices. Furthermore, although next generation products targeted at the convergence of voice and data connectivity, enterprise VoIP solutions and mobile device market are gradually being introduced into the market, market adoption of such products is at early stages. Although we have achieved a number of design wins with top-tier OEMs for next-generation products, revenue generated from the commercialization of new products is a measured process as there is generally a long lead time from a design win to commercialization. From initial product design win to volume production, many factors could impact the timing and/or amount of sales actually realized from the design win. In addition to general price sensitive and price erosion in the markets we operate, the introduction of next-generation productions may accelerate price erosion of older products. As a result, we expect the market to remain price sensitive for our traditional cordless telephony products and expect that price erosion and the decrease in the average selling prices of such products to continue. Furthermore, various other factors, including increases in the cost of raw materials and commodities and our suppliers passing such increases onto us, increases in silicon wafer costs and increases in production, assembly and testing costs, and shortage of capacity to fulfill our fabrication, assembly and testing needs, all may decrease our gross profit and harm our ability to grow our revenues in future periods.

Nonetheless, we remain focused on generating non-GAAP operating income for 2013, and continue to closely monitor market trends. As a result of our cost cutting measures implemented during 2012, we anticipate a significant decrease in our operating expenses for 2013, as compared to 2012. As of September 30, 2013, our principal source of liquidity consisted of cash and cash equivalents of $17.3 million and marketable securities and short term deposits of $107.8 million, totaling $125.1 million.

RESULTS OF OPERATIONS

Total Revenues. Our total revenues were $35.4 million for the third quarter of 2013, as compared to $36.7 million for the same period in 2012. Our total revenues were $115.7 million for the first nine months of 2013, as compared to $124.4 million for the same period in 2012. The decrease for the third quarter and the first nine months of 2013 was primarily as a result of decreased sales of our DECT and 2.4GHz products. Sales of DECT products for the third quarter of 2013 and 2012 were $29.4 million and $30.4 million, respectively, representing 83% of our total revenues for both respective periods, representing a decrease of 3% in absolute dollars when comparing sales for the third quarter of 2013 to sales for the third quarter of 2012. Sales of DECT products for the first nine months of 2013 and 2012 were $96.5 million and $102.5 million, respectively, representing 83% and 82%, respectively, of our total revenues for the respective periods, representing a decrease of 6% in absolute dollars when comparing sales for the first nine months of 2013 to sales for the first nine months of 2012.

The above mentioned DECT decrease was mainly attributable to a decline in market demand. In addition, sales of DECT 6.0 products for the U.S end market were $12.3 million and $13.5 million for the third quarter of 2013 and

2012, respectively, representing 35% and 37% of our total revenues for the third quarter of 2013 and 2012, respectively. Sales of DECT 6.0 products for the U.S. market were $42.9 million and $53.9 million for the first nine months of 2013 and 2012, respectively, representing 37% and 43% of our total revenues for the first nine months of 2013 and 2012, respectively. Sales of DECT products for the European market decreased from $14.7 million for the third quarter of 2012 to $13.5 million for the third quarter of 2013, representing 38% and 40% of our total revenues for the third quarter of 2013 and 2012, respectively. Sales of DECT products for the European market increased from $42.5 million for the first nine months of 2012 to $44.2 million for the first nine months of 2013, representing 38% and 34% of our total revenues for the first nine months of 2013 and 2012, respectively.

The following table shows the breakdown of revenues for all product lines for the periods indicated by geographic location based on the geographic location of our customers (in thousands):

	Three months ended September 30,		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
United States	$805	$457	$3,586	$1,287
Japan	9,237	10,333	25,981	41,073
Europe	1,334	1,829	5,263	5,152
Hong-Kong	19,380	19,370	66,664	63,704
China	1,662	1,615	5,349	4,694
Taiwan	1,650	1,724	5,299	4,580
Other	1,313	1,338	3,581	3,871
Total revenues	$35,381	$36,666	$115,723	$124,361

Sales to our customers in Hong Kong increased for the first nine months of 2013, as compared to the same period of 2012, representing an increase of 5% in absolute dollars. The increase in our sales to Hong Kong for the first nine months of 2013 resulted from an increase in sales to CCT Telecom Holdings Ltd. (“CCT Telecom”), representing a 9% increase in absolute dollars and an increase in sales to Shenzhen Guo Wei Electronics Ltd. (“Guo Wei Electronics”), representing a 101% increase in absolute dollars. The above mentioned increases in our sales to Hong Kong for the comparable periods were offset to some extent by a decrease in sales to VTech Holdings Ltd. (“VTech”), representing a 4% decrease in absolute dollars. Sales to our customers in Japan decreased for the third quarter and the first nine months of 2013 as compared to the same periods of 2012, representing a decrease of 11% and 37%, respectively, in absolute dollars. The decrease in our sales to Japan for the comparable periods resulted mainly from a decrease in sales to Uniden America Corporation (“Uniden”), representing a 72% and 65% decrease, in absolute dollars for the third quarter and the first nine months of 2013, respectively, as compared to the same periods in 2012.

As our products are generally incorporated into consumer products sold by our OEM customers, our revenues are affected by seasonal buying patterns of consumer products sold by our OEM customers that incorporate our products.

Significant Customers. VTech is a significant OEM customer based in Hong Kong. Sales to VTech represented 35% and 33% of our total revenues for the three months ended September 30, 2013 and 2012, respectively. Sales to VTech represented 36% and 35% of our total revenues for the nine months ended September 30, 2013 and 2012, respectively.

Sales to CCT Telecom represented 8% and 12% of our total revenues for the three months ended September 30, 2013 and 2012, respectively. Sales to CCT Telecom represented 9% and 8% of our total revenues for the nine months ended June 30, 2013 and 2012, respectively.

Sales to Uniden represented 2% and 7% of our total revenues for the three months ended September 30, 2013 and 2012, respectively. Sales to Uniden represented 4% and 11% of our total revenues for the nine months ended September 30, 2013 and 2012, respectively.

The Japanese market and the OEMs that operate in that market are among the largest suppliers of residential wireless products with significant market share in the U.S. market. Revenues derived from sales through our largest distributor, Tomen Electronics Corporation ("Tomen Electronics") accounted for 24% and 21% of our total revenues for the three months ended September 30, 2013 and 2012, respectively. Revenues derived from sales through Tomen Electronics accounted for 18% and 22% of our total revenues for the nine months ended September 30, 2013 and 2012, respectively.

Tomen Electronics sells our products to a limited number of customers. One customer, Panasonic Communications Co., Ltd. ("Panasonic"), has continually accounted for a majority of sales through Tomen Electronics. Sales to Panasonic through Tomen Electronics generated 18% and 15% of our total revenues for the three months ended September 30, 2013 and 2012, respectively. Sales to Panasonic through Tomen Electronics generated 13% and 16% of our total revenues for the nine months ended September 30, 2013 and 2012, respectively.

Significant Products. Revenues from our DECT products represented 83% of our total revenues for both the three and nine months ended September 30, 2013. Revenues from our DECT products represented 83% and 82% of our total revenues for the three and nine months ended September 30, 2012, respectively. We believe that sales of DECT products will continue to represent a substantial percentage of our revenues for the remainder of 2013. We believe that the rapid deployment of new communication access methods, as well as the lack of growth in fixed-line telephony, will reduce our total revenues derived from, and unit sales of, cordless telephony products, including DECT products, for the long term.

Gross Profit. Gross profit as a percentage of revenues was 39.0% for the third quarter of 2013 and 37.0% for the third quarter of 2012. Gross profit as a percentage of revenues was 39.5% for the first nine months of 2013 and 37.3% for the first nine months of 2012. The increase in our gross profit for the third quarter of 2013 as compared to the third quarter of 2012, was mainly due to (i) an improvement in the production yield and direct contribution of certain of our products, (ii) a change in the mix of products sold and customers, and (iii) a decrease in other production expenses, such as engineering, shipping, and payroll expenses. The increase in our gross profit for the first nine months of 2013 as compared to the first nine months of 2012, was mainly due to (i) a decrease in the provision for slow and obsolete inventories, (ii) an improvement in the production yield and direct contribution of certain of our products, (iii) a change in the mix of products sold and customers, and (iv) a decrease in other production expenses, such as engineering, shipping and payroll expenses.

As gross profit reflects the sale of chips and chipsets that have different margins, changes in the mix of products sold have impacted and will continue to impact our gross profit in future periods. Our gross profit may decrease in the future due to a variety of factors, including the continued decline in the average selling prices of our products, changes in the mix of products sold, our failure to achieve cost reductions, roll-out of new products in any given period, our success in introducing new engineering processes to reduce manufacturing costs, increases in the cost of raw materials such as gold, oil and silicon wafers, and increases in production, assembly and testing costs. Moreover, our suppliers may pass the increase in the cost of raw materials and commodities onto us which would further reduce the gross margins of our products. We cannot guarantee that our ongoing efforts in cost reduction and yield improvements will be successful or that they will keep pace with the anticipated continuing decline in average selling prices of our products. Steps we are taking include the implementation of cost improvement plans to reduce testing costs and offering our customers more cost effective products by, for example, replacing gold wiring with copper wiring. However, we can provide no assurance that any alternative solutions we provide to our customers will be acceptable to them or that these steps will help us offset the continued decrease in gross margins of our products.

Cost of goods sold consists primarily of costs of wafer manufacturing and fabrication, assembly and testing of integrated circuit devices and related overhead costs, and compensation and associated expenses related to manufacturing and testing support and logistics personnel.

Research and Development Expenses, net. Our research and development expenses, net, decreased to $8.1 million for the third quarter of 2013 from $9.6 million for the third quarter of 2012. Research and development expenses, net decreased to $26.5 million for the first nine months of 2013 from $33.0 million for the first nine months of 2012. The decrease for the first nine months of 2013 in research and development expenses, net, as compared to the comparable period of 2012, was mainly due to (i) the execution of two restructuring plans during the second and third quarter of 2012, which reduced the number of our research and development employees, and labor contractors, which reduced the related payroll expenses for the first nine months of 2013 by $3.3 million (net after the effect of the devaluation of the U.S. dollar against the NIS for the nine months ended September 30, 2013, as compared to the same period of 2012, which increased our payroll expenses and offset to some extent the reductions mentioned above), (ii) a decrease in projects-related expenses (mainly IPs and CAD tools) in the amount of $1.4 million, (iii) a decrease in equity-based compensation expenses for the first nine months of 2013 in the amount of $0.6 million, (iv) a decrease in other expenses (mainly facilities and IT expenses allocated to our research and development expenses, net) in the amount of $1.0 million, and (v) funding from the Israeli Chief Scientist (“OCS”), that was recognized during the third quarter of 2013, following approval from the OCS during the third quarter of 2013 in the amount of $1.2 million, which funding covered the period for the first nine months ended at September 30, 2013. The above mentioned funding was recognized as a deduction of our research and development expenses, net. The decrease in research and development expenses, net for the nine months of 2013, as compared to the comparable period of 2012, was offset to some extent by an increase in tape-out expenses in the amount of $1.2 million.

The decrease for the third quarter of 2013 in research and development expenses, net as compared to the comparable period of 2012, was mainly due to (i) the execution of a restructuring plan during the third quarter of 2012, which reduced the number of our research and development employees and labor contractors, which reduced the related payroll expenses for the third quarter of 2013, by $0.1 million (net of the effect of the devaluation of the U.S. dollar against the NIS for the third quarter of 2013, as compared to the same period of 2012, which increased our payroll expenses and offset to some extent the reductions mentioned above), (ii) a decrease in projects-related expenses (mainly CAD tools) in the amount of $0.2 million, (iii) a decrease in other expenses (mainly facilities and IT expenses allocated to our research and development expenses, net) in the amount of $0.3 million, and (iv) funding from the OCS that was recognized in the third quarter of 2013 following approval from the OCS in the third quarter of 2013 in the amount of $1.2 million, which funding covered period for the first nine months ended at September 30, 2013. The above mentioned funding was recognized as a deduction of our research and development expenses, net.

Our research and development expenses, net as a percentage of our total revenues were 23% and 26% for the three months ended September 30, 2013 and 2012, respectively, and 23% and 27% for the nine months ended September 30, 2013 and 2012, respectively. This decrease in research and development expenses, net as a percentage of our total revenues was due to a decrease in absolute dollars of research and development expenses, net for the third quarter and the first nine months of 2013 as compared to 2012, offset to some extent by the decrease in total revenues.

Research and development expenses, net consist mainly of payroll expenses to employees involved in research and development activities, expenses related to tape-out and mask work, subcontracting, labor contractors and engineering expenses, depreciation and maintenance fees related to equipment and software tools used in research and development, and facilities expenses associated with and allocated to research and development activities.

Sales and Marketing Expenses. Our sales and marketing expenses decreased to $2.8 million for the third quarter of 2013 from $3.5 million for the third quarter of 2012. Sales and marketing expenses decreased to $8.5 million for the first nine months of 2013 from $11.3 million for the first nine months of 2012. The decrease in sales and marketing expenses for the third quarter and the first nine months of 2013, as compared to the comparable periods during 2012, was mainly attributed to (i) a decrease in the number of sales and marketing employees and labor expenses for the third quarter and the first nine months of 2013, by $0.4 million and $1.8 million, respectively, (ii) a decrease in commissions paid to distributers as a result of a decrease in revenues for both the third quarter and the first nine months of 2013, by $0.1 and $0.2, respectively, (iii) a decrease in overseas travel expenses and allocated facilities and IT expenses for the third quarter and the first nine months of 2013, by $0.2 million and $0.4 million, respectively, and (iv) a decrease in equity-based compensation expenses for the third quarter and the first nine months of 2013, by $0.1 million and $0.3 million, respectively.

Our sales and marketing expenses as a percentage of total revenues were 8% and 10% for the three months ended September 30, 2013 and 2012, respectively, and 7% and 9% for the nine months ended September 30, 2013 and 2012, respectively. This decrease in sales and marketing expenses as a percentage of our total revenues was due to a decrease in absolute dollars of sales and marketing expenses for the third quarter and the first nine months of 2013 as compared to 2012, offset to some extent by the decrease in total revenues for the third quarter and the first nine months of 2013 as compared to 2012.

Sales and marketing expenses consist mainly of sales commissions, payroll expenses to direct sales and marketing employees, travel, trade show expenses, and facilities expenses associated with and allocated to sales and marketing activities.

General and Administrative Expenses. Our general and administrative expenses increased to $2.6 million for the third quarter of 2013 from $2.3 million for the third quarter of 2012. General and administrative expenses increased to $9.0 million for the first nine months of 2013 from $8.2 million for the first nine months of 2012. The increase in general and administrative expenses for the first nine months of 2013, as compared to the comparable period of 2012, was mainly due to proxy contest related expenses (mainly legal and shareholder relations related expenses) we incurred during the second quarter of 2013, in the amount of $1.4 million compared to no such expenses in 2012. The increase in general and administrative expenses for the first nine months of 2013, as compared to the comparable periods of 2012, was offset to some extent by (i) a decrease in other expenses (mainly patents and accounting expenses) for the first nine months of 2013, by $0.3 million, and (ii) a decrease in consultant expenses related mainly to shareholder relations expenses for the first nine months of 2013, by $0.3 million. The increase in general and administrative expenses for the third quarter of 2013, as compared to the comparable period of 2012, was mainly due to (a) an increase in shareholder relations legal, accounting and board of directors related expenses for the third quarter of 2013, by $0.2 million, (ii) an increase in equity-based compensation expenses for the third quarter of 2013, by $0.1 million, and (iii) an increase in payroll and payroll related expenses for the third quarter of 2013, by $0.1 million. The increase in general and administrative expenses for the third quarter of 2013, as compared to the comparable period of 2012, was offset to some extent by a decrease in patent expenses for the third quarter of 2013 by $0.1 million.

General and administrative expenses as a percentage of our total revenues were 7% and 6% for the three months ended September 30, 2013 and 2012, respectively, and 8% and 7% for the nine months ended September 30, 2013 and 2012, respectively. This increase in general and administrative expenses as a percentage of our total revenues was due to (i) an increase in absolute dollars of general and administrative expenses for the third quarter and the first nine months of 2013 as compared to the same periods of 2012, and (ii) a decrease in total revenues for the third quarter and the first nine months of 2013 as compared to 2012.

Our general and administrative expenses consist mainly of payroll expenses for management and administrative employees, accounting and legal fees, expenses related to investor relations, as well as facilities expenses associated with general and administrative activities.

Segment data:

We derive the results of our business segments directly from our internal management reporting system and by using certain allocation methods. The accounting policies we use to derive business segment results are substantially the same as those we use for consolidation of our financial statements. Management measures the performance of each business segment based on several metrics, including earnings from operations. Management uses these results, in part, to evaluate the performance of, and to assign resources to, each of the business segments. We do not allocate to our business segments certain operating expenses, which are managed 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 first nine months of 2013 and certain corporate governance costs.

Selected operating results information for each business segment was as follows for the three months ended September 30, 2013 and 2012:

	Three months ended September 30			
	Revenues		**Income (loss) from operations**	
	2013	**2012**	**2013**	**2012**
Home	$33,492	$34,726	$5,381	$3,225
Office	$1,889	$1,940	$(731)	$(701)
Mobile	$-	$-	$(2,609)	$(2,542)
Total	$35,381	$36,666	$2,041	$(18)

Selected operating results information for each business segment was as follows for the nine months ended September 30, 2013 and 2012:

	Nine months ended September 30			
	Revenues		**Income (loss) from operations**	
	2013	**2012**	**2013**	**2012**
Home	$109,146	$119,269	$19,650	$10,138
Office	$6,577	$5,092	$(4,321)	$(4,099)
Mobile	$-	$-	$(7,369)	$(5,851)
Total	$115,723	$124,361	$7,960	$188

29

Sales to our customers in the home segment decreased for the third quarter and first nine months of 2013, as compared to the third quarter and first nine months of 2012, representing a decrease of 4% and 8% in absolute dollars, respectively. The decrease in our sales in the home segment for the comparable periods was mainly attributable to a decline in market demands and a decrease in the average selling prices of cordless phones over the comparative periods.

Sales to our customers in the office segment for the third quarter of 2013, as compared to the third quarter of 2012, decreased by 3% in absolute dollars mainly due to inventory accumulation of our customers . Sales to our customers in the office segment for the first nine months of 2013, as compared to the first nine months of 2012, increased by 29% in absolute dollars. The increase in our sales in the office segment for the comparable periods was mainly due to an increase in market shares in sales to the office segment and an increase in market demand for VoIP products.

The reconciliation of segment operating results information to our consolidated financial information was as follows for the three and nine months ended September 30, 2013:

	Three months	**Nine months**
Income from operations	$2,041	7,960
Unallocated corporate, general and administrative expenses	(681)	(1,770)
Proxy contest related expenses included in general and administrative expenses	-	(1,403)
Equity-based compensation expenses	(1,045)	(3,133)
Intangible assets amortization expenses	(418)	(1,254)
Financial income, net	512	1,837
Total consolidated income before taxes	$409	$2,237

The reconciliation of segment operating results information to our consolidated financial information was as follows for the three and nine months ended September 30, 2012:

	Three months	**Nine months**
Income (loss) from operations	$(18)	$188

Unallocated corporate, general and administrative expenses	(436)	(2,232)
Restructuring expenses	(1,315)	(2,008)
Equity-based compensation expenses	(1,107)	(4,051)
Intangible assets amortization expenses	(592)	(1,778)
Financial income, net	666	1,732
Total consolidated loss before taxes	$ (2,802)	$ (8,149)

Amortization of Intangible Assets. During the third quarter of 2013, we recorded an expense of $0.4 million, as compared to $0.6 million for the third quarter of 2012, relating to the amortization of intangible assets associated with the acquisition of the CIPT business of NXP B.V. (the "Acquisition") and the acquisition of BoneTone Communications ("BoneTone") in 2011. During the nine months ended September 30, 2013, we recorded an expense of $1.3 million, as compared to $1.8 million for the nine months ended September 30, 2012, relating to the amortization of intangible assets associated with the Acquisition and the BoneTone acquisition in 2011. The sequential decrease is consistent with, and is based on, the original amortization schedule determined following the impairment of goodwill and other intangible assets that took place in 2008 in relation to the Acquisition, offset to some extent by an increase in the amortization of intangible assets associated with the acquisition of BoneTone in the third quarter and first nine months of 2013, as compared to the same periods in 2012.

Restructuring Costs and Other. During the third quarter of 2012, we recorded an expense of $1.3 million in connection with the restructuring of our operations that was initiated during the third quarter of 2012. As part of this restructuring plan, we executed termination agreements with certain of our employees and recorded an expense related to the future expected under-utilization of existing development tool agreements with expiry dates in 2013 and 2014.

During the first nine months of 2012, we recorded an expense of $2.0 million in connection with the restructuring of our operations, which was composed of two restructuring plans executed during the second and third quarters of 2012. As part of these restructuring plans, we executed termination agreements with certain of our employees and recorded an expense related to the future expected under-utilization of existing development tool agreements with expiry dates in 2013 and 2014.

Financial Income, net. Financial income, net, for the three months ended September 30, 2013 decreased to $0.5 million from $0.7 million for the three months ended September 30, 2012. Financial income, net, for the nine months ended September 30, 2013 increased to $1.8 million from $1.7 million for the nine months ended September 30, 2012. The increase in financial income, net, for the nine months ended September 30, 2013, as compared to 2012, was mainly due a profit in the amount of $0.7 million resulting from the sale of certain marketable securities during the nine months ended September 30, 2012, as compared to a profit in the amount of $0.5 million recorded for the nine months ended September 30, 2012. The decrease in financial income, net, for the three months ended September 30, 2013, as compared to the same period of 2012, was mainly due to (i) a decrease in the interest income received on our marketable securities in the amount of $0.1 million, and (ii) an increase in exchange rates expenses in our Indian subsidiary due to the devaluation of the Indian Rupee ("INR") against the U.S. dollar.

Our total cash, cash equivalents and marketable securities were $125.1 million as of September 30, 2013, compared to $111.9 million as of September 30, 2012.

Provision for Income Taxes. Our income tax benefit was $0.1 million for the first nine months of 2013, as compared to an income tax benefit of $0.2 million for the first nine months of 2012. The decrease in income tax benefit for the first nine months of 2013 as compared to the same period of 2012 was mainly attributed to a reversal of an income tax contingency reserve that was determined to be no longer needed due to the expiration of the applicable statute of limitations in the amount of $0.5 million during the first nine months of 2012, offset to some extent by (i) an amortization of deferred tax liability related to the intangible assets acquired in connection with Bonetone acquisition in the amount of $0.3 million during the first nine months of 2013 compared to no such income in 2012, and (ii) a reversal of an income tax contingency reserve that was determined to be no longer needed due to the expiration of the applicable statute of limitations in the amount of $0.1 million during the first nine months of 2013.

We had immaterialtax expenses for the third quarter of 2013. Our income tax benefit for the third quarter of 2012 was $0.4 million, mostly as a result of the reversal of an income tax contingency reserve in the amount of $0.5 million that was determined to be no longer required due to the expiration of the applicable statute of limitations during the third quarter of 2012.

During the three and nine months ended September 30, 2013, we did not record any significant changes to the net deferred tax assets due to our current estimation of future taxable income.

DSP Group Ltd., our Israeli subsidiary, was granted "Approved Enterprise" status by the Israeli government with respect to six separate investment plans. Approved Enterprise status allows our Israeli subsidiary to enjoy a tax holiday for a period of two or four years**,** and a reduced corporate tax rate of 10%-25% (based on the percentage of foreign ownership) for an additional six or eight years, on each investment plan's proportionate share of taxable income. The tax benefits under our Israeli subsidiary's first five investment plans have expired and those under the sixth investment plan are scheduled to expire by 2015.

On April 1, 2005, an amendment to the Israeli Investment Law came into effect (the “Amendment”). The Amendment revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the Amendment qualifies for benefits as a Beneficiary Enterprise (rather than the previous terminology of Approved Enterprise). Among other things, the Amendment provides tax benefits to both local and foreign investors and simplified the approval process. The Amendment does not apply to investment programs approved prior to December 31, 2004. The new tax regime applies to new investment programs only.

For 2006 and 2009, DSP Group Ltd. elected the status of a Beneficiary Enterprise under the Amendment for its seventh and eight plans, respectively. The seventh and eight plans entitle DSP Group Ltd. to a corporate tax exemption for a period of two years and a reduced corporate tax rate of 10%-25% (based on the percentage of foreign ownership) for an additional period of eight years from the first year it has taxable income. The tax benefits under the seventh and eighth investment plans are scheduled to gradually expire between 2016 and 2021.

In November 2012, the Knesset passed Amendment No. 69 to the Investment Law (the “Trapped Earnings Law”) which provides a temporary, partial, relief from taxation on a distribution from exempt income for companies which elect the relief through November 2013. The Trapped Earnings Law allows a company to qualify a portion of its exempt income (“Elected Earnings”) for a reduced tax rate ranging between 17.5% and 6%. While the reduced tax is payable within 30 days of election, an electing company is not required to actually distribute the Elected Earnings within a certain period of time. The applicable rate is based on a linear formula involving the portion of Elected Earnings to exempt income and the applicable tax rate prescribed in the Investment Law. A company electing to qualify its exempt income must undertake to make designated investments in productive fixed assets, research and development, or wages of new employees (“Designated Investment”). The Designated Investment amount is defined by a formula which considers the portion of Elected Earnings to the exempt income and the applicable tax rate prescribed by the Investment Law. In addition to the reduced tax rate, a distribution of Elected Earnings would be subject to a 15% withholding tax. The Trapped Earnings Law provides an exemption from the 15% withholding tax for a distribution to an Israeli resident company from companies which have elected the Beneficiary Enterprise status and waived their Approved Enterprise and Beneficiary Enterprise Status through June 2015. At this time, we do not believe the Trapped Earnings law has any effects on our financial statements.

On July 30, 2013, the Israeli Parliament passed a law, which, among other things, was designated to increase the tax levy for years 2013 and 2014 (the "New Law"). The New Law increases the Israeli corporate tax rate from 25% to 26.5%, cancels the reduction of corporate tax rate for preferred enterprises (16% tax rate under the New Law) and increases the tax rate on dividends from sources under the Israeli Investment Law to 20% commencing on January 1, 2014.

Regarding our investment plans under the Israeli Investment Law, we do not currently intend to implement the New Law; rather we intend to continue to comply with the Israeli Investment Law as in effect prior to enactment of the New Law until the earlier of such time that compliance with the Israeli Investment Law prior to enactment of the New

Law is no longer in our best interests or until the expiration of our current investment programs. We are required to comply with the New Law subsequent to the expiration of our current investment programs and for any new qualified investment program after a transitional period. As a result, the New Law may increase our average tax rate in future years.

To be eligible for tax benefits under the investment programs, we must meet certain conditions, relating principally to adherence to the investment program filed with the investment Center of the Israeli Ministry of Industry and Trade and to periodic reporting obligations. We believe that our investment programs are currently in compliance with these requirements. However, if we fail to meet these requirements, we would be subject to corporate tax in Israel at the regular statutory rate (26.5% for 2013). We also could be required to refund tax benefits, with interest and adjustments for inflation based on the Israeli consumer price index.

In connection with the CIPT acquisition, we received a tax ruling from the Swiss tax authorities with respect to the taxable income generated by our Swiss subsidiary, including the amortization period for tax purposes of goodwill and all other intangible assets acquired in the CIPT acquisition by our Swiss subsidiary. Pursuant to the tax ruling, our Swiss subsidiary is entitled to reduced tax rates of approximately 10% to 15%, depending on the source of income, and tax amortization period of up to 10 years for the goodwill and other intangible assets acquired in the CIPT acquisition by our Swiss subsidiary.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities. For the first nine months of 2013, we generated $5.0 million of cash and cash equivalents from our operating activities. Cash generated from operating activities amounted to $0.9 million for the first nine months of 2012. The increase in cash generated from operating activities for the first nine months of 2013, as compared to the same period in 2012, was mainly as a result of (i) an increase in net income during the first nine months of 2013 as compared to the first nine months of 2012, (ii) an increase in accrued compensation and benefits during the first nine months of 2013 in the amount of $1.9 million, as compared to an increase in accrued compensation and benefits in the amount of $0.8 million during the first nine months of 2012, and (iii) a decrease in accounts payable during the first nine months of 2013 in the amount of $0.9 million, as compared to a decrease in accounts payable during the first nine months of 2012 in the amount of $5.9 million. The increase in cash generated from operating activities when comparing the respective periods was offset to some extent by (a) an increase in accounts receivable during the first nine months of 2013 in the amount of $2.3 million, as compared to a decrease in the amount of $2.5 million in accounts receivable during the first nine months of 2012, (b) an increase in inventories in the amount of $0.2 million during the first nine months of 2013, as compared to a decrease in inventories in the amount of $1.8 million during the first nine months of 2012, and (c) an increase in other accounts receivable and prepaid expenses in the amount of $0.6 million during the first nine months of 2013, as compared to a decrease in other accounts receivable and prepaid expenses in the amount of $1.3 million during the first nine months of 2012.

Investing Activities. We invest excess cash in marketable securities of varying maturity, depending on our projected cash needs for operations, capital expenditures and other business purposes. During the first nine months of 2013, we purchased $53.3 million of marketable securities, as compared to $52.0 million purchase of marketable securities during the first nine months of 2012. During the first nine months of 2013 and 2012, $15.2 million and $19.9 million, respectively, of marketable securities matured and were called by the issuers. During the first nine months of 2013 and 2012, $27.8 million and $27.7 million, respectively, of marketable securities were sold. Additionally, during the first nine months of 2012, $13 million of short term deposits matured.

As of September 30, 2013, the amortized cost of our marketable securities and short term deposits was $108.1 million and their stated market value was $107.8 million, representing an unrealized loss of $0.3 million.

Our capital equipment purchases for the first nine months of 2013, consisting primarily of research and development software tools, computers and other peripheral equipment, engineering test and lab equipment, leasehold improvements, furniture and fixtures, totaled $0.9 million, as compared to $0.8 million for the first nine months of 2012.

Financing Activities. During the first nine months of 2013, we did not repurchase any shares of common stock. During the first nine months of 2012, we repurchased 1,182,590 shares of our common stock at an average purchase price of $6.35 per share for approximately $7.5 million. In addition, during the first nine months of 2013, we received $1.8 million upon the exercise of employee stock options. No exercises of employees stock options were executed during the first nine months of 2012. We can’t predict cash flows from exercises of stock options for future periods.

Pursuant to authorizations in March 1999, July 2003, October 2004, January 2007 and January 2008, our board of directors authorized a share repurchase program for the repurchase of an aggregate of 14.9 million shares of our common stock. Also in January 2008, our board of directors approved the company’s entry into a share repurchase plan, in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, for the repurchase of 5.0 million of the aggregate shares of our common stock authorized for repurchase, which plan has since expired. In October 2010, our board of directors authorized an increase in the number of shares available for repurchase, thereby increasing the aggregate number of shares authorized for repurchase under our share repurchase program to two million shares. In July 2011, our board of directors authorized an increase in our share repurchase program by one million shares of common stock.

As of September 30, 2013, we had cash and cash equivalents totaling approximately $17.3 million and marketable securities and short term deposits of approximately $107.8 million.

Our working capital at September 30, 2013 was approximately $45.5 million, as compared to $54.3 million as of September 30, 2012. The decrease in working capital was mainly due to the replacement of short term marketable securities, short term deposits and cash and cash equivalents with long term marketable securities. We believe that our current cash, cash equivalents, cash deposits and marketable securities will be sufficient to meet our cash requirements for both the short and long term.

In addition, as part of our business strategy, we may evaluate potential acquisitions of businesses, products and technologies. Accordingly, a portion of our available cash may be used at any time for the acquisition of complementary products or businesses. Such potential transactions may require substantial capital resources, which may require us to seek additional debt or equity financing. We cannot assure you that we will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our current operations, or expand into new markets. Furthermore, we cannot assure you that additional financing will be available to us in any required time frame and on commercially reasonable terms, if at all. See the section of the risk factors entitled “We may engage in future acquisitions that could dilute our stockholders’ equity and harm our business, results of operations and financial condition.” for more detailed information.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as such term is defined in recently enacted rules by the Securities and Exchange Commission, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. It is our policy not to enter into interest rate derivative financial instruments, except for hedging of foreign currency exposures discussed below. We do not currently have any significant interest rate risk since we do not have any financial obligations.

The majority of our cash and cash equivalents are invested in high grade certificates of deposits with major U.S., European and Israeli banks. Generally, cash and cash equivalents and short term deposits may be redeemed and therefore minimal credit risk exists with respect to them. Nonetheless, cash deposits with these banks exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits in the U.S. or similar limits in foreign jurisdictions, to the extent such deposits are even insured in such foreign jurisdictions. While we monitor on a systematic basis the cash balances and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit our funds fails or is subject to other adverse conditions in the financial or credit markets. To date we have experienced no loss of principal or lack of access to our cash; however, we can provide no assurance that access to our cash will not be affected if the financial institutions that we hold our cash fail or the financial and credit markets fail to recover fully.

We hold an investment portfolio of marketable securities consisting principally of debentures of U.S. corporations, and state and political subdivisions of the U.S. government. We intend, and have the ability, to hold such investments until recovery of any temporary declines in market value or maturity.

Interest rate fluctuations relating to our cash and cash equivalents and within our investment portfolio have not had, and are not currently anticipated to have, a material effect on our financial position on an annual or quarterly basis.

Foreign Currency Exchange Rate Risk. A significant part of our sales and expenses are denominated in U.S. dollars. Part of our expenses in Israel is paid in NIS, which subjects us to the risks of foreign currency fluctuations between the U.S. dollar and the NIS. Our primary expenses paid in NIS are employee salaries and lease payments on our Israeli facilities. Furthermore, due to the Acquisition, a portion of our expenses for our European operations are paid in the Euro, which subjects us to the risks of foreign currency fluctuations between the U.S. dollar and the Euro. Our primary expenses paid in Euro are employee salaries, lease and operational payments on our European facilities. To partially protect the company against an increase in value of forecasted foreign currency cash flows resulting from salary and lease payments denominated in NIS during 2013, we instituted a foreign currency cash flow hedging program. The option and forward contracts used are designated as cash flow hedges, as defined by FASB ASC No. 815, “Derivatives and Hedging,” and are all effective as hedges of these expenses. For more information about our hedging activity, see Note G to the attached Notes to the Condensed Consolidated Financial Statement for the period ended September 30, 2013. An increase in the value of the NIS and the Euro in comparison to the U.S. dollar could increase the cost of our research and development expenses and general and administrative expenses, all of which could harm our operating profit. Although we currently are using a hedging program to minimize the effects of currency fluctuations relating to the NIS, our hedging position is partial, may not exist at all in the future and may not succeed in minimizing our foreign currency fluctuation risks.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk.”

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2013.

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in litigation relating to claims arising from our ordinary course of business. Also, as is typical in the semiconductor industry, we have been and may from time to time be notified of claims that we may be infringing patents or intellectual property rights owned by third parties. We currently believe that there are no claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on our company.

ITEM 1A. RISK FACTORS.

This Form 10-Q contains forward-looking statements concerning our future products, expenses, revenue, liquidity and cash needs as well as our plans and strategies. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Numerous factors could cause our actual results to differ significantly from the results described in these forward-looking statements, including the following risk factors.

There are no material changes to the Risk Factors described under the title “Factors That May Affect Future Performance” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 other than (1) changes to the Risk Factor below entitled “We generate a significant amount of our total revenues from the sale of digital cordless telephony products and our business and operating results may be materially adversely affected if we do not continue to succeed in this highly competitive market or if sales within the overall cordless digital market decreases;” (2) changes to the Risk Factor below entitled “We rely significantly on revenue derived from a limited number of customers;” (3) changes to the Risk Factor below entitled “We rely on a primary distributor for a significant portion of our total revenues and the failure of this distributor to perform as expected would materially reduce our future sales and revenues;” (4) changes to the Risk Factor below entitled “Because our quarterly operating results may fluctuate significantly, the price of our common stock may decline;” (5) changes to the Risk Factor below entitled “Our revenues, gross margins and profitability may be materially adversely affected by the continued decline in average selling prices of our products and other factors, including increases in assembly and testing expenses, and raw material and commodity costs;” (6) changes to the Risk Factor below entitled “Because we have significant international operations, we may be subject to political, economic and other conditions relating to our international operations that could increase our operating expenses and disrupt our business;” (7) changes to the Risk Factor below entitled “Because we have significant operations in Israel, we may be subject to political, economic and other conditions affecting Israel that could increase our operating expenses and disrupt our business; (8) changes to the Risk Factor below entitled “We are exposed to fluctuations in currency exchange rates;” and (9) changes to the Risk Factor below entitled “The tax benefits available to us under Israeli law require us to meet several conditions, and may be terminated or reduced in the future, which would increase our taxes,” as well as the deletion of the Risk Factor below entitled “Our business could be negatively affected as a result of a proxy fight and the actions of activist stockholders.”

We generate a significant amount of our total revenues from the sale of digital cordless telephony products and our business and operating results may be materially adversely affected if we do not continue to succeed in this highly competitive market or if sales within the overall cordless digital market decrease.

Sales of digital cordless telephony products comprised a significant majority of our total revenues for the first nine months of 2013. Specifically, sales of DECT, 2.4GHz and VOIP products comprised 94% of our total revenues for both the first nine months of 2013 and 2012, respectively. Revenues from DECT products represented 83% and 82% of our total revenues for the first nine months of 2013 and 2012, respectively.

Any adverse change in the digital cordless market or in our ability to compete and maintain our competitive position in that market would harm our business, financial condition and results of operations. The digital cordless telephony market is extremely competitive and is facing intense pricing pressures, and we expect that competition and pricing pressures may increase. Our existing and potential competitors in this market include large and emerging domestic and foreign companies, many of whom have significantly greater financial, technical, manufacturing, marketing, sales and distribution resources and management expertise than we do. It is possible that we may one day be unable to respond to increased pricing competition for digital cordless telephony processors or other products through the introduction of new products or reduction of manufacturing costs. This inability to compete would have a material adverse effect on our business, financial condition and results of operations. Likewise, any significant delays by us in developing, manufacturing or shipping new or enhanced products in this market also would have a material adverse effect on our business, financial condition and results of operations.

In addition, to general market competitiveness, the digital cordless telephony market is undergoing a challenging period of transition. With the rapid deployment of new communication access methods, including mobile, wireless broadband, cable and other connectivity, the traditional cordless telephony market using fixed-line telephony is declining and will continue to decline, which reduces our revenues derived from, and unit sales of, cordless telephony products. Macro-economic trends in the consumer electronics industry may adversely impact our future revenues.

Furthermore, the decline in fixed line telephony together with the rapid deployment of new communication access methods, including mobile, wireless broadband, cable and other connectivity will decrease sales of products using fixed-line telephony. Our business also may be affected by the outcome of the competition between cellular phone operators and fixed-line operators for the provision of residential communication. A significant majority of our revenues are currently generated from sales of chipsets used in cordless phones that are based on fixed-line telephony, and the continued decline in fixed-line telephony would reduce our revenues derived from, and unit sales of, our digital cordless telephony products.

We rely significantly on revenue derived from a limited number of customers.

We expect that a limited number of customers, varying in identity from period-to-period, will account for a substantial portion of our revenues in any period. Our five largest customers accounted for approximately 70% and 73% of our total revenues for the first nine months of 2013 and 2012, respectively. Sales to VTech represented 36% and 35% of our total revenues for the first nine months of 2013 and 2012, respectively. Sales to Panasonic represented 13% and 16% of our total revenues for the first nine months of 2013 and 2012, respectively. Sales to Uniden represented 4% and 11% of our total revenues for the first nine months of 2013 and 2012, respectively. Typically, our sales are made on a purchase order basis, and none of our customers has entered into a long-term agreement requiring it to purchase our products. Moreover, we do not typically require our customers to purchase a minimum quantity of our products, and our customers can generally cancel or significantly reduce their orders on short notice without significant penalties. A significant amount of our revenues will continue to be derived from a limited number of large customers. Furthermore, the primary customers for our products are original equipment manufacturers (OEMs) and original design manufacturers (ODMs) in the cordless digital market. This industry is highly cyclical and has been subject to significant economic downturns at various times, particularly in recent periods. These downturns are characterized by production overcapacity and reduced revenues, which at times may affect the financial stability of our customers. Therefore, the loss of one of our major customers, or reduced demand for products from, or the reduction in purchasing capability of, one of our major customers, could have a material adverse effect on our business, financial condition and results of operations.

Our future success is dependent on market acceptance of our HDClear product family targeted for the mobile device market, which is an intensively competitive market with dominant and established players.

Our ability to increase our revenues and offset declining revenues from our cordless product family are substantially dependent on our ability to gain market share for our HDClear product family, a comprehensive voice enhancement and noise cancellation product targeted for mobile devices. Although a number of potential customers have expressed interest, we do not currently have any design wins for this product family, which is the initial step to incorporating this product with a OEM, and we cannot assure you that we will be successful in doing so. Even if we achieve design wins, the design-in process is labor intensive, long and often delayed. Therefore, the period from design-in to revenue generation may be long, and during the interim period, we would be expending significant time and resources through our sales and development cycles, potentially without achieving any economic return. Moreover, we are targeting a new market with our HDClear product family, a market with dominant and established players selling to OEM customers with whom they have established relationships. We will need to win over such customers, with whom we do not have established relationships, to gain market share. If we are unable to generate revenues from our HDClear product family and gain significant market share in the mobile device market, our operating results would be adversely affected.

The market for mobile device components is highly competitive and we expect competition to intensify in the future.

The market for mobile device components is highly competitive and characterized by the presence of large companies with significantly greater resources than we have. Our HDClear product family relates only to the voice and audio subsystem of a mobile device and there are only a limited number of OEMs targeted for this market. Our competitors include Audience and Cirrus Logic. We also face competition from smaller, privately held companies and could face competition from new market entrants. We also compete against solutions internally developed by OEMs, as well as combined third-party software and hardware systems. If we are unable to compete effectively, we may not succeed in achieving any design wins and may have to lower our pricing to gain design wins, both of which would adversely impact our operating results.

Because our products are components of end products, if OEMs do not incorporate our products into their end products or if the end products of our OEM customers do not achieve market acceptance, we may not be able to generate adequate sales of our products.

Our products are not sold directly to the end-user; rather, they are components of end products. As a result, we rely upon OEMs to incorporate our products into their end products at the design stage. Once an OEM designs a competitor’s product into its end product, it becomes significantly more difficult for us to sell our products to that customer because changing suppliers involves significant cost, time, effort and risk for the customer. As a result, we may incur significant expenditures on the development of a new product without any assurance that an OEM will select our product for design into its own product and without this “design win” it becomes significantly difficult to sell our products. This is especially the case for our HDClear product family. Moreover, even after an OEM agrees to design our products into its end products, the design cycle is long and may be delayed due to factors beyond our control which may result in the end product incorporating our products not to reach the market until long after the initial “design win” with the OEM. From initial product design-in to volume production, many factors could impact the timing and/or amount of sales actually realized from the design-in. These factors include, but are not limited to, changes in the competitive position of our technology, our customers’ financial stability, and our ability to ship products according to our customers’ schedule. Moreover, the continued uncertainty about the sustainability of the global economic recovery and outlook may further prolong an OEM customer’s decision-making process and design cycle.

Furthermore, we rely on the end products of our OEM customers that incorporate our products to achieve market acceptance. Many of our OEM customers face intense competition in their markets. If end products that incorporate our products are not accepted in the marketplace, we may not achieve adequate sales volume of our products, which would have a negative effect on our results of operations.

We rely on a primary distributor for a significant portion of our total revenues and the failure of this distributor to perform as expected would materially reduce our future sales and revenues.

In addition to direct sales, we use a network of distributors to sell our products. Particularly, revenues derived from sales through our Japanese distributor, Tomen Electronics, accounted for 18% and 22% of our total revenues for the first nine months of 2013 and 2012, respectively. Our future performance will depend, in part, on this distributor to continue to successfully market and sell our products. Furthermore, Tomen Electronics sells our products to a limited number of customers. One customer, Panasonic, has continually accounted for a majority of the sales through Tomen Electronics. Sales to Panasonic through Tomen Electronics generated approximately 13% and 16% of our total revenues for the first nine months of 2013 and 2012, respectively. The loss of Tomen Electronics as our distributor and our inability to obtain a satisfactory replacement in a timely manner would materially harm our sales and results of operations. Additionally, the loss of Panasonic and Tomen Electronics' inability to thereafter effectively market our products would also materially harm our sales.

Because our quarterly operating results may fluctuate significantly, the price of our common stock may decline.

Our quarterly results of operations may vary significantly in the future for a variety of reasons, many of which are outside our control, including the following:

- fluctuations in volume and timing of product orders;
- timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory;
- changes in demand for our products due to seasonal consumer buying patterns and other factors;
- timing of new product introductions by us and by our customers or competitors;
- changes in the mix of products sold by us or our competitors;
- fluctuations in the level of sales by our OEM customers and other vendors of end products incorporating our products;

timing and size of expenses, including expenses to develop new products and product improvements, and expenses resulting from restructuring activities;

entry into new markets, including China, Korea and South America;

our ability to scale our operations in response to changes in demand for our existing products and services or demand for new products requested by our customers;

mergers and acquisitions by us, our competitors and our existing and potential customers; and

general economic conditions, including current economic conditions in the United States and worldwide, and the adverse effects on the semiconductor and consumer electronics industries.

Each of the above factors is difficult to forecast and could harm our business, financial condition and results of operations. Also, we sell our products to OEM customers that operate in consumer markets. As a result, our revenues are affected by seasonal buying patterns of consumer products sold by our OEM customers that incorporate our products and the market acceptance of such products supplied by our OEM customers.

Our revenues, gross margins and profitability may be materially adversely affected by the continued decline in average selling prices of our products and other factors, including increases in assembly and testing expenses, and raw material and commodity costs.

We have experienced and will continue to experience a decrease in the average selling prices of our products. Decreasing average selling prices could result in decreased revenues even if the volume of products sold increases. Decreasing average selling prices may also require us to sell our products at much lower gross margin than in the past and reduce profitability. Although we have to date been able to partially offset on an annual basis the declining average selling prices of our products through general operational efficiencies and manufacturing cost reductions by achieving a higher level of product integration and improving our yield percentages, there is no guarantee that our ongoing efforts will be successful or that they will keep pace with the anticipated, continued decline in average selling prices of our products.

Moreover, we believe there are significant pressures in the supply chain as a result principally of the uncertainty relating to the sustainability of the global economic recovery, which has negatively affected the consumer electronics industry. The pressures in the supply chain make it very difficult for us to increase or even maintain our product pricing, which further adversely affects our gross margins.

In addition to the continued decline in the average selling prices of our products, our gross profit may decrease in the future due to other factors, including the roll-out of new products in any given period and the penetration of new markets which may require us to sell products at a lower margin, our failure to introduce new engineering processes and mix of products sold.

Our gross margins also are affected by the product mix. For example, DECT products have lower average gross margins than other products, such as our 2.4GHz products. The DECT product line represented 83% of our total revenues for the first nine months of 2013. Therefore, increased sales of DECT products would lower our gross margins.

Furthermore, increases in the price of silicon wafers, testing costs and commodities such as gold and oil, which may result in increased production costs, mainly assembly and packaging costs, may result in a decrease in our gross margins. Moreover, our suppliers may pass the increase in raw materials and commodity costs onto us which would further reduce the gross margin of our products. In addition, as we are a fabless company, global market trends such as “over-capacity” problems so that there is a shortage of capacity to fulfill our fabrication needs also may increase our raw material costs and thus decrease our gross margin.

There are several emerging market trends that may challenge our ability to continue to grow our business.

New technological developments in the home connectivity market may adversely affect our operating results. For example, the rapid deployment of new communication access methods, including mobile, wireless broadband, cable and other connectivity, as well as the lack of growth in products using fixed-line telephony would reduce our total revenues derived from, and unit sales of, cordless fixed-line telephony products. Our ability to maintain our growth will depend on the expansion of our product lines to capitalize on the emerging access methods and on our success in developing and selling a portfolio of “system-on-a-chip” solutions targeted at wider markets, including the intensively competitive mobile devices market. We cannot assure you that we will succeed in expanding our product lines or portfolio of “system-on-a-chip” solutions, or that they would receive market acceptance.

Furthermore, there is a growing threat from alternative technologies accelerating the decline of the fixed-line telephony market. This competition comes from mobile telephony, including emerging dual-mode mobile Wi Fi phones and other innovative applications, such as Skype and iChat. Given that we derive a significant amount of revenues from chipsets incorporated into fixed-line telephony products, if we are unable to develop new technologies in the face of the decline of this market, our business could be materially adversely affected.

Our future business growth depends on the growth in demand for mobile devices with improved sound quality.

Our HDClear product family is designed to enhance the sound quality and eliminate background voices for mobile device users. OEMs and ODMs may decide that the costs of improving sound quality outweigh the benefits which could limit demand for our HDClear product family. Moreover, users may also be satisfied with existing sound quality or blame poor quality on their phone carriers. The market that we are targeting is evolving rapidly and is technologically challenging. New mobile devices with different components or software may be introduced that provide the same functionality as HDClear product family. Alternatively, wireless network technology may be improved to serve the same functionality. Our future business growth will depend on the growth of this market and our ability to adapt to technological changes, user preferences and OEM demands. Our business could be materially adversely affected if we fail to do so.

Because we have significant international operations, we may be subject to political, economic and other conditions relating to our international operations that could increase our operating expenses and disrupt our business.

Although the majority of end users of the consumer products that incorporate our products are located in the U.S., we are dependent on sales to OEM customers, located outside of the U.S., that manufacture these consumer products. Also, we depend on a network of distributors to sell our products that also are primarily located outside of the U.S. Export sales, primarily consisting of digital cordless telephony products shipped to manufacturers in Europe and Asia, including Japan and Asia Pacific, represented 97% and 99% of our total revenues for the first nine months of 2013 and 2012, respectively. Furthermore, pursuant to the acquisition of the CIPT business from NXP, we established new foreign subsidiaries, and currently have material operations, in Germany, Hong Kong and India and employ a number of individuals within those foreign operations. As a result, the occurrence of any negative international political, economic or geographic events, as well as our failure to mitigate the challenges in managing an organization operating in various countries, could result in significant revenue shortfalls and disrupt our workforce within our foreign operations. These shortfalls and disruptions could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in foreign government regulatory requirements;
- fluctuations in the exchange rate for the United States dollar;
- import and export license requirements;
- imposition of tariffs and other barriers and restrictions;
- burdens of complying with a variety of foreign laws, treaties and technical standards;
- uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property;
- difficulty in collecting accounts receivable and longer payment cycles for international customers than existing customers;
- difficulty in staffing and managing foreign operations and maintaining the morale and productivity of employees within foreign operations;

multiple and possibly overlapping tax structures and potentially adverse tax consequences;

political and economic instability; and

changes in diplomatic and trade relationships.

One or more of these factors may have a material adverse effect on our future operations and consequently, on our business, financial conditions and operating results.

In order to sustain the future growth of our business, we must penetrate new markets and our new products must achieve widespread market acceptance.

In order to increase our sales volume and expand our business, we must penetrate new markets and introduce new products, especially our HDClear product family. We are exploring opportunities to expand sales of our products in China, Japan, Korea and South America. However, there are no assurances that we will gain significant market share in those competitive markets. In addition, many North American, European and Japanese OEMs are moving their manufacturing sites to Southeast Asia as a result of the cyclical nature of manufacturing capacity, the cost of silicon integrated circuits, the continued decline of average selling prices of chipsets and other industry-wide factors. This trend may cause the mix of our OEM customers to change in the future, thereby further necessitating our need to penetrate new markets. Furthermore, to sustain the future growth of our business, we need to introduce new products as sales of our older products taper off. Moreover, the penetration of new competitive markets and introduction of new products could require us to reduce the sale prices of our products or increase the cost per product and thus reducing our total gross profit in future periods. Our future growth is dependent on market acceptance and penetration of our new products, especially our HDClear product family, for which we can provide no assurances. Our revenue growth is also dependent on the successful deployment of our new VoIP and BoneTone products. Our inability to penetrate the market or lack of customer acceptance of these products may harm our business and potential growth.

Because the markets in which we compete are subject to rapid changes, our products may become obsolete or unmarketable.

The markets for our products and services are characterized by rapidly changing technology, short product life cycles, evolving industry standards, changes in customer needs, demand for higher levels of integration, growing competition and new product introductions. This is especially the case for the mobile device market. Our future growth is dependent not only on the continued success of our existing products but also successful introduction of new products. Our ability to adapt to changing technology and anticipate future standards, and the rate of adoption and acceptance of those standards, will be a significant factor in maintaining or improving our competitive position and prospects for growth. If new industry standards emerge, our products or our customers' products could become unmarketable or obsolete, and we could lose market share. We may also have to incur substantial unanticipated costs to comply with these new standards. If our product development and improvements take longer than planned, the availability of our products would be delayed. Any such delay may render our products obsolete or unmarketable, which would have a negative impact on our ability to sell our products and our results of operations.

Because of changing customer requirements and emerging industry standards, we may not be able to achieve broad market acceptance of our products. Our success is dependent, in part, on our ability to:

successfully develop, introduce and market new and enhanced products at competitive prices and in a timely manner in order to meet changing customer needs;

convince leading OEMs to select our new and enhanced products for design into their own new products;

respond effectively to new technological changes or new product announcements by others;

effectively use and offer leading technologies; and

maintain close working relationships with our key customers.

There are no assurances that we will be successful in these pursuits, that the demand for our products will continue or that our products will achieve market acceptance. Our failure to develop and introduce new products that are compatible with industry standards and that satisfy customer requirements, and the failure of our products to achieve broad market acceptance, could have a negative impact on our ability to sell our products and our results of operations.

Because we depend on independent foundries and other third party suppliers to manufacture and test all of our integrated circuit products, we are subject to additional risks that may materially disrupt our business.

All of our integrated circuit products are manufactured and tested by independent foundries and other third party suppliers. While these foundries and other third party suppliers have been able to adequately meet the demands of our increasing business, we are and will continue to be dependent upon these foundries and third party suppliers to achieve acceptable manufacturing yields, quality levels and costs, and to allocate to us a sufficient portion of their foundry, assembly and test capacity to meet our needs in a timely manner.

While we currently believe we have adequate capacity to support our current sales levels pursuant to our arrangement with our foundries and other third party suppliers, we may encounter capacity shortage issues in the future. In the event of a worldwide shortage in foundry, assembly and/or test capacity, we may not be able to obtain a sufficient allocation of such capacity to meet our product needs or we may incur additional costs to ensure specified quantities of products and services. Over-capacity at the current foundries and other third party suppliers we use, or future foundries or other third party suppliers we may use, to manufacture and test our integrated circuit products may lead to increased operating costs and lower gross margins. In addition, such a shortage could lengthen our products' manufacturing and testing cycle and cause a delay in the shipment of our products to our customers. This could ultimately lead to a loss of sales of our products, harm our reputation and competitive position, and our revenues could be materially reduced. Our business could also be harmed if our current foundries or other third party suppliers terminate their relationship with us and we are unable to obtain satisfactory replacements to fulfill customer orders on a timely basis and in a cost-effective manner. Moreover, we do not have long term capacity guarantee agreements with our foundries and with other third party suppliers.

In addition, as TSMC produces a significant portion of our integrated circuit products and ASE tests and assembles a significant portion of them, earthquakes, aftershocks or other natural disasters in Asia, or adverse changes in the political situation in Taiwan, could preclude us from obtaining an adequate supply of wafers to fill customer orders. Such events could harm our reputation, business, financial condition, and results of operations.

Because NXP still manufactures certain of the CIPT business products, we are subject to additional risks that may materially disrupt our business.

As part of the Acquisition of the CIPT Business, we entered into a Manufacturing Services Collaboration Agreement (“MSCA”), as amended, with NXP pursuant to which NXP agreed to provide us with specified manufacturing, pre-testing, assembling and final-testing services relating to the CIPT Business products. The services under the MSCA were to be provided by NXP at agreed upon prices initially for up to seven years following the closing of the acquisition and will expire by the end of 2014. Our business could be harmed if NXP, or third parties NXP has contracted, fails to achieve acceptable manufacturing yields, quality levels or allocate to us a sufficient portion of its foundry, and assembly and testing capacities to meet our needs for the CIPT Business products.

Our operating results are affected by general economic conditions and the highly cyclical nature of the semiconductor industry.

During the global downturn that started in the second half of 2008 and continued throughout 2009, general worldwide economic conditions significantly deteriorated, and resulted in decreased consumer confidence and spending, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. Notwithstanding improvements in business conditions since the second half of 2009, sustainability of the global economic recovery is uncertain, which continues to make it difficult for our customers, the end-product customers, our vendors and us to accurately forecast and plan future business activities and make reliable projections.

Moreover, we operate within the semiconductor industry which experiences significant fluctuations in sales and profitability. The industry was materially adversely affected by the 2008-2009 global downturn. Downturns in the semiconductor industry are characterized by diminished product demand, excess customer inventories, accelerated erosion of prices and excess production capacity. These factors could cause substantial fluctuations in our revenues and in our results of operations.

If global economic and market conditions remain uncertain or deteriorate, we could experience a material adverse impact on our business and results of operations.

Because the manufacture of our products is complex, the foundries on which we depend may not achieve the necessary yields or product reliability that our business requires.

The manufacture of our products is a highly complex and precise process, requiring production in a highly controlled environment. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by a foundry could adversely affect the foundry's ability to achieve acceptable manufacturing yields and product reliability. If the foundries we currently use do not achieve the necessary yields or product reliability, our ability to fulfill our customers' needs could suffer. This could ultimately lead to a loss of sales of our products and have a negative effect on our gross margins and results of operations.

Furthermore, there are other significant risks associated with relying on these third-party foundries, including:

- risks due to the fact that we have reduced control over production cost, delivery schedules and product quality;

- less recourse if problems occur as the warranties on wafers or products supplied to us are limited; and

- increased exposure to potential misappropriation of our intellectual property.

As we depend on independent subcontractors, located in Asia, to assemble and test our semiconductor products, we are subject to additional risks that may materially disrupt our business.

Independent subcontractors, located in Asia, assemble and test our semiconductor products. Because we rely on independent subcontractors to perform these services, we cannot directly control our product delivery schedules or quality levels. We are dependent on these subcontractors to allocate to us a sufficient portion of their capacity to meet our needs in a timely manner. Our future success also depends on the financial viability of our independent subcontractors. If the capital structures of our independent subcontractors weaken, we may experience product shortages, production delays, quality assurance problems, increased manufacturing costs, and/or supply chain disruption. All of this could ultimately lead to a loss of sales of our products, harm our reputation and competitive position, and our revenues could be materially harmed.

Moreover, the economic, market, social, and political situations in countries where some of our independent subcontractors are located are unpredictable, can be volatile, and can have a significant impact on our business because we may not be able to obtain product in a timely manner. Market and political conditions, including currency fluctuation, terrorism, political strife, war, labor disruption, and other factors, including natural or man-made disasters, adverse changes in tax laws, tariff, import or export quotas, power and water shortages, or interruption in air transportation, in areas where our independent subcontractors are located also could have a severe negative impact on our operating capabilities.

We are subject to order and shipment uncertainties and if we are unable to accurately predict customer demand, our business may be harmed.

We typically sell products pursuant to purchase orders rather than long-term purchase commitments. Customers can generally cancel, change or defer purchase orders on short notice without incurring a significant penalty. Given current market conditions, we have less ability to accurately predict what or how many products our customers will need in the future. In addition, we have little visibility into and no control of the demand by our customer’s customers – generally consumer electronics retailers. Furthermore, based on discussions with our customers, we understand that our customers also have less visibility into their product demands. A decrease in the consumer electronics retailers’ demand or a build-up of their inventory, both of which are out of the control of our customers and us, may cause a cancellation, change or deferral of purchase orders on short notice by our customers. Anticipating demand is difficult because our customers and their customers face volatile pricing and unpredictable demand for their own products, and are increasingly focused on cash preservation and tighter inventory management. Based on these trends, our customers are reluctant to place orders with normal lead times, and we are seeing a shift to shorter lead-times and rush orders. However, we place orders with our suppliers based on forecasts of our customers’ demand and, in some instances, may establish buffer inventories to accommodate anticipated demand. Our forecasts are based on multiple assumptions, each of which may introduce error into our estimates. If we overestimate our customers’ demand or our customers overestimate their demand, we may allocate resources to manufacturing products that we may not be able to sell when we expect to, if at all. As a result, we could hold excess or obsolete inventory, which would reduce our profit margins and adversely affect our financial results. Conversely, if we underestimate our customers’ demand or our customers underestimate their demand and insufficient manufacturing capacity is available, we could forego revenue opportunities and potentially lose market share and damage our customer relationships.

As a result of the acquisition of the CIPT business, we now maintain inventory, or hubbing, arrangements with certain of our customers. Pursuant to these arrangements, we deliver products to a customer or a designated third party warehouse based upon the customer’s projected needs, but do not recognize product revenue unless and until the customer reports that it has removed our product from the warehouse to incorporate into its end products. Since we own inventory that is physically located in a third party’s warehouse, our ability to effectively manage inventory levels may be impaired, causing our total inventory turns to decrease, which could increase expenses associated with excess and obsolete product and negatively impact our cash flow.

We are dependent on a small number of OEM customers, and our business could be harmed by the loss of any of these customers or reductions in their purchasing volumes.

We sell our products to a limited number of OEM customers directly or through a network of distributors. Moreover, many North American, European and Japanese OEMs are moving their manufacturing sites to Southeast Asia, as a result of the cyclical nature of manufacturing capacity issues and cost of silicon integrated circuits, the continued decline of average selling prices of chipsets and other industry-wide factors. In addition, OEMs located in Southeast

Asia are growing and gaining competitive strength. As a result, the mix of our OEM customers may change in the future. However, we may not succeed in attracting new customers as these potential customers may have pre-existing relationships with our current or potential competitors. This trend also may promote the consolidation of OEMs located in North America, Europe and Japan with OEMs located in Southeast Asia, which may reduce the number of our potential customers and reduce the volume of chipsets the combined OEM customer may purchase from us. However, as is common in our industry, we typically do not enter into long term contracts with our customers in which they commit to purchase products from us. The loss of any of our OEM customers may have a material adverse effect on our results of operations. To attract new customers, we may be faced with intense price competition, which may affect our revenues and gross margins.

The possible emerging trend of our OEM customers outsourcing their production may cause our revenue to decline.

We believe there may be an emerging trend of our OEM customers outsourcing their production to third parties. We have invested substantial resources to build relationships with our OEM customers. However the outsourcing companies whom our OEM customers may choose to outsource production may not have prior business relationship with us or may instead have prior or ongoing relationships with our competitors. The emergence of this trend may require us to expend substantial additional resources to build relationships with these outsourcing companies, which would increase our operating expenses. Even if we do expend such resources, there are no assurances that these outsourcing companies will choose to incorporate our chipsets rather than chipsets of our competitors. Our inability to retain an OEM customer once such customer chooses to outsource production would have a material adverse effect on our future revenue.

Third party claims of infringement or other claims against us could adversely affect our ability to market our products, require us to redesign our products or seek licenses from third parties, and seriously harm our operating results and disrupt our business.

As is typical in the semiconductor industry, we and our customers have been and may from time to time be notified of claims that we may be infringing patents or intellectual property rights owned by third parties. In addition, patent infringement claims are increasingly being asserted by patent holding companies (so-called patent “trolls”), which do not use technology and whose sole business is to enforce patents against companies, such as us, for monetary gain. Because such patent holding companies do not provide services or use technology, the assertion of our own patents by way of counter-claim may be ineffective. We have received claims that our products infringe upon the proprietary rights of such patent holding companies. In addition, third parties have asserted and may in the future assert intellectual property infringement claims against our customers, which we have agreed in certain circumstances to indemnify and defend against such claims. If litigation becomes necessary to determine the validity of any third party claims, it could result in significant expense to us and could divert the efforts of our technical and management personnel, whether or not the claim has merit and notwithstanding that the litigation is determined in our favor.

If it appears necessary or desirable, we may try to obtain licenses for those patents or intellectual property rights that we are allegedly infringing. Although holders of these types of intellectual property rights commonly offer these licenses, we cannot assure you that licenses will be offered or that the terms of any offered licenses will be acceptable to us. Our failure to obtain a license for key intellectual property rights from a third party for technology used by us could cause us to incur substantial liabilities, suspend the manufacturing of products utilizing the technology or damage the relationship with our customers. Alternatively, we could be required to expend significant resources to develop non-infringing technology. We cannot assure you that we would be successful in developing non-infringing technology. The occurrence of any of these events could harm our business, financial condition or results of operations.

Because we have significant operations in Israel, we may be subject to political, economic and other conditions affecting Israel that could increase our operating expenses and disrupt our business.

Our principal research and development facilities are located in the State of Israel and, as a result, at September 30, 2013, 202 of our 293 employees were located in Israel, including 137 out of 183 of our research and development personnel. In addition, although we are incorporated in Delaware, a majority of our directors and executive officers are residents of Israel. Although substantially all of our sales currently are being made to customers outside of Israel, we are nonetheless directly influenced by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel, or the interruption or curtailment of trade between Israel and its present trading partners, could significantly harm our business, operating results and financial condition.

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. In addition, Israel and companies doing business with Israel have been the subject of an economic boycott by the Arab countries since Israel's establishment. Although they have not done so to date, these restrictive laws and policies may have an adverse impact on our operating results, financial condition or expansion of our business.

Since the establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. Although Israel has entered into various agreements with certain Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, hostilities between Israel and some of its Arab neighbors have recently escalated and intensified. We cannot predict whether or in what manner these conflicts will be resolved. Our results of operations may be negatively affected by the obligation of key personnel to perform military service. In addition, certain of our officers and employees are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called for active military duty at any time. Although we have operated effectively under these requirements since our inception, we cannot predict the effect of these obligations on the company in the future. Our operations could be disrupted by the absence, for a significant period, of one or more of our officers or key employees due to military service.

The tax benefits available to us under Israeli law require us to meet several conditions, and may be terminated or reduced in the future, which would increase our taxes.

Our facilities in Israel have been granted Approved Enterprise and Beneficiary Enterprise status under the Law for the Encouragement of Capital Investments, 1959, commonly referred to as the "Investment Law," as amended. The Investment Law provides that capital investments in a production facility (or other eligible assets) designated as an Approved Enterprise or Beneficiary Enterprise receive certain tax benefits in Israel. Our investment programs that generate taxable income are currently subject to an average tax rate of up to approximately 10% based on a variety of factors, including percentage of foreign ownership and approvals for the erosion of the tax basis of our investment programs. To be eligible for tax benefits, we must meet certain conditions, relating principally to adherence to the investment program filed with the Investment Center of the Israeli Ministry of Industry and Trade and periodic reporting obligations. Although we believe we have met such conditions in the past, should we fail to meet such conditions in the future, we would be subject to corporate tax in Israel at the standard corporate tax rate (25% for 2013 and 26.5% for 2014) and could be required to refund tax benefits (including with interest and adjustments for inflation based on the Israeli consumer price index) already received. Our average tax rate for our investment programs also may change in the future due to circumstances outside of our control, including changes to legislation. For example, on July 30, 2013, the Investment Law was amended whereby the reduction of corporate tax rate for preferred enterprises was eliminated such that such enterprises, which are subject to the new law, would be subject to a 16% tax rate. Therefore, we cannot provide any assurances that our average tax rate for our investment programs will continue in the future at their current levels, if at all. The termination or reduction of certain programs and tax benefits or a requirement to refund tax benefits (including with interest and adjustments for inflation based on the Israeli consumer price index) already received may have a material adverse effect on our business, operating results and financial condition.

We may engage in future acquisitions that could dilute our stockholders' equity and harm our business, results of operations and financial condition.

We have pursued, and will continue to pursue, growth opportunities through internal development and acquisition of complementary businesses, products and technologies. We are unable to predict whether or when any other prospective acquisition will be completed. The process of integrating an acquired business may be prolonged due to unforeseen difficulties and may require a disproportionate amount of our resources and management's attention. We cannot assure you that we will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our operations, or expand into new markets. Further, once integrated, acquisitions may not achieve comparable levels of revenues, profitability or productivity as our existing business or otherwise perform as expected. The occurrence of any of these events could harm our business, financial condition or results of operations. Future acquisitions may require substantial capital resources, which may require us to seek additional debt or equity financing.

Future acquisitions by us could result in the following, any of which could seriously harm our results of operations or the price of our stock:

issuance of equity securities that would dilute our current stockholders' percentages of ownership;

large one-time write-offs;

the incurrence of debt and contingent liabilities;

difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;

diversion of management's attention from other business concerns;

contractual disputes;

risks of entering geographic and business markets in which we have no or only limited prior experience; and

potential loss of key employees of acquired organizations.

We may not be able to adequately protect or enforce our intellectual property rights, which could harm our competitive position.

Our success and ability to compete is in part dependent upon our internally-developed technology and other proprietary rights, which we protect through a combination of copyright, trademark and trade secret laws, as well as through confidentiality agreements and licensing arrangements with our customers, suppliers, employees and consultants. In addition, we have filed a number of patents in the United States and in other foreign countries with respect to new or improved technology that we have developed. However, the status of any patent involves complex legal and factual questions, and the breadth of claims allowed is uncertain. Accordingly, we cannot assure you that any patent application filed by us will result in a patent being issued, or that the patents issued to us will not be infringed by others. Also, our competitors and potential competitors may develop products with similar technology or functionality as our products, or they may attempt to copy or reverse engineer aspects of our product line or to obtain and use information that we regard as proprietary. Moreover, the laws of certain countries in which our products are or may be developed, manufactured or sold, including Hong Kong, Japan, Korea and Taiwan, may not protect our products and intellectual property rights to the same extent as the laws of the United States. Policing the unauthorized use of our products is difficult and may result in significant expense to us and could divert the efforts of our technical and management personnel. Even if we spend significant resources and efforts to protect our intellectual property, we cannot assure you that we will be able to prevent misappropriation of our technology. Use by others of our proprietary rights could materially harm our business and expensive litigation may be necessary in the future to enforce our intellectual property rights.

Because our products are complex, the detection of errors in our products may be delayed, and if we deliver products with material defects, our credibility will be harmed, the sales and market acceptance of our products may decrease and product liability claims may be made against us.

Our products are complex and may contain errors, defects and bugs when introduced. If we deliver products with material errors, defects or bugs, our credibility and the market acceptance and sales of our products could be significantly harmed. Furthermore, the nature of our products may also delay the detection of any such error or defect.

If our products contain material errors, defects and bugs, then we may be required to expend significant capital and resources to alleviate these problems. This could result in the diversion of technical and other resources from our other development efforts. Any actual or perceived problems or delays may also adversely affect our ability to attract or retain customers. Furthermore, the existence of any defects, errors or failures in our products could lead to product liability claims or lawsuits against us or against our customers. We generally provide our customers with a standard warranty for our products, generally lasting one year from the date of purchase. Although we attempt to limit our liability for product defects to product replacements, we may not be successful, and customers may sue us or claim liability for the defective products. A successful product liability claim could result in substantial cost and divert management’s attention and resources, which would have a negative impact on our financial condition and results of operations.

We are exposed to the credit risk of our customers and to credit exposures in weakened markets, which could result in material losses.

Most of our sales are on an open credit basis. Because of current conditions in the global economy, our exposure to credit risks relating to sales on an open credit basis has increased. We expect demand for enhanced open credit terms, for example, longer payment terms, to continue and believe that such arrangements are a competitive factor in obtaining business. Although we monitor and attempt to mitigate credit risks, including through insurance coverage from time to time, there can be no assurance that our efforts will be effective. Moreover, even if we attempt to mitigate credit risks through insurance coverage, such coverage may not be sufficient to cover all of our losses and we would be subject to a deductible under any insurance coverage. As a result, our future credit risk exposure may increase. Although any losses to date relating to credit exposure of our customers have not been material, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition. Moreover, the loss of a customer due to its financial default also could harm our future business and potential growth.

Our executive officers and key personnel are critical to our business, and because there is significant competition for personnel in our industry, we may not be able to attract and retain such qualified personnel.

Our success depends to a significant degree upon the continued contributions of our executive management team, and our technical, marketing, sales customer support and product development personnel. The loss of significant numbers of such personnel could significantly harm our business, financial condition and results of operations. We do not have any life insurance or other insurance covering the loss of any of our key employees. Because our products are specialized and complex, our success depends upon our ability to attract, train and retain qualified personnel, including qualified technical, marketing and sales personnel. However, the competition for personnel is intense and we may have difficulty attracting and retaining such personnel.

We may have exposure to additional tax liabilities as a result of our foreign operations.

We are subject to income taxes in both the United States and various foreign jurisdictions. In addition to our significant operations in Israel, pursuant to the Acquisition, we currently have operations in Germany, Hong Kong and India. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. In the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Our intercompany transfer pricing may be reviewed by the U.S. Internal Revenue Service and by foreign tax jurisdictions. Although we believe that our tax estimates are reasonable, due to the complexity of our corporate structure, the multiple intercompany transactions and the various tax regimes, we cannot assure you that a tax audit or tax dispute to which we may be subject will result in a favorable outcome for us. If taxing authorities do not accept our tax positions and impose higher tax rates on our foreign operations, our overall tax expenses could increase.

We are exposed to fluctuations in currency exchange rates.

A significant portion of our business is conducted outside the United States. Export sales to manufacturers in Europe and Asia, including Japan and Asia Pacific, represented 97% of our total revenues for the first nine months of 2013. Although most of our revenue and expenses are transacted in U.S. dollars, we may be exposed to currency exchange fluctuations in the future as business practices evolve and we are forced to transact business in local currencies. Moreover, part of our expenses in Israel are paid in Israeli currency, which subjects us to the risks of foreign currency fluctuations between the U.S. dollar and the New Israeli Shekel (NIS) and to economic pressures resulting from Israel’s general rate of inflation. Our primary expenses paid in NIS are employee salaries and lease payments on our Israeli facilities. Furthermore, a portion of our expenses for our European operations are paid in the Euro, which subjects us to the risks of foreign currency fluctuations between the U.S. dollar and the Euro. Our primary expenses paid in the Euro are employee salaries, lease and operational payments on our European facilities. As a result, an increase in the value of the NIS and Euro in comparison to the U.S. dollar, which has been the trend in most of the year due to the devaluation of the U.S. dollar, could increase the cost of our technology development, research and development expenses and general and administrative expenses, all of which could harm our operating profit. From time to time, we use derivative instruments in order to minimize the effects of currency fluctuations, but our hedging positions may be partial, may not exist at all in the future or may not succeed in minimizing our foreign currency fluctuation risks. Our financial results may be harmed if the trend relating to the devaluation of the U.S. dollars continues for an extended period.

Because the markets in which we compete are highly competitive, and many of our competitors have greater resources than we do, we cannot be certain that our products will be accepted in the marketplace or capture market share.

The markets in which we operate are extremely competitive and characterized by rapid technological change, evolving standards, short product life cycles and price erosion. We expect competition to intensify as current competitors expand their product offerings and new competitors enter the market. Given the highly competitive environment in which we operate, we cannot be sure that any competitive advantages enjoyed by our current products would be sufficient to establish and sustain our new products in the market. Any increase in price or competition could result in the erosion of our market share, to the extent we have obtained market share, and would have a negative impact on our financial condition and results of operations.

In each of our business activities, we face current and potential competition from competitors that have significantly greater financial, technical, manufacturing, marketing, sales and distribution resources and management expertise than we do. These competitors may also have pre-existing relationships with our customers or potential customers. Further, in the event of a manufacturing capacity shortage, these competitors may be able to manufacture products when we are unable to do so. Our principal competitors in the cordless market include Lantiq and Dialog Semiconductors, and we have also noted efforts by Beken, a Chinese supplier of basebands for analog cordless phones, to penetrate the DECT market. Our principal competitors in the VoIP market include Broadcom, Dialog Semiconductors, Infineon, Texas Instruments and new Taiwanese IC vendors. Our principal competitors in the multimedia market include Wi-Fi and multimedia application processor IC vendors like Atheros, Broadcom, CSR, Freescale, Intel, Marvel, Ralink, Samsung and Texas Instruments.

As discussed above, various new developments in the home residential market may require us to enter into new markets with competitors that have more established presence, and significantly greater financial, technical, manufacturing, marketing, sales and distribution resources and management expertise than we do. The expenditure of greater resources to expand our current product lines and develop a portfolio of “system-on-a-chip” solutions that integrate video, voice, data and communication technologies in a wider multimedia market may increase our operating expenses and reduce our gross profit. We cannot assure you that we will succeed in developing and introducing new products that are responsive to market demands.

An unfavorable government review of our federal income tax returns or changes in our effective tax rates could adversely affect our operating results.

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, we are subject to the periodic examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. The outcomes from these examinations may have an adverse effect on our operating results and financial condition.

Our business operations would be disrupted if the information technology systems we rely on fail to function properly.

We rely on complex information technology systems to manage our business which operates in many geographical locations. For example, to achieve short delivery lead times and superior levels of customer service while maintaining low levels of inventory, we constantly adjust our production schedules with manufacturers and subcontractors. We develop and adjust these schedules based on end customer demand as communicated by our customers and distributors and based on our inventory levels, manufacturing cycle times, component lead times, and projected production yields. We combine and distribute all of this information electronically over a complex global communications network. Our ability to estimate demand and to adjust our production schedules is highly dependent on this network. Any delay in the implementation of, or disruption in the transition to, new or enhanced processes, systems or controls, could adversely affect our ability to manage customer orders and manufacturing schedules, as well as generate accurate financial and management information in a timely manner. These systems are also susceptible to power and telecommunication disruptions and other system failures. Failure of our IT systems or difficulties in managing them could result in business disruption. Our business could be significantly disrupted and we could be subject to third party claims associated with such disruptions.

We may experience difficulties in transitioning to smaller geometry process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.

A growing trend in our industry is the integration of greater semiconductor content into a single chip to achieve higher levels of functionality. In order to remain competitive, we must achieve higher levels of design integration and deliver new integrated products on a timely basis. This will require us to expend greater research and development resources, and may require us to modify the manufacturing processes for some of our products, to achieve greater integration. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs. Although this migration to smaller geometry process technologies has helped us to offset the declining average selling prices of our products, this effort may not continue to be successful. Also, because we are a fabless semiconductor company, we depend on our foundries to transition to smaller geometry processes successfully. We cannot assure you that our foundries will be able to effectively manage the transition. In case our foundries or we experience significant delays in this transition or fail to efficiently implement this transition, our business, financial condition and results of operations could be materially and adversely affected.

The anti-takeover provisions in our certificate of incorporation and bylaws could prevent or discourage a third party from acquiring us.

Our certificate of incorporation and bylaws contain provisions that may prevent or discourage a third party from acquiring us, even if the acquisition would be beneficial to our stockholders. We have a staggered board, which means it will generally take two years to change the composition of our board. Our board of directors also has the authority to fix the rights and preferences of shares of our preferred stock and to issue such shares without a stockholder vote. Our bylaws also place limitations on the authority to call a special meeting of stockholders. Our stockholders may take action only at a meeting of stockholders and not by written consent. We have advance notice procedures for stockholders desiring to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders. In addition, these factors may also adversely affect the market price of our common stock, and the voting and other rights of the holders of our common stock.

Our stock price may be volatile so you may not be able to resell your shares of our common stock at or above the price you paid for them.

Announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results, changes in the general conditions of the highly dynamic industry in which we compete or the national economies in which we do business, and other factors could cause the price of our common stock to fluctuate, perhaps substantially. In addition, in recent years, the stock market has experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. These factors and fluctuations could have a material adverse effect on the market price of our common stock.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

ITEM 3. defaults upon senior securities.

Not applicable.

ITEM 4. mine safety disclosure.

Not applicable.

ITEM 5. other information.

Not applicable.

ITEM 6. EXHIBITS.

3.1	Amended and Restated Bylaws of DSP Group, Inc., effective as of October 31, 2013 (Filed as Exhibit 3.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2013 and incorporated herein by reference).
10.2	Form of Restricted Stock Unit Agreement for the grant of restricted stock units to each of Ofer Elyakim, Dror Levy and David Dahan (Filed as Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2013 and incorporated herein by reference).
10.3	Amendment to Employment Agreement, as amended, by and among DSP Group, Inc., DSP Group, Ltd. and Ofer Elyakim, effective as of October 31, 2013 (Filed as Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2013 and incorporated herein by reference).
10.4	Amendment to Employment Agreement, as amended, by and among DSP Group, Inc., DSP Group, Ltd. and Dror Levy, effective as of October 31, 2013 (Filed as Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2013 and incorporated herein by reference).
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	DSP GROUP, INC. (Registrant)	
Date: November 12, 2013	By:	/s/ Dror Levy
		Dror Levy, Chief Financial Officer and Secretary
		(Principal Financial Officer and Principal Accounting Officer)

52