SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2000

Commission File Number 0-23006

DSP GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	94-2683643
(State or other jurisdiction of incorporation and organization)	(I.R.S. Employer Identification No.)

3120 SCOTT BOULEVARD, SANTA CLARA, CA 95054
(Address of principal executive offices, including zip code)

(408) 986-4300
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, $.001 PER SHARE
(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Common Stock on March 30, 2001, as reported on the Nasdaq National Market, was approximately $301,818,790.00. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded from this computation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 30, 2001, the Registrant had outstanding 26,520,541 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended December 31, 2000 are incorporated by reference into Part II of this Form 10-K Report. Portions of the Registrants definitive Proxy Statement to be filed subsequently relating to its 2001 annual meeting are incorporated herein by reference into Part III of this Form 10-K Report. With the exception of those portions which are incorporated by reference, the Registrant's 2000 Annual Report and Proxy Statement are not deemed filed as part of this Report.

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DSP GROUP, INC.

THIS ANNUAL REPORT ON FORM 10-K CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT ARE BASED ON THE BELIEFS OF, AND ESTIMATES MADE BY AND INFORMATION CURRENTLY AVAILABLE TO, DSP GROUP'S MANAGEMENT. THE WORDS "EXPECT," "ANTICIPATE," "INTEND," "PLAN" AND SIMILAR EXPRESSIONS IDENTIFY FORWARD-LOOKING STATEMENTS. THESE STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE DISCUSSED HERE. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED BELOW IN "FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS" AND ELSEWHERE IN THIS ANNUAL REPORT ON FORM 10-K.

THIS ANNUAL REPORT ON FORM 10-K INCLUDES TRADEMARKS AND REGISTERED TRADEMARKS OF DSP GROUP. PRODUCTS OR SERVICE NAMES OF OTHER COMPANIES MENTIONED IN THIS ANNUAL REPORT ON FORM 10-K MAY BE TRADEMARKS OR REGISTERED TRADEMARKS OF THEIR RESPECTIVE OWNERS.

PART I

Item 1. BUSINESS.

GENERAL BUSINESS

DSP Group was incorporated as a corporation in the State of California in 1987 and reincorporated in the State of Delaware in 1994. DSP Group develops and markets products and technologies that perform digital signal processing (DSP) -the electronic manipulation of digitized speech and other digital signals. DSP Group's products are used in a wide variety of telecom applications.

Digital signal processing based solutions are more cost effective and provide a broader range of features than analog based solutions. Many applications, including digital cellular and wireless communications, broadband modems, Voice Over the Internet and digital audio/video, all use DSP techniques intensively.

Our work in the field of DSP has yielded four synergetic product families:

- Integrated Digital Telephony (IDT) family of chips, comprised of the following:
  - SPEECH AND TELEPHONY. A highly integrated DSP based chip that handles telephony functions and advanced speech algorithms targeted for the telephony market.
  - CORDLESS TELEPHONY. A 900 Megahertz / 2.4 Gigahertz Digital Spread Spectrum chip set. The chip set is composed of a RF transceiver and a highly integrated DSP based chip. The DSP based chip combines three main functions into one chip: the wireless base band; speech processing; and telephony functions.
- VOICE OVER PACKET. A DSP based, highly integrated speech processor targeted for the low to medium density Integrated Accesses Device (IAD), Residential gateway and IP telephony markets.
- DSP CORES. Digital Signal Processor Cores is a family of programmable digital signal processors that, when combined with other hardware elements such as memory and input/output devices, forms a software enabled chip that is most targeted for specific applications.
- TRUESPEECH(R). A family of proprietary speech compression algorithms.

DSP-BASED SPEECH AND TELEPHONY PROCESSORS

DSP Group has developed two lines of speech and telephony processing chips: integrated digital telephony processors, which are designed for use in the consumer telephone market; and Voice over IP speech co-processors, which are designed for use in network telephony and video conferencing products. Both product lines are based upon our DSP core designs and incorporate our TrueSpeech speech compression algorithms.

INTEGRATED DIGITAL TELEPHONY SPEECH PROCESSORS

DSP Group's integrated digital telephony (IDT) speech processors are currently incorporated in over 90 models of featured phones from more than 40 different companies. These models are being sold in Europe, Japan and the United States.

Our IDT speech processors are based on our PineDSPCore(R) and TeakLite DSPCore, which are more fully described below. Our integrated digital telephony speech processors use our TrueSpeech speech compression technology to provide the highest quality speech recording and playback. They incorporate the following speech and telephony technologies in various combinations:

TECHNOLOGY	DESCRIPTION
Triple Rate Coder(TM)	Instructs the telephone answering system to decide automatically between better voice quality and longer recording time.
True Full-Duplex SpeakerPhone(TM)	Allows simultaneous two-way (full-duplex), hands-free operation of the telephone and suppresses and cancels acoustic and electrical echoes.
G.723.1	Provides speech compression for Voice over IP and video conferencing over standard telephone lines.
Caller ID and Call Waiting Caller ID	Identifies to the party being called the telephone number of the calling party, whether or not the party being called is already engaged in another call.
Call Progress Tone Detection	Detects standard telephony signals during the progress of a telephone call.
DTMF Signaling	Detects and generates touch tone (DTMF) signals that comply with telephone industry frequency standards.
Speech Prompts	Provides the ability to stamp a message with a time and date and vocal operating instructions prompts.
Variable Speed Playback (FlexiSpeech(R))	Permits playback of recorded speech at different speeds without distorting the natural sound of the speech.
Voice Operated Switch (VOX) (Smart-Vox(R))	Detects human speech and stops recording during periods of silence, thereby conserving available memory.
Alpha Least Cost Routing (LCR)/Super LCR	Automatically chooses from a number of telephone service providers in order to select the lowest available rates.
Voice Recognition	Allows a user to operate a telephone or answering machine device by giving voice commands.

The first integrated digital telephony speech processors were introduced by DSP Group in 1989. Since then, we have shipped approximately 67 million units of speech processors to original equipment manufacturers (OEMs), of which approximately 20 million were shipped in 2000. Our IDT speech processor sales accounted for approximately 70% of our total revenues in 2000.

In 1999, we started the shipment of the D16000 family of fully integrated speech processors, which combine the components of a mixed signal system on a single chip. Each speech processor in the D16000 family contains a DSP core, converters that transform analog signals into digital signals and vice versa, and various signal amplifiers, all embedded on a single chip. In addition to implementing DSP algorithms, including data compression, caller ID and full-duplex speaker phone, these speech processors also perform tasks that would typically be handled by a separate central processing unit (CPU) chip. Our goal is for the D16000 processors to provide high value to telephony product vendors by eliminating the need for almost any other electronic components and thus reducing materials and manufacturing costs.

In 2000, we developed the D36000 family of fully integrated speech processors based on our TeakLite Core, which can support two line telephony as well as cordless base band modems with low power usage. We anticipate that this product will enter to mass production deliveries in the second quarter of 2000.

The following table presents the main features of the primary IDT speech processors that we currently offer:

DSP GROUP'S IDT SPEECH PROCESSORS

	D36569	D16559	D6571	D6587
Process Geometry (microns)..............	0.25	0.45	0.5	0.5
Minutes Record, 4 Mbit Memory...........	22-25, 10,15	22-25, 10,15	22-25, 10,15	22-25, 10,15
Memory Type.............................	Flash	Flash	Flash	Flash
DSP Core:	TeakLite	Pine	Pine	Pine
Advanced Features:				
Speech Prompts........................	Yes	Yes	Yes	Yes
Variable Speed Playback...............	Yes	Yes	Yes	Yes
Full Duplex Speakerphone..............	Yes	Yes	Yes	Yes
Caller ID and Call Waiting Caller ID	Yes	Yes	Yes	Yes
Voice Recognition	--	--	--	Yes
System On Chip-included peripherals:				
Microcontroller.......................	Yes	Yes	--	--
Line Codec	Yes	Yes	--	--
Speaker Codec.........................	Yes	Yes	--	--
Amplifiers............................	Yes	Yes	--	--

CORDLESS TELEPHONY

In the beginning of 1999, DSP Group acquired two integrated groups of engineers, one located in Israel and the other in the United States. These twenty-five engineers specialize in the design of integrated circuits for wireless communications. In addition, we acquired technology and products, including associated intellectual property, related to 900 Megahertz narrow-band cordless telephones (the transmissions between the handset and base unit of these telephones are at or near a frequency of 900 Megahertz) and 900 Megahertz spread spectrum cordless telephones (the transmissions between the handset and base unit of these telephones are "spread" in a pseudo-random pattern over a range of frequencies).

In 2000, in anticipation of limited growth in the U.S. 900MHz spread spectrum market, DSP Group initiated development of a new line of cordless products to address this changing market. The line includes a low cost 900MHz digital chipset, a 2.4GHz frequency-hopping, spread spectrum, high power system (a method which uses fast channel switching to mitigate interference and improve performance) and a 2.4GHz multihandset system.

The following table presents the main features of the cordless chipsets that we currently offer:

DSP GROUP'S IDT CORDLESS SPEECH PROCESSORS

	900MHZ DSS	900MHZ DIGITAL
Process Geometry baseband (microns).....	0.35	0.25
RF Process	Bipolar	Bipolar
Advanced Features:		
Digital Answering Machine.............	No	Yes
Full Duplex Speakerphone..............	No	Yes
Caller ID and Call Waiting Caller ID	No	Yes
System On Chip-included peripherals:		
Line Codec	Yes	Yes
Speaker Codec.........................	No	Yes
Amplifiers............................	Yes	Yes
Transmit power (mW)	100	1
Multihandset Capability	No	No

VOICE OVER PACKET SPEECH CO-PROCESSORS

Our Voice over Packet (VoIP, VoDSL) speech co-processors were developed for use in conjunction with other microprocessors to transmit voice-over-packet-based public and private networks, including the Internet, local area networks (LANs), frame relay networks, xDSL links, cable networks and other data networks and combined data/voice networks. "Voice over IP" refers to the transmission of voice signals over networks using the Internet Protocol (IP), which involves dividing the signals into numerous small data packets that are individually transmitted over the network and re-assembled in the correct order at their destination. This technology can also be used to implement the speech component of video conferencing applications.

DSP Group has developed a family of TrueSpeech co-processors that integrate the various versions of TrueSpeech with important telephony capabilities. This product line is known as the CT8000 TrueSpeech Co-processor family. During 2000 we introduced to mass production the latest product in this line, our CT8022 device which has G723.1 and G729AB speech coders.

In March 2000 DSP Group acquired approximately 73% of VoicePump, Inc., a company which specializes in speech coding and telecom algorithms for VoIP, VoDSL and other voice-over-packet applications developed for voice gateway, customer-oriented equipment manufacturers and broadband network providers. In March 2001, DSP Group exercised its option to acquire the remaining founders' shares of VoicePump, which is now a wholly-owned subsidiary of DSP Group.

VoicePump plans to launch its first products in the VP100 family of products in the second half of 2001. The VP100 family of products is based on DSP Group TeakLite core processor, which includes an integrated set of peripherals optimized for VoDSL Integrated Access Device (IADs), VoIP and other packet voice applications. VoicePump plans to offer its current and future product lines as low cost efficient applications for both VoDSL and VoIP solutions.

We anticipate that VoicePump's speech co-processors will take advantage of the G.723.1, a speech compression algorithm that has been incorporated into various international communications standards, which is more fully discussed below, to provide cost-effective, high quality speech compression. The following table sets forth other features of the Voice over IP speech co-processors that we currently offer or plan to offer during 2001:

DSP GROUP'S VOICE OVER PACKET SPEECH CO-PROCESSORS

	CT8022	VP110	VP120	VP140
Number of channels supported simultaneously	1	1	2	4
DSP Core	Oak	TeakLite	TeakLite	TeakLite
Process Geometry (microns)	0.5	0.25	0.25	0.25
ITU-T Standard Speech Coders	G.723.1, G.729AB	G.726, G.723.1, G.729AB	G.726, G.723.1, G.729AB	G.726, G.723.1, G.729AB
Analog Front-End integrated	--	Yes	Yes	Yes
Features:				
Full Duplex Speakerphone	Yes	Yes	Yes	Yes
Variable Speed Message Playback	--	--	--	--
Full Duplex DSVD	Yes	Yes	Yes	Yes
Video Conferencing	Yes	Yes	Yes	Yes
Internet Telephony	Yes	Yes	Yes	Yes
Line Echo cancellation G168	No	Yes	Yes	Yes

The following is a list of manufacturers and resellers whose products incorporate our devices:

VOIP, IDT & CORDLESS MANUFACTURERS AND RESELLERS

Manufacturers		Resellers
Solectron	Panasonic	Bell South
Flextronics	Philips	Doro
CCT Telecom	CKT	Radio Shack
Daewoo	Samsung	France Telecom
D&B Electronics	E-Lead	GE
Primatronix	Intech	German Telecom
Giant	Sagem	Loewe-Binatone
HPF Ascom	Sony	Southwestern Bell
JVC	Taifeng	Belgacom
Decktron	Thomson	
L.G. Electronics	Tiptel	
Cenixdigicom	Syhtech	
DIC	Dyne	
Matra	Uniden	
Maxon	Diasonics	

DSP CORES

DSP Group has developed proprietary, programmable DSP core architectures and designs that provide low-power, high performance, cost-effective solutions for current and emerging digital signal processing applications. Our DSP cores are incorporated in our own family of speech and telephony, cordless, voice over packet and telephony processors and also are licensed to more than 60 entities, including Adaptec (now part of ST Micro), Atmel, DSP Communications (now part of Intel), Fujitsu, Kawasaki, LSI Logic, Marvell, NEC, Oki, Seiko Epson, Samsung, Siemens/Infinion, Sony, Temic and Philips.

Our SmartCores(TM) family is currently composed of five generations of fixed-point DSPs: PineDSPCore(R); OakDSPCore(R); TeakLite(R); Teak(R); and PalmDSPCore(R). By offering a range of performance, price and power consumption balances, our cores family addresses a wide range of applications, from low-end, high-volume applications, such as digital answering machines, hard disk controllers, low speed modems and Voice over IP terminals, to high performance applications such as third generation (3G) cellular communication devices, broadband modems, consumer multimedia and Voice over IP gateways.

Our DSP core designs are currently licensed to a wide variety of licensees under more than 60 license agreements, including leading semiconductor companies such as Atmel, Fujitsu, Infineon, Intel, Kawasaki, LSI Logic, Mitsubishi, National Semiconductor, NEC, Oki, Philips, Samsung, Seiko-Epson and Sony.

We believe the following to be the key benefits of our solution:

- LOW POWER CONSUMPTION. Our cores have been designed to satisfy low power consumption requirements. Applications within the embedded DSP Group market either rely on batteries, such as cell phones and portable audio products, or are sensitive to power dissipation as in the case of telecommunications equipment (DSLAM or multi-channel voice gateways).

- LOW COST. Our technology is designed to address the cost requirements for high volume, highly-competitive applications. Reduction of chip cost is achieved by reducing the overall physical size of the chip. Our technology contributes to this reduction by reducing the size of the programmable DSP core through careful selection of functions and mechanisms to be included within the core. We also reduce chip size by minimizing the memory size used for running a specific application. Through our DSP algorithms, we offer instruction sets suited for targeted applications and encode the instructions in a very condensed form. The instruction code density factor has recently gained more significance, as the emerging applications in our markets are major memory consumers.

- FLEXIBILITY. Our architecture allows our licensees to differentiate their products while still taking advantage of the benefits of our "open architecture" designs. We license our technology as a "soft core," allowing each of our semiconductor licensees or system OEMs to take advantage of their respective manufacturing strengths. In addition, our architecture has flexible memory size, which enables our licensees to tailor the chip to include the specific memory size required for a targeted application.

- PROGRAMMABLE SOLUTION. Our intellectual property allows our licensees to develop software-based, application-specific chips as opposed to a hard-wired implementation. A programmable solution allows our licensees to use the same IC design for several generations or variations of products, implementing these differentiations through software, thus shortening the time to market and reducing engineering costs. Additionally, a programmable solution allows for "field upgrades" of the chips, where software can be replaced through remote down-loading rather than through replacing the chip.

- IMPROVING CUSTOMERS TIME TO MARKET. A typical design cycle for a semiconductor company can be lengthy and painful. Our technology shortens this design cycle and improves our customers overall time to market by addressing two of the main time-consuming stages of the design cycle: the process of porting the core design to physical hardware layout; and by providing ready-made software development environments for designing the software used in our core designs.

- FOCUSED PRODUCT ROAD MAP OF HIGH-PERFORMANCE CORES. We have developed five generations of programmable DSP cores, which were designed to meet the performance, power consumption and cost requirements of the various applications within the embedded DSP market, and we intend to continue and enhance our cores and to design new cores to meet future market demands. Our family of cores offers broad selection of different price performance points, although each is designed for low power consumption, enabling the crafting of optimal balance of performance, cost and power efficiency. In addition, our latest DSP cores, the Teak and the PalmDSPCore, use advanced techniques of Instruction Level Parallelism--Single Instruction Multiple Data (SIMD) and Multiple Instruction Multiple Data (MIMD) allowing our cores to be embedded in high-performance applications such as telecommunications equipment (Multi-Channel Voice Gateways, DSLAM) and third generation cellular terminals.

- SOFT CORE / FOUNDRY NEUTRAL. Our cores are "soft cores," which means that they include a complete software-based description of the circuits as well as simulation and verification data. This allows the licensee to create diversified versions of their embedded intellectual property solutions through the selection of different physical library vendors or silicon suppliers and allows our cores to be easily integrated across multiple semiconductor manufacturing processes with different geometry technologies. This manufacturing independence enables our customers to select any foundry vendor or semiconductor process to manufacture their designs.

- OPEN ARCHITECTURE. Our SmartCore architecture is offered to a broad range of SoC manufacturers that provide solutions for system OEMs and has been adopted by leading worldwide semiconductor companies. Our architecture has been adopted by several different categories of companies that play a role in the design of advanced DSP-based systems. As a result, the system OEMs who are the consumers of our intellectual property enjoy the ability to choose multiple suppliers offering solutions based on our technology, and can leverage their buying power.

- RESPONSIVENESS TO OUR CUSTOMERS NEEDS. We have accumulated experience in supporting and assisting customers to get into production in the fastest way. We train our licensees, provide them with detailed application notes, design examples and software libraries for their use in the design process. We continue to be responsive to our customer needs and implement changes to our solutions for the benefit of our licensees. Our development and support teams consist of experienced and highly-skilled engineers who enable us to provide a broad range of services and design aids.

- TECHNOLOGY PARTNER NETWORK. We have established a network of independent third parties that provide services and technologies complementary to ours, including leading service companies such as Tality, EDA vendors such as Mentor, Synopsis and Cadence, Real Time Operating Systems (RTOS) vendors such as CMX, multi-core debugger vendors such as Allant (a subsidiary of ARM Holding) and DSP software companies such as Ensigma, Espico and Vocal Technologies. We believe that these third party partners offer existing and potential users of our technologies value-added solutions and help to establish our cores as an industry standard.

- TIGHTLY COUPLED DEVELOPMENT TOOLS AND ARCHITECTURE. We believe that it is a great benefit for our licensees that we provide them with both the DSP cores and the related software development and hardware emulation tools to assist in product development. The close relationship between the DSP core architectures and the design development tools results in a design environment composed of optimized, code-efficient compilers as well as efficient and accurate hardware emulation prototypes, which we believe our customers prefer.

With each new core we have developed, we have added features and enhanced overall performance. Our first core, the PineDSPCore, was released in 1992 and was developed for use in our IDT product line. It also gained success in other DSP applications, such as hard disk drive applications, and Voice Over IP phones. In 1994, we introduced our OakDSPCore, an enhanced version of the PineDSPCore that, among other things, achieves a higher processing speed through improved architecture and includes an advanced, more efficient instruction set. The OakDSPCore is especially well-suited for use in digital cellular phones, conventional modems, IP phones and portable audio. Algorithms that use the PineDSPCore instruction set also can be run on the OakDSPCore.

In 1999, we introduced the TeakDSPCore. The TeakDSPCore is a family of two low power, low-cost cores: the TeakLite(TM) and the Teak(R). These cores were incorporated into two new methodologies known as "soft core" and "synthesizable core" which significantly simplifies and shortens the process of porting the design technology to the licensee's manufacturing process and technologies. The TeakLite takes advantage of the wide adoption of the OakDSPCore and offers the advantages of lower power and higher operating speeds over its predecessor. The Teak offers in addition to the TeakLite benefits, two (as opposed to one) arithmetic units functioning in parallel (Dual MAC), which improves the performance of a notable portion of the DSP application. The TeakDSPCore family is aimed at emerging applications in the digital cellular communications, including products implementing the Global System for Mobile communications (GSM), half-rate GSM, Time Division Multiple Access (TDMA) and Code Division Multiple Access (CDMA) standards. We also have targeted these cores for products implementing emerging digital audio standards and formats such as AC3 and MP3, as well as for Voice over IP gateways.

In 1999, we also introduced the first version of our high performance PalmDSPCore. The PalmDSPCore is a family of three cores, with each core version intended for a different market segment. These cores are intended for a wide range of high performance applications, including third generation cellular communications, digital subscriber lines (DSL), VoIP gateways and consumer multimedia. The following table sets forth the primary features of each our SmartCores products:

DSP GROUP'S CORE DESIGNS

	PINEDSPCORE	OAKDSP CORE	TEAKLITE	TEAK	PALMDSPCORE
Data Word Length	16 bit	16 bit	16 bit	16 bit	16/20/24 bit
Design Methodology.............	Hard	Hard	Soft	Soft	Soft
Architecture...................	Single MAC	Single MAC	Single MAC	Dual MAC	Dual MAC & Instruction Level Parallelism
Program address space..........	64Kwords	64kwords	64Kwords	4Mwords	16Mwords
Program word size..............	16 bit	16 bits	16 bit	16 bit	16/32 bit

In addition to incorporating our DSP core designs in our speech and telephony processors, we also license them to third parties together with our advanced software development tools, so that these licensees can incorporate our DSP core designs into their semiconductor chip products. These licenses are generally granted in exchange for a license fee payment, a support fee and a royalty. The license fee is generally recognized when persuasive evidence of an agreement exists, delivery has occurred, the fee is fixed on determinable and collectability is probable. The monthly support fee is typically paid for a period of one or two years, and recognized during that period and ongoing per-unit royalties based on the number of units of products containing the core that are shipped by the licensee. Non refundable payment on account of future royalties from similar agreements are recognized upon payments, provided no future obligation exists. The timing and amount of royalties that we receive from our core licensees depends on the timing of each licensee's product development and the degree of market acceptance of each licensee's products, neither of which are within our control. In 2000, 12 licensees shipped products utilizing these cores, an increase over the previous year.

The following is a partial list of companies who have licensed our DSP core designs and representative applications for which they use our DSP core designs:

DSP CORE DESIGN LICENSES

LICENSEES	REPRESENTATIVE APPLICATIONS
Atmel	ASIC, Communications
DSP Communications (a subsidiary of Intel)	Digital Cellular Telephones
Fujitsu	ASIC, ADSL, Communications
Hyundai	ASIC, Audio, Communications
Infineon	Communications; Wireless
Kawasaki	ASIC, Communications
Kenwood	Audio Products
Legerity	Communications
LSI Logic	ASIC, DAB, Servo, Cellular
Marvell	Data Storage
Mitel	ASIC, Cellular, VoIP
Mobilink	Cellular
National Semiconductor	Communications
NEC	ASIC, Communications
Oki	Communications, Modems, VoIP
Philips Semiconductors	ASIC, Communications, Audio, Wireless
ROHM	ASIC, Communications
Samsung	ASIC, Communications and Multimedia
Seiko-Epson	ASIC, Communications
Sony	Multimedia; Audio; Servo
ST Microelectronics	Disk Drives
TDK Semiconductor	Modems
TEMIC	DAB, Communications
Tioga	ADSL
Xemics	Low Voltage applications
Adaptec	Disk Drives

In 2000, the number of our core licensees increased as a result of several contracts signed for our newest products, TeakLite, Teak and PalmDSPCore. Prior to 1999, most of our licensees licensed our cores for the cellular market. In 2000, the PalmDSPCore was selected by leading companies as the platform for the xDSL (full-rate and G.Lite) market as well as for third generation cellular products.

TRUESPEECH PRODUCTS

TrueSpeech is a family of high-quality, cost-effective speech compression technologies based on complex mathematical algorithms that are derived from the way airflow from the lungs is shaped by the throat, mouth and tongue during speech. This shaping of bursts of air is what the ear interprets as speech. TrueSpeech converts these sounds into digital data and then selectively eliminates and enhances certain sound data to replicate human speech.

Originally developed for consumer telephone applications, we have also enhanced our TrueSpeech products for use in the computer telephony and Voice over IP markets. We have both incorporated our TrueSpeech technology into our speech and telephony processors and as well as offer licenses of TrueSpeech to computer telephony, personal computer and Voice over IP companies for inclusion in their products.

Our TrueSpeech technology has become one of the leading digital speech compression solutions in several markets. In the personal computer market, Microsoft has incorporated one of our TrueSpeech algorithms in its Windows 95, Windows 98 and NT products. In February 1995, the International Telecommunications Union established its G.723.1 standard for low bit rate speech compression, which incorporates the TrueSpeech 6.3 and 5.3 algorithms. In March 1997, the International Multimedia Teleconferencing Consortium, a nonprofit industry group, recommended the G.723.1 standard as a default low bit rate audio compression technology for all voice transmissions over the Internet and for conferencing products conforming to the International Telecommunication Union's H.323 standard for packet-based multimedia communication systems. G.723.1 is also part of the International Telecommunication Union's H.324 standard for video conferencing over standard telephone lines. Since its adoption and endorsement by the International Telecommunications Union and the International Multimedia Teleconferencing Consortium, the G.723.1 standard has gained considerable momentum in the video and audio conferencing industry.

We believe that the principal advantages of TrueSpeech, as compared with other currently available digital speech compression technologies, are as follows:

- INDUSTRY ACCEPTANCE AND FIELD PROVEN. As described above, a TrueSpeech algorithm, the G.723.1, was adopted as a standard by the International Telecommunications Union and was recommended as the a default speech algorithm for Voice over IP by the International Multimedia Teleconferencing Consortium. This encourages broad usage of the algorithm, especially in Voice over IP and video conferencing applications.

- HIGH QUALITY SPEECH. Another advantage of TrueSpeech is that it reproduces high quality speech playback with minimum distortion by selectively eliminating nonessential and background sound data without significant loss of speech quality. Our TrueSpeech technology has received high scores for speech quality from a number of independent evaluators. For example, TrueSpeech scored the highest on the ITU's test used to numerically rate the quality of the five competing speech compression algorithms submitted for adoption as the G.723.1 standard for video telephones. In independently conducted tests performed by Dynastat, Inc., a company specializing in the performance evaluation of voice communication systems, TrueSpeech 6.3 received a mean opinion score of 3.98, while regular telephone quality being based upon a mean opinion score of 4.0.

- COST EFFECTIVENESS. TrueSpeech's ability to achieve high speech compression with lower computational complexity provides it with a competitive cost advantage. For example, competing speech compression algorithms evaluated by the ITU use 20% to 50% more computing power for the same compression and transmission rates, and require more memory for storage and operation. Consequently, these competing speech compression algorithms require larger, more expensive DSPs and result in higher cost solutions than those based on our technologies.

Our TrueSpeech licensees include, among others, Analog Devices, Cirrus Logic, Creative Labs, Dialogic, IBM, Intel, Microsoft, Philips, Siemens/Infinion, Smith Micro, Texas Instruments, Unisys, US Robotics, Winbond and White Pine Software. In addition, we have ported our TrueSpeech algorithms to certain DSP platforms offered by Analog Devices, Motorola and Texas Instruments, three leading merchant vendors of programmable DSP chips.

SALES, MARKETING AND DISTRIBUTION

We market and distribute our products through our direct sales and marketing organization, as well as through a network of distributors and independent manufacturers' representatives. A marketing and sales team located in our headquarters in Santa Clara, California and in Israel pursues business with our customers in North America and closely monitors new markets, trends and customer needs to shape our strategic decisions. In Japan, we operate from a marketing and support office in Tokyo and through Tomen Electronics, a local distributor. In the rest of Asia, we operate through sales representatives in China, Hong Kong, India, South Korea and Taiwan. To handle sales and distribution in Europe, we operate a marketing and support office located in France and have sales representatives in Denmark, Germany, Israel, Spain, Sweden and the United Kingdom. Our sales representatives and distributors are not subject to minimum purchase requirements and can cease marketing our products at any time. The loss of one or more representatives or their failure to renew agreements with us upon expiration could harm our business, financial condition and results of operations.

Sales to Tomen Electronics comprised 52% of our total revenues in 2000, 47% in 1999 and 45% in 1998. Export sales accounted for 85% of our total revenues in 2000, 97% in 1999 and 95% in 1998. Due to our export sales, we are subject to the risks of conducting business internationally, including unexpected changes in regulatory requirements, fluctuations in exchange rates that could increase the price of our products in foreign markets, delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, other barriers and restrictions and the burden of complying with a variety of foreign laws. All of our export sales are denominated in United States dollars. See Note 5 of the Notes to Consolidated Financial Statements of our Annual Report to Stockholders for the year ended December 31, 2000, for a summary of our operations within various geographic areas.

MANUFACTURING AND DESIGN METHODOLOGY

Since our products are based on our proprietary DSP core designs, which are not dependent upon a particular foundry's library cells, these products can be manufactured at a number of independent foundries. Accordingly, all of our manufacturing occurs at independent foundries. We contract fabrication services for speech and telephony processors from Taiwan Semiconductor Manufacturing Company, Sony and UMC. Under non-exclusive agreements, these independent foundries normally provide us with either finished, packaged and tested speech processors at variable prices depending on the volume of units purchased or as sorted good wafers. We customarily pay for fully-tested products meeting predetermined specifications. To ensure the integrity of quality assurance procedures, we develop detailed testing procedures and specifications for each product and require each foundry to use these procedures and specifications before shipping us finished products.

We intend to continue to use independent foundries to manufacture digital speech processors, cordless devices and other products for the consumer telephone and computer telephony markets. To obtain an adequate supply of finished wafers in the future, we are considering various alternative production sites. Our reliance on independent foundries involves a number of risks, including the foundries' ability to achieve acceptable manufacturing yields and their allocation of sufficient capacity to us to meet our needs. In addition, foundries in Taiwan produce a significant portion of our wafer supply. As a result, earthquakes, aftershocks or other natural disasters in Asia, could preclude us from obtaining an adequate supply of wafers to fill customer orders and could harm our business, financial condition, and results of operations.

In addition to our speech processors, our IDT speech processor products require an external component in the finished product to provide analog random access memory circuits (ARAMs) and flash memory that are supplied by third party manufacturers. Temporary fluctuations in the pricing and availability of these components could negatively impact sales of our IDT speech processors, which could in turn harm our business, financial condition and results of operations.

COMPETITION

The markets in which we operate are extremely competitive and we expect that competition will increase in the future. 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. Our future prospects will depend greatly on our ability to successfully develop and introduce new products that are responsive to market needs. We cannot assure you that we will be able to successfully develop or market any of these products.

The principal competitive factors in the IDT speech processors market include price, speech quality, compression ratio, value-added features (such as variable speed message playback and speakerphone), the level of mixed-signal integration, customer support and the timing of product introductions by us and our competitors. We believe that we are competitive with respect to each of these factors. Our principal competitors in the IDT market include Agere, Macronix, Philips, Sanyo, Siemens/Infinion and Toshiba.

The principal competitive factors in the cordless telephony market include price, system integration level, range, customer support and the timing of product introductions by us and our competitors. We believe that we are competitive with respect to most of these factors. Our principal competitors in the cordless market include Conexant, National Semiconductor, Philips and Siemens/Infinion.

The principal competitive factors in the Voice over Packet market include price, system integration level, customer support and the timing of product introductions by us and our competitors. We believe that we are competitive with respect to most of these factors. Our principal competitors in the Voice over Packet market include TI/Telogy, Virata and Ishoni.

The principal competitive factors in the DSP core designs market for high volume, low cost applications include such features as small size, low power, flexible I/O blocks and associated development tools. Our DSP core designs compete with companies such as LSI Logic and Siemens/Infinion, which license DSP platforms, and companies such as Analog Devices, Agere, Motorola, and Texas Instruments, which sell their own complete general purpose DSP solutions.

Several digital speech compression technologies exist and are currently being developed that may be promoted by competitors as industry standards for the computer telephony and personal computer markets. Our TrueSpeech algorithms compete with ADPCM, and the speech compression technologies used in the GSM and VSELP protocols, each of which is available in the public domain. There are many versions of these algorithms that have been developed by different parties, including AT&T, which has been actively involved in the development of GSM protocols, and Motorola, which developed the original VSELP protocols. Although TrueSpeech has achieved a degree of acceptance in the computer telephony, personal computer and VoIP markets, ADPCM and the speech compression technologies for the GSM and VSELP protocols are widely used in the development and implementation of new products in the telephony industry. In addition, other advanced speech compression algorithms have been introduced by competitors that offer compression ratios comparable to or higher than the TrueSpeech algorithms. Large companies, such as AT&T, Creative Labs, Motorola and Rockwell, have speech processing technologies that can be applied to speech compression for use in the same markets for which our products are targeted.

Price competition in the markets in which we currently compete and propose to compete is intense and may increase, which could harm our business, financial condition and results of operations. We have experienced and expect to continue to experience increased competitive pricing pressures for our IDT processors. We were able to offset price reductions which occurred during 2000 through manufacturing cost reductions and by achieving a higher level of integration in our products and by combining other functions, which used to be part of separate chips, into our DSP Group chips. However, we cannot assure you that we will be able to further reduce product costs, or be able to compete successfully as to price or any other of the key competitive factors in the future.

RESEARCH AND DEVELOPMENT

We believe that continued timely development and introduction of new products is essential to maintain our competitive position. We currently conduct most of our product development in our facilities and at December 31, 2000 had a staff of 135 research and development personnel, of which 102 were located in Israel. We also employ independent contractors to assist with certain product development and testing activities. We spent approximately $20.9 million in 2000, compared with $15.4 million in 1999, on research and development activities.

RELATIONSHIPS WITH AFFILIATED COMPANIES

AUDIOCODES, LTD.

AudioCodes, Ltd. ("AudioCodes") is an Israeli corporation primarily engaged in design, research, development, manufacturing and marketing hardware and software products that enable simultaneous transmission of voice and data over networks including the Internet, ATM and frame relay. DSP Group acquired approximately 35% of the outstanding stock of in AudioCodes in two separate transactions in 1993 and 1994. In July 1997, AudioCodes completed a private placement of additional equity securities without the participation of DSP Group and, as a result, DSP Group's equity ownership interest in AudioCodes was diluted from 35% to approximately 29%. DSP Group was also granted an option to purchase up to an additional 5% of the outstanding stock of AudioCodes under certain conditions.

DSP Group accounts for its ownership in AudioCodes using the equity method. DSP Group's original investment in AudioCodes included the excess of purchase price over net assets acquired (approximately $1,907,000 at the date of purchase), which was attributed to developed technology to be amortized over seven years. The private placement by AudioCodes in July 1997 was at a price per share greater than DSP Group's then current investment in AudioCodes. As a result, even though DSP Group's ownership interest decreased from 35% to 29%, DSP Group's proportionate share of the net assets of AudioCodes increased from $816,000 to $1,481,000 at the date of the private placement. This increase in DSP Group's proportionate share of the net assets of AudioCodes reduced the remaining unamoritized excess of purchase price over net assets acquired from $1,080,000 to $415,000 as of the date of the private placement.

In May 1999, DSP Group exercised its option to purchase approximately 3.5% of the outstanding stock of AudioCodes for approximately $1.2 million. In the same month AudioCodes completed its initial public offering (IPO) and is now listed on the Nasdaq SmallCap Market under the symbol AUDC. In its IPO, AudioCodes issued 7.0 million shares at a price of $7.00 per share. As a result, DSP Group recorded in "Financial and Other income (expense)" in its consolidated statements of income for 1999 a one-time capital gain in the amount of $11.8 million. This amount was comprised of a $9.4 million gain from the sale of AudioCodes' stock to the public in the IPO and a $2.5 million gain from the sale of approximately 496,000 AudioCodes shares to the underwriters, to cover their over-allotment option. The gross proceeds to DSP Group from the sale of some of our AudioCodes shares was approximately $3.2 million. In October 1999, AudioCodes successfully concluded a follow-on public offering of 6 million shares at a price of $20.50 per share. In the follow-on, AudioCodes issued and sold 3.0 million shares and an additional 3.9 million shares were sold by shareholders, of which approximately 2,138,000 shares were sold by DSP

Group in two separate transactions. The gross proceeds to DSP Group from these transactions were approximately $42.8 million, and we recorded as additional capital gain in the amount of $47.1 million. This amount was comprised of a $10.8 million gain from the increase in audio net asset value in the public offering and $36.3 million gain from our sale of approximately 2,138,000 AudioCodes shares. As of December 31, 1999, DSP Group a amortized all the remaining portion of the excess of purchase price over net assets.

In January 2000, DSP Group sold an additional 1,200,000 shares of AudioCodes for approximately $43.8 million and recorded an additional capital gain in the amount of $40.0 million in the first quarter of 2000. In May 2000, DSP Group sold an additional 500,000 shares of AudioCodes for approximately $19.2 million and recorded an additional capital gain in the amount of $17.6 million in the second quarter of 2000. In December 2000, DSP Group purchased in the open market 300,000 shares of AudioCodes stock for approximately $4.9 million. This transaction created an excess of purchase price over net assets acquired (approximately $3,745,000 at the date of purchase), which was attributed to developed technology to be amortized over seven years. As of December 31, 2000, DSP Group held 4.45 million shares of AudioCodes common stock, which represented approximately 11% of the outstanding shares of AudioCodes. DSP Group's equity in the net income of AudioCodes was $2,644,000 in 2000, $2,475,000 in 1999, and $125,000 in 1998. All shares and per share numbers with respect to AudioCodes have been adjusted to reflect the 2 for 1 Stock Split effected as a stock dividend by AudioCodes in October 2000. As of December 31, 2000, the fair market value of DSP Group's investment in AudioCodes was approximately $60.4 million.

APTEL LTD. AND NEXUS TELECOMMUNICATIONS SYSTEMS LTD.

In July 1996, DSP Group invested in Aptel Ltd. ("Aptel"), which is located in Israel. DSP Group accounted for its investment in Aptel using the equity method of accounting. DSP Group's equity in the net losses of Aptel, including amortization of related intangibles, was $408,000 in 1997. As of June 30,1997, DSP Group had fully written-off its investment in Aptel.

In December 1997, Aptel's shareholders, including DSP Group exchanged their shares in Aptel for ordinary shares of Nexus Telecommunications Systems Ltd. ("Nexus"). Nexus is an Israeli company whose shares are registered and traded on the Nasdaq SmallCap Market under the symbol NXUSF. In October 1997, DSP Group invested $176,000 in a convertible debenture in Aptel which was converted into ordinary shares of Aptel prior to the closing of the Nexus transaction. DSP Group received approximately 297,000 ordinary shares of Nexus in the exchange transaction for these shares, which represented approximately 3% of the outstanding shares in Nexus. DSP Group's basis in the Nexus stock received is $176,000. At December 31, 1997, DSP Group's investment in Nexus was presented in DSP Group's consolidated balance sheet at the market value of $1,226,000, with the unrealized gain of $1,050,000 recorded as other comprehensive income, as a separate component of stockholder's equity. In April 1998, DSP Group sold all of its Nexus shares in a private transaction for approximately $1.3 million and realized a pre-tax gain on marketable equity securities of approximately $1.1 million, which is included under "Financial and Other income (expense)" in DSP Group's consolidated statements of income for 1998.

ACQUISITION OF VOICEPUMP, INC.

VoicePump, Inc. ("VoicePump") is a US corporation primarily engaged in the design, research, development and marketing of software applications for Voice Over DSL (VoDSL) and Voice Over Internet Protocol (VoIP). In March 2000, DSP Group acquired (1) approximately 1,960,250 shares of Common Stock of VoicePump from certain VoicePump shareholders in exchange for approximately 261,000 shares of its DSP Group's Common Stock and a nominal amount of cash (to pay for fractional shares) and (2) approximately 1,027,397 shares of VoicePump common stock directly from VoicePump together with warrants to purchase up to 1,027,397 shares of VoicePump Common Stock at an exercise price of $4.866 per share within two years (of the date of issuance of the warrant) and up to 1,027,397 additional shares at an exercise price of $4.866 per share within three years (of the date of issuance of the warrant) for $5,000,000. The shares acquired from VoicePump and its shareholders (not including the shares issuable upon exercise of the warrants) represented approximately 73% of the outstanding shares of VoicePump. In the second quarter of 2000 the investment in VoicePump was diluted due to the exercise of warrants by a VoicePump shareholder to approximately 71% of the outstanding shares of VoicePump. DSP Group recorded a loss of $100,000 in the second quarter of 2000 as a result of this option exercise which was attributed to loss from issuance of subsidiaries' stock on our income statement.

DSP Group's original investment in VoicePump included the excess of purchase price over net assets acquired (approximately $16,070,000 at the date of purchase), which was attributed to in-process research and development and to goodwill. The operation expenses include unusual items in the amount of $11,869,000 related to the acquired in-process research and development, which was written off in the first quarter of 2000. The write-off was due to the fact that there was no established technological feasibility or alternative future use of some of the technology. Other intangible assets acquired had an estimated fair value of $4,201,000 and were recorded as goodwill.

As of December 31, 2000 the balance of this goodwill to be amortized in seven years was approximately $3,854,000. The consolidated statements of income for the year ended December 31, 2000 (commencing from the acquisition date) include losses in the investment in VoicePump of approximately $2.2 million and include the minority interest in those losses in the amount of $627,000.

TOMEN LTD.

In September 2000, DSP Group invested approximately $485,000 (31.0 million Yen) in shares of its Japanese distributor's parent company, Tomen Ltd., as part of a long-term strategic relationship. Tomen's shares are traded on the Japanese stock exchange, and are recorded in "Other Investments" on our balance sheets. DSP Group accounts for investments in debt and equity securities (other than those accounted for under the equity method of accounting) in accordance with FASB Statement No.115, "Accounting for Certain Investments in Debt and Equity Securities." Securities available for sale are carried at fair value, with the unrealized gains and losses, net of income taxes, reported as a separate component of shareholders' equity, accumulated other comprehensive income (loss). Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statement of income. At December 31, 2000 the carrying amount of securities approximated their fair value and the amount of unrealized gain or loss was not significant.

LICENSES, PATENTS AND TRADEMARKS

We have been granted eighteen United States patents, one Canadian patent and two Israeli patents, and have twenty-five patents pending in the United States, two patents pending in Japan, one patent pending in Taiwan, fourteen patents pending in Israel and one patent pending in Europe. We actively pursue foreign patent protection in other countries of interest to us. Our policy is to apply for patents or for other appropriate statutory protection when we develop valuable new or improved technology. 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 our patents, and any patents that may be issued in the future, will afford adequate protection against competitors with similar technology; nor can we provide assurance that patents issued to us will not be infringed or designed around by others. In addition, the laws of certain countries in which our products are or may be developed, manufactured or sold, including Hong Kong, Japan and Taiwan, may not protect our products and intellectual property rights to the same extent as the laws of the United States.

We attempt to protect our trade secrets and other proprietary information through agreements with our customers, suppliers, employees and consultants, and through other security measures. Although we intend to protect our rights vigorously, we cannot provide assurance that these measures will be successful.

The semiconductor and software industries are subject to frequent litigation regarding patent and other intellectual property rights. While we have not been involved in any material patent or other intellectual property rights litigation to date, we cannot provide assurance that third parties will not assert claims against us with respect to existing or future products or that we will not need to assert claims against third parties to protect our proprietary technology. For example, AT&T has asserted in the past that G.723.1, which is primarily composed of a TrueSpeech algorithm, includes certain elements covered by patents held by AT&T and has requested that video conferencing equipment manufacturers license this technology from AT&T. If litigation becomes necessary to determine the validity of any third party claims or to protect our proprietary technology, it could result in significant expense to us and could divert the efforts of our technical and management personnel, whether or not the litigation is determined in our favor. In the event of an adverse result in any litigation, we could be required to expend significant resources to develop non-infringing technology or to obtain licenses to the technology that is the subject of the litigation. We cannot provide assurance that we would be successful in developing non-infringing technology or that any licenses would be available on commercially reasonable terms.

We have been issued registered trademarks for the use of the PineDSPCore, Pine assyst simulatorm, Pine, OakDSPCore, TeakDSPCore, Teak, PalmDSPCore, OCEM, TrueSpeech, Full Duplex SpeakerPhone, TeakLite, Triple Rate Coder, SpeechOnChip, DSPeech and Speechip trademarks. In addition, we applied for trademarks for PalmAssyst, Assyst and SmartCores.

While our ability to compete may be affected by our ability to protect our intellectual property, we believe that, because of the rapid pace of technological change in the industry, our technical expertise and ability to innovate on a timely basis will be more important in maintaining our competitive position than protection of our intellectual property. We believe that, because of the rapid pace of technological change in the consumer telephone, computer telephony and personal computer industries, patents and trade secret protection are important but must be supported by other factors, including the expanding knowledge, ability and experience of our personnel, new product introductions and frequent product enhancements. Although we continue to implement protective measures and intend to defend our intellectual property rights, we cannot provide assurance that these measures will be successful.

BACKLOG

At December 31, 2000, our backlog was approximately $36.2 million compared with approximately $28.8 million at December 31, 1999. We include in our backlog all accepted product purchase orders with respect to which a delivery schedule has been specified for product shipment within one year and fees have been specified in executed licensing contracts. Our business in IDT speech processors is characterized by short-term order and shipment schedules. Product orders in our current backlog are subject to changes in delivery schedules or to cancellation at the option of the purchaser without significant penalty. Accordingly, although useful for scheduling production, backlog as of any particular date may not be a reliable measure of our sales for any future period.

EMPLOYEES

At December 31, 2000, we had 217 employees, including 135 in research and development, 34 in marketing and sales and 48 in corporate and administration and manufacturing coordination. Competition for personnel in the semiconductor, software and personal computer industries in general is intense. We believe that our future prospects will depend, in part, on our ability to continue to attract and retain highly-skilled technical, marketing and management personnel, who are in great demand. In particular, there is a limited supply of highly-qualified engineers with digital signal processing experience. None of our employees is represented by a collective bargaining agreement, nor have we ever experienced any work stoppage. We believe that relations with our employees are well established.

RISK FACTORS

OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY.

Our quarterly results of operations may vary significantly in the future for a variety of reasons, including the following:

- fluctuations in volume and timing of product orders;

- level of per unit royalties;

- changes in demand for our products due to seasonal customer buying patterns and other factors;

- timing of new product introductions by us or our customers, licensees or competitors;

- changes in the mix of products sold by us;

- fluctuations in the level of sales by original equipment manufacturers (OEMs) and other vendors of products incorporating our products; and

- general economic conditions, including the changing economic conditions in the United States.

Each of the above factors is difficult to forecast and thus could harm our business, financial condition and results of operations.

Through 2001, we expect that revenues from our DSP core designs and TrueSpeech algorithms will be derived primarily from license fees rather than per unit royalties. The uncertain timing of these license fees has caused, and may continue to cause, quarterly fluctuations in our operating results. Our per unit royalties from licenses are dependent upon the success of our OEM licensees in introducing products utilizing our technology and the success of those OEM products in the marketplace. Per unit royalties from TrueSpeech licensees have not been significant to date.

OUR AVERAGE SELLING PRICES CONTINUE TO DECLINE.

We have experienced a decrease in the average selling prices of our integrated digital telephony (IDT) speech processors, but have to date been able to offset this decrease on an annual basis through manufacturing cost reductions and the introduction of new products with higher performance. However, we cannot guarantee that our on-going efforts will be successful or that they will keep pace with the anticipated, continuing decline in average selling prices.

WE DEPEND ON THE IDT MARKET WHICH IS HIGHLY COMPETITIVE.

Sales of IDT products comprise a substantial portion of our product sales. Any adverse change in the digital IDT market or in our ability to compete and maintain our position in that market would harm our business, financial condition and results of operations. The IDT market and the markets for our products in general are extremely competitive and we expect that competition will only increase. Our existing and potential competitors in each of our markets include large and emerging domestic and foreign companies, many of which have significantly greater financial, technical, manufacturing, marketing, sale and distribution resources, and management expertise than we do. It is possible that we may one day be unable to respond to increased price competition for IDT processors or other products through the introduction of new products or reductions of manufacturing costs. This inability would have a material adverse effect on our business. Likewise, any significant delays by us in developing, manufacturing or shipping new or enhanced products also would have a material adverse effect on our business.

The 900 Mhz Digital Spread Spectrum RF and Base Band technology acquired in 1999 from Advances Micro Devises gave us a "cheap entry ticket" to this market. This technology is not state of the art and we have noticed a trend of decreasing sales for the product models which are based on this technology. In the first quarter of 2000 we recognized two unusual expense items, of which the outstanding balance of the capitalized assets were amortized. We may not succeed in our development of new RF and Base Band models and those which are going to be developed may not be accepted by the market. Despite the recent success of development and sales of our DSP Cores, the market needs extensive R&D efforts in new technologies not currently owned by us, and we may not succeed in developing such technologies in due time, which could affect our competitive position.

WE DEPEND ON INDEPENDENT FOUNDRIES TO MANUFACTURE OUR INTEGRATED CIRCUIT PRODUCTS.

All of our integrated circuit products are manufactured by independent foundries. While these foundries have been able to adequately meet the demands of our increasing business, we are and will continue to be dependent upon these foundries to achieve acceptable manufacturing yields, quality levels and costs, and to allocate to us a sufficient portion of foundry capacity to meet our needs in a timely manner. To meet our increased wafer requirements, we have added additional independent foundries to manufacture our processors. Our revenues could be harmed should any of these foundries fail to meet our request for products due to a shortage of production capacity, process difficulties, low yield rates or financial instability. For example, foundries in Taiwan produce a significant portion of our wafer supply. As a result, earthquakes, aftershocks or other natural disasters in Asia, could preclude us from obtaining an adequate supply of wafers to fill customer orders and could harm our business, financial condition and results of operations.

WE MAY NEED TO INCREASE OUR RESEARCH AND DEVELOPMENT EFFORTS TO REMAIN COMPETITIVE.

The DSP Cores market is experiencing extensive efforts by some of our competitors to use new technologies to manipulate the chip design programming to increase the parallel processing of the chip. One such technology used is Very Long Instruction Word (VLIW), which some of our competitors possess elements of, but which we do not possess at the present time. If such technology continues to improve the programming processing of these chips, then we may need to further our research and development to obtain such technology or our failure to remain competitive could have an adverse effect on our results of operations.

WE DEPEND ON INTERNATIONAL OPERATIONS.

We are dependent on sales to customers outside the United States. We expect that international sales will continue to account for a significant portion of our net product and license sales for the foreseeable future. As a result, the occurrence of any negative international, political, economic or geographic events could result in significant revenue shortfalls. These shortfalls could cause our business to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;
- fluctuations in the exchange rate for the United States dollar;
- imposition of tariffs and other barriers and restrictions;
- burdens of complying with a variety of foreign laws;
- political and economic instability; and
- changes in diplomatic and trade relationships.

WE FACE RISK FROM OPERATING IN ISRAEL.

Our principal research and development facilities are located in the State of Israel and, as a result, at December 31, 2000, 164 of our 217 employees were located in Israel, including 102 out of 135 of our research and development personnel. In addition, although DSP Group is incorporated in Delaware, a majority of our directors and executive officers are residents of Israel. Although substantially almost all of our sales currently are being made to customers outside 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-1980's, 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, we cannot predict whether or in what manner these problems 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.

Moreover, part of our expenses in Israel are paid in Israeli currency which subjects us to the risks of foreign currency fluctuations and to economic pressures resulting from Israel's general rate of inflation. While substantially all of our sales and expenses are denominated in United States dollars, a portion of our expenses are denominated in Israeli shekels. Our primary expenses paid in Israeli currency are employee salaries and lease payments on our Israeli facilities. As a result, an increase in the value of Israeli currency in comparison to the United States dollar could increase the cost of technology development, research and development expenses and general and administrative expenses. We cannot provide assurance that currency fluctuations, changes in the rate of inflation in Israel or any of the other factors mentioned above will not have a material adverse effect on our business, financial condition and results of operations.

ANY FUTURE PROFITABILITY MAY BE DIMINISHED IF TAX BENEFITS FROM THE STATE OF ISRAEL ARE REDUCED OR WITHHELD.

DSP Group receives certain tax benefits in Israel, particularly as a result of the "Approved Enterprise" status of our facilities and programs. To be eligible for tax benefits, DSP Group 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. DSP Group believes that it will be able to meet such conditions. Should we fail to meet such conditions in the future, however, it would be subject to corporate tax in Israel at the standard rate of 36%, and could be required to refund tax benefits already received. There can be no assurance that such grants and tax benefits will be continued in the future at their current levels or otherwise. The termination or reduction of certain programs and tax benefits (particularly benefits available to us as a result of the Approved Enterprise status of the company's facilities and programs) or a requirement to refund tax benefits already received may have a material adverse effect on our operating results and financial condition.

PROPOSED ISRAELI TAX REFORM COULD HARM OUR FINANCIAL RESULTS.

On May 4, 2000, a committee chaired by the Director General of the Israeli Ministry of Finance, Avi Ben-Bassat, issued a report recommending a sweeping reform in the Israeli system of taxation. The proposed reform would significantly alter the taxation of individuals, and would also affect corporate taxation. In particular, the proposed reform would reduce, but not eliminate, the tax benefits available to approved enterprises such as ours. The proposed reform would also impose a capital gains tax on individuals on the sale of shares, unless the selling shareholder is entitled to benefits under a tax treaty. The Israeli cabinet has approved the recommendations in principle, but implementation of the reform requires legislation by Israel's Knesset. DSP Group cannot be certain whether the proposed reform will be adopted, when it will be adopted or what form any reform will ultimately take. The elimination of our approved status could have negative tax consequences discussed above and could have a material adverse effect on our business.

Israel has recently elected a new government. At this time this government has not taken any position with respect to these tax benefits or the proposed tax reforms discussed above, and we cannot predict what, if any, impact this new government will have on our Israeli operations and current tax benefits. Any significant adverse change in the government's position could harm our business, results of operations and financial condition.

WE DEPEND ON OEMS AND THEIR SUPPLIERS TO OBTAIN REQUIRED COMPLEMENTARY COMPONENTS.

Some of the raw materials, components and subassemblies included in the products manufactured by our OEM customers, which also incorporate our products, are obtained from a limited group of suppliers. Supply disruptions, shortages or termination of any of these sources could have an adverse effect on our business and results of operations due to the delay or discontinuance of orders for our products by customers until those necessary components are available.

WE DEPEND UPON THE ADOPTION OF INDUSTRY STANDARDS BASED ON TRUESPEECH TECHNOLOGY.

Our prospects are partially dependent upon the establishment of industry standards for digital speech compression based on TrueSpeech algorithms in the computer telephony and Voice over IP markets. The development of industry standards utilizing TrueSpeech algorithms would create an opportunity for us to develop and market speech co-processors that provide TrueSpeech solutions and enhance the performance and functionality of products incorporating these co-processors.

In February 1995, the International Telecommunications Union established G.723.1, which is predominately composed of a TrueSpeech algorithm, as the standard speech compression technology for use in video conferencing over public telephone lines. In March 1997, the International Multimedia Teleconferencing Consortium, a nonprofit industry group, recommended the use of G.723.1 as the default audio coder for all voice transmissions over the Internet or for IP applications for H.323 conferencing products. If TrueSpeech algorithms are not adopted as the standard speech compression technology for different applications, the sales of our TrueSpeech products may not achieve anticipated levels.

THERE ARE RISKS ASSOCIATED WITH OUR ACQUISITION STRATEGY.

DSP Group has 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 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 provide assurance that we will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our operations or expand into new markets.

Once integrated, acquisitions may not achieve comparable levels of revenues, profitability or productivity as the existing business of DSP Group 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.

PROTECTION OF OUR INTELLECTUAL PROPERTY IS LIMITED; RISKS OF INFRINGEMENT OF RIGHTS OF OTHERS.

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. For example, AT&T has asserted that G.723.1, which is primarily composed of a TrueSpeech algorithm, includes certain elements covered by patents held by AT&T and has requested that video conferencing manufacturers license the technology from AT&T. Other organizations, including Agere, NTT and VoiceCraft have raised public claims that they also have patents related to the G.723.1 technology.

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 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 and to suspend the manufacturing of products utilizing the technology. However, at this time we believe that the ultimate resolution of these matters will not harm our financial position, results of operations, or cash flows.

OUR STOCK PRICE MAY BE VOLATILE.

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.

WE HAVE MADE FORWARD-LOOKING STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-K

The information contained in this Annual Report on Form 10-K and in the other documents referenced herein contains forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements can be identified by the use of forward-looking terminology, including "believe," "expect," "may," "will," "should" or "anticipate," or the negative of these terms or other variations or comparable terminology, or by discussions of strategy that involve risks and certainties. Numerous factors, including economic and competitive conditions, timing and volume of incoming orders, shipment volumes, product margins, and foreign exchange rates, could cause actual results to differ materially from those described in these statements. These forward-looking statements are based on current expectations and we assume no obligation to update this information.

As we have previously announced, we currently intend to create a stand-alone company which will manage and develop our SmartCores business. We have applied to the IRS for a revenue ruling relating to this anticipated spin-off, which we anticipate will be tax-free to our shareholders. We cannot predict when the spin-off will occur, if at all, or if we will receive favorable tax treatment from the IRS. All of the forward-looking statements made herein with respect to our business, results of operation and financial condition are necessarily colored by, and would be materially affected by, the spin-off, if it occurs.

Item 2. PROPERTIES.

DSP Group's operations in the United States are located in an approximately 15,700 square foot leased facility in Santa Clara, California. This facility houses our marketing and technical support, North American sales, operations, manufacturing coordination and administrative personnel. This facility is leased through June 2001. DSP Group's operations in Israel are located in approximately 29,800 square feet of leased facilities, with the primary leased facility located in Herzelia Pituach, Israel. These facilities are leased through November 2003. VoicePump operations in the United States are located in an approximately 4,000 square foot leased facility in Palo Alto and Chicago. The facility in Palo Alto is leased through February 2006. The facility in Chicago is leased through November 2003.

Item 3. LEGAL PROCEEDINGS.

From time to time, we have been and may become involved in litigation relating to claims arising from our ordinary course of business activities. We 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 us.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information contained in the section labeled "Price Range of Common Stock" appearing on page 18 of DSP Group's Annual Report to Stockholders for the year ended December 31, 2000 is incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA.

The information contained in the section labeled "Selected Consolidated Financial Data" appearing on page 17 of DSP Group's Annual Report to Stockholders for the year ended December 31, 2000 is incorporated herein by reference.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information contained in the section labeled "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing on pages 19 through 22 of DSP Group's Annual Report to Stockholders for the year ended December 31, 2000 is incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RATE.

The information contained in the section labeled "Quantitative and Qualitative Disclosures About Market Risk" appearing on page 22 of DSP Group's Annual Report to Stockholders for the year ended December 31, 2000 is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements and related notes and independent auditors report appearing on pages 26 through 47 of DSP Group's Annual Report to Stockholders for the year ended December 31, 2000 are incorporated herein by reference.

The information contained in the section labeled "Quarterly Data" appearing on page 17 of DSP Group's Annual Report to Stockholders for the year ended December 31, 2000 is incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The section labeled "Directors, Executive Officers and Key Personnel" of DSP Group's definitive Proxy Statement to be filed shortly hereafter for the annual meeting of stockholders to be held on May 14, 2001 is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION.

The section labeled "Executive Compensation and Other Information" of DSP Group's definitive Proxy Statement to be filed shortly hereafter for the annual meeting of stockholders to be held on May 14, 2001 is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The section labeled "Security Ownership of Certain Beneficial Owners and Management" of DSP Group's definitive Proxy Statement to be filed shortly hereafter for the annual meeting of stockholders to be held on May 14, 2001 is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The section labeled "Certain Relationships and Related Transactions" of DSP Group's definitive Proxy Statement to be filed shortly hereafter for the annual meeting of stockholders to be held on May 14, 2001 is incorporated herein by reference.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) The following documents have been filed as a part of this Annual Report on Form 10-K.

1. Index to Financial Statements.

The following consolidated financial statements and related notes and auditor's report are included in DSP Group's Annual Report to Stockholders for the year ended December 31, 2000 and are incorporated into this Form 10-K by reference.

DESCRIPTION:

Report of Kost Forer & Gabbay, a member of Ernst & Young International, Independent Auditors

Consolidated Statements of Income for the years ended December 31, 2000, 1999 and 1998

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

2. Index to Financial Statement Schedules.

The following financial statement schedules and related auditor's report are filed as part of this Annual Report on Form 10-K:

DESCRIPTION	
Schedule II: Valuation and Qualifying Accounts	
Consent of Kost Forer & Gabbay, a member of Ernst & Young International, Independent Auditors	Exhibit 23.1

All other schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or the related notes incorporated into this Form 10-K by reference to DSP Group's Annual Report to Stockholders for the year ended December 31, 2000.

3. List of Exhibits:

EXHIBIT NUMBER	DESCRIPTION
3.1	Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1B to the Registrant's Registration Statement on Form S-1, file no. 33-73482, as declared effective on February 11, 1994 and incorporated herein by reference).
3.2	Amended and Restated Bylaws, as of April 13, 2000 (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, and incorporated herein by reference).
3.3	Certificate of Determination of Preference of Series A Preferred Stock of the Registrant, filed with the Secretary of State of the State of Delaware on June 6, 1997 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on June 6, 1997 and incorporated herein by reference).
4.1	Specimen Rights Certificate (filed as Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed on June 6, 1997 and incorporated herein by reference).
4.2	Amended and Restated Rights Agreement, dated as of November 9, 1998, between the Registrant and Norwest Bank Minnesota, N.A., as Rights Agent (filed as Exhibit 3.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated herein by reference).
4.3	Amendment No. 1, dated May 19, 1999, to the Amended and Restated Rights Agreement, dated as of November 9, 1998, between the Registrant and Norwest Bank Minnesota, N.A., as Rights Agent (filed as Exhibit 3.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
4.4	Letter dated as of March 13, 2001 amending the Amended and Restated Rights Agreement, dated as of November 9, 1998, substituting American Stock Transfer & Trust Company for Norwest Bank Minnesota, N.A. as Rights Agent.
4.5	Registration Rights Agreement, dated as of February 2, 1999, by and between the Registrant and Magnum Technology Limited (filed as Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, and incorporated herein by reference).
10.1	1991 Employee and Consultant Stock Plan, as amended and restated July 19, 1999 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, and incorporated herein by reference).
10.2	Forms of option agreements under 1991 Employee and Consultant Stock Plan (filed as Exhibit 10.2 to the Registrant's Registration Statement on Form S-1, file no. 33-73482, as declared effective on February 11, 1994 and incorporated herein by reference).

EXHIBIT NUMBER	DESCRIPTION
10.3	1993 Director Stock Option Plan, as amended and restated July 19, 1999 (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, and incorporated herein by reference).
10.4	Israeli Stock Option Plan and form of option agreement thereunder (filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-1, file no. 33-73482, as declared effective on February 11, 1994 and incorporated herein by reference).
10.5	1993 Employee Stock Purchase Plan and form of subscription agreement thereunder (filed as Exhibit 10.5 to the Registrant's Registration Statement on Form S-1, file no. 33-73482, as declared effective on February 11, 1994 and incorporated herein by reference).
10.6	Technology Assignment and License Agreement, dated January 7, 1994, by and between the Registrant and DSP Telecommunications, Ltd. (filed as Exhibit 10.24 to the Registrant's Registration Statement on Form S-1, file no. 33-73482, as declared effective on February 11, 1994 and incorporated herein by reference).
10.7	ACL Technology License Agreement, dated June 24, 1994, by and between the Registrant and AudioCodes, Ltd. (filed as Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference).
10.8	Investment Agreement, dated June 16, 1994, by and between the Registrant and AudioCodes Ltd. (see Exhibit 10.30 for Appendix B to Investment Agreement) (filed as Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, and incorporated herein by reference).
10.9	Form of Indemnification Agreement for directors and executive officers (filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-1, file no. 33-73482, as declared effective on February 11, 1994, and incorporated herein by reference).
10.10	Employment Agreement, dated April 22, 1996, by and between the Registrant and Eliyahu Ayalon (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, and incorporated herein by reference).
10.11	Assignment and Assumption Agreement, dated October 9, 1996, by and between the Registrant and Dialogic Corporation, relating to the Registrant's facility located at 3120 Scott Boulevard in Santa Clara, California (filed as Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference).
10.12	Sublease, dated October 18, 1996, as amended on December 4, 1996, by and between Dialogic Corporation and the Registrant, relating to the Registrant's facility located at 3120 Scott Boulevard in Santa Clara, California (filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference).
10.13	Lease, dated November 28, 1996, by and between DSP Semiconductors Ltd. and Gav-Yam Lands Company Ltd., relating to the property located on Shenkar Street, Herzlia Pituach, Israel (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and incorporated herein by reference).
10.14	Amendment to Employment Agreement with Eliyahu Ayalon, dated as of November 3, 1997 (filed as Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated herein by reference).

EXHIBIT NUMBER	DESCRIPTION
10.15	Amendment to 1993 Directors Stock Option Plan, as adopted November 3, 1997 (filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated herein by reference).
10.16	Separation and Consulting Agreement between the Registrant and Martin M. Skowron, dated May 31, 1998 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, and incorporated herein by reference).
10.17	Lease, dated September 13, 1998, between DSP Group, Ltd. and Bayside Land Corporation Ltd., relating to the property located on Shenkar Street, Herzlia Pituach, Israel (filed as Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated herein by reference).
10.18	Amendment to 1998 Non-Officer Employee Stock Option Plan (filed as exhibit 10.2 to the Registrant's Registration Statement on Form S-8 filed December 18, 2000, and incorporated herein by reference).
10.19	1998 Non-Officer Employee Stock Option Plan (filed as Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated herein by reference).
10.20	Stock Purchase Agreement, dated as of February 2, 1999, by and between the Registrant and Magnum Technology Limited (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, and incorporated herein by reference).
10.21	Second Amendment to Sublease, dated February 11, 1999, by and between Dialogic Corporation and the Registrant, relating to the Registrant's facility located at 3120 Scott Boulevard in Santa Clara, California (filed as Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
10.22	Employment Agreement, dated May 1, 1999, by and between the Registrant and Moshe Zelnik (filed as Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
10.23	Employment Agreement, dated May 1, 1999, by and between the Registrant and Boaz Edan (filed as Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
10.24	Appendix Agreement, dated May 5, 1999, by and between DSP Group, Ltd. and Bayside Land Corporation Ltd., relating to the property located on Shenkar Street, Herzlia Pituach, Israel (filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
10.25	Amendment to Employment Agreement with Eliyahu Ayalon, effective as of November 11, 1999 (filed as Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).

EXHIBIT NUMBER	DESCRIPTION
10.26	Amendment to Employment Agreement with Igal Kohavi, effective as of November 11, 1999 (filed as Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
10.27	Separation Agreement between the Registrant and Igal Kohavi, dated January 24, 2000 (filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
10.28	Non-Exclusive Distribution Agreement between the Registrant and Tomen Electronics Corporation as amended on October 12, 2000.
10.29	Investors' Rights Agreement between the Registrant and certain Investors listed on Schedule thereto, dated as of March 27, 2000 (filed as Exhibit 4.2 on Form S-3, file no. 333-58060, filed with the SEC on March 30, 2001, and incorporated herein by reference).
11.1	Statements regarding computation of per share earnings.
13.1	Portions of the Annual Report to Stockholders for the year ended December 31, 2000.
21.1	Subsidiaries of DSP Group.
23.1	Consent of Ernst & Young LLP, Independent Auditors.

(b) Reports on Form 8-K in Fourth Quarter.

The Company did not file any reports on Form 8-K during the three months ended December 31, 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Eliyahu Ayalon

Eliyahu Ayalon
Chairman of the Board and Chief
Executive Officer
(Principal Executive Officer)

Date: March 30, 2001

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Eliyahu Ayalon and Moshe Zelnik or either of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Eliyahu Ayalon Eliyahu Ayalon	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 30, 2001
/s/ Zvi Limon Zvi Limon	Director	March 30, 2001
/s/ Louis Silver Louis Silver	Director	March 30, 2001
/s/ Patrick Tanguy Patrick Tanguy	Director	March 30, 2001
/s/ Yair Shamir Yair Shamir	Director	March 30, 2001
/s/ Saul Shani Saul Shani	Director	March 30, 2001

SCHEDULE II

DSP GROUP, INC.
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO (DEDUCTED FROM) COSTS AND EXPENSES	DEDUCTION	BALANCE AT END OF PERIOD
Year ended December 31, 1997:				
Allowance for doubtful accounts	71	60	61(1)	70
Sales returns reserve	377	345	600(2)	122
Year ended December 31, 1998:			-	
Allowance for doubtful accounts	70	10		80
Sales returns reserve	122	-	-	122
Year ended December 31, 1999:				
Allowance for doubtful accounts	80	60	-	140
Sales returns reserve	122		-	122
Year ended December 31, 2000:				
Allowance for doubtful accounts	140	60	-	200
Sales returns reserve	122		-	122

(1) write-offs of uncollectible amounts
(2) sales returns applied against revenue

Exhibit 4.4

March 13, 2001

Mr. John Baker
Norwest Bank Minnesota N A.
Stock Transfer Department
161 N. Concord Exchange
South St. Paul, MN 55075

Dear John:

This is to advise you that your services as Rights Agent for the Common Stock of our Company are being terminated as of close of business on March 7, 2001.

We have appointed the American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038, as successor Rights Agent for such Common Stock.

Thank you for all your assistance in the past.

Very truly yours,

/s/ Judith E. Siljander

Judith E. Siljander
Director of Finance

Cc: George Karfunkel - American Stock Transfer

Exhibit 10.28

NON-EXCLUSIVE DISTRIBUTION AGREEMENT

BETWEEN

DSP GROUP, INC.

A CALIFORNIA CORPORATION

HAVING A PRINCIPAL OFFICE

AT 4050 MOORPARK AVENUE

SAN JOSE, CA 95117

(HEREINAFTER CALLED "DSPG")

AND

TOMEN ELECTRONICS CORP.

A JAPAN CORPORATION

CORPORATION, GENERAL/LIMITED PARTNERSHIP

(SOLE PROPRIETORSHIP)

WHOSE PRINCIPAL OFFICE

IS LOCATED AT

2-1-1, UCHISAIWAICHO,
CHIYODA-KU, TOKYO, JAPAN

(HEREINAFTER CALLED "DISTRIBUT0R")

THIS AGREEMENT is made and entered into as of the 20th day of May, 1992 with place of business at 4050 Moorpark Avenue, San Jose, CalIfornia 95117 U.S.A., and TOMEN ELECTRONICS CORP. (Distributor) with place of business at 2-1-1 UCHISAIWAICHO CHIYODA-KU, TOKYO, JAPAN which collectively are referred to hereinafter as "the parties".

NOW THEREFORE, the parties hereto as follows:

1. DISTRIBUTOR SALES

Distributor shall have the non-exclusive right to purchase Product (as hereinafter defined) from DSPG for resale through its distribution network in the country of JAPAN. Sales of such Product in the country of JAPAN to other than Distributor directly by DSPG or by DSPG's representatives, agents, or other authorized distributors shall not be a violation of this Agreement.

2. PERFORMANCE

(a) Performance under this Agreement shall be in accordance with the terms and conditions set forth herein and in Exhibit A (DSPG's current published Distributor Price List), Exhibit B (DSP Group, Inc. Terms of Sale) and Exhibit C (Definitions).

Exhibits are hereby incorporated fully into and made a part of this Agreement. In the event that any part or parts of any Exhibits has been modified by, or are in conflict with the body of this Agreement, the language of the Agreement body shall prevail.

(b) The relationship of DSPG and Distributor established by this Agreement is that of independent contractors, and nothing contained in this Agreement shall be construed to (i) give either party the power to direct and control the day-to-day activities of the other (ii) constitute the parties as partners, joint ventures, co-owners or otherwise as participants in a joint or common undertaking, or (iii) allow Distributor to create or assume any obligation on behalf of DSPG for any purpose whatsoever. All financial obligations associated with Distributor's business are the sole responsibility of Distributor. All sales and other agreements between Distributor and its customers are Distributor's exclusive responsibility and shall have no effect on Distributor's obligations under this Agreement. DSPG shall not create or assume any obligation on behalf of Distributor for any purpose whatsoever.

3. TERM OF AGREEMENT

The term of this Agreement shall be twelve (12) months, commencing as of the date first written above, subject to the terms and conditions of Article 14 herein entitled Termination. In the absence of any such termination, this Agreement shall continue from year to year, automatically renewing upon each anniversary date, subject to the same terms and conditions contained herein.

4. PRODUCT

(a) Product covered by this Agreement is defined as the items listed in DSPG's Distributor Price List attached as Exhibit A, as modified from time to time by DSPG upon written notice to Distributor.

(b) Additional Product may be added to this Agreement through mutual agreement on the conditions applicable to each Product by both parties.

(c) In the event that DSPG shall agree to supply Distributor with any Product not listed in, or under conditions not covered in, DSPG's Distributor Price List attached as Exhibit A under this Agreement, where such Product is concerned certain provisions of this agreement may not apply, if both parties so agree in writing. The provisions which may not apply include price of such Product must be determined prior to acceptance by DSPG of Distributor's purchase order for such Product.

5. PRICING

(a) DSPG shall sell to Distributor, and DistrIbutor shall buy from DSPG, Product at the prices shown in Exhibit A hereto, with payment therefore to be made in U.S. dollars. Should this Agreement be terminated by either party, for any reason, prior to payment of amounts due hereunder or pursuant hereto, such amount shall be paid as and when due in accordance with the terms hereof. DSPG will provide Distributor with "suggested OEM resale pricing" for the Product as guidelines only. Distributor shall have the unilateral right to establish the prices at which it will sell Product to its customers.

(b) The pricing shown in Exhibit A does not include any federal, state or local taxes that may be applicable to the Product, and is subject to change at any time by DSPG. DSPG shall provide Distributor with notice of any such change, and the effective date thereof, by furnishing written notice to Distributor thirty (30) days prior to such effective date.

(c) In the event DSPG decreases the published Distributor price on any Product shown in Exhibit A, DSPG will furnish Distributor with a listing of items affected, showing the old price and the new price. Distributor may apply for a credit equal to the difference between the price paid by the Distributor, less any prior credits granted by DSPG, and the new decreased price for the product, multiplied by the quantity of such Product in Distributor's inventory on the effective date of the price reduction.

Issuance of such credit by DSPG may be contingent upon DSPG's verification of Distributor's inventory report. All such credits will forthwith be applied to

Distributor's account, for subsequent purchase of Product. All products shipped after the effective date of a price decrease will be invoiced at the new/lower prices.

(d) In the event DSPG increases the published price on any Product shown in Exhibit A, such Product shipped on or after the effective date of such price increase shall be invoiced at the price in effect at the time Distributor's purchase order is accepted by DSPG.

(e) The price for each item on every purchase order issued by Distributor shall be based on the quantity ordered at the time of purchase order placement and on DSPG's published price list in Exhibit A, as amended from time to time by DSPG.

(f) In the event that a price reduction is authorized prior to the completion of an order or a special situation occurs, where prior approval for a price reduction is authorized, a special credit equivalent to the amount requested times the appropriate quantity will be credited in the form of a shipment of no-charge Product at the end of each month in which the appropriate invoice is paid by Distributor.

6. DELIVERY, TITLE AND RISK

(a) Shipment of all Product shall be F.O.B. DSPG's point of shipment, freight collect. Title to, and risk of loss or damage to, Product shall pass to Distributor upon delivery to carrier at the shipping point. In the event of carrier's mis-delivery, DSPG shall aid the Distributor in dealing with the carrier in tracing the shipment and obtaining delivery. Shipments made more than five (5) days ahead of schedule or shipments made against canceled orders are made at DSPG's risk and Distributor is not responsible or liable for the Product, but Distributor will aid DSPG in tracing the shipment and obtaining delivery.

(b) DSPG shall not be liable for delays in delivery or failure to manufacture due to causes beyond its reasonable control, such as but not limited to: acts of God, acts or omissions of Distributor, priorities, fire, strikes, floods, epidemics, quarantine restrictions, riots, war and delays in transportation. In the event of any such delay, the date of delivery shall be extended for a period equal to the time lost by reason of the delay.

7. EXPORT CONTROL

(a) Distributor agrees and warrants to DSPG that unless prior authorization is obtained from the United States Department of Commerce, neither Distributor nor its subsidiaries shall knowingly:

(1) export or re-export, directly or indirectly, any technical data (as defined in Part 779 of the U.S. Export Administration Regulations), including

software, received from DSPG, or

(2) disclose such technical data or,

(3) export or re-export, directly or indirectly, any direct product of such technical data,

to any destination or country to which the export, re-export or release of such technical data or products is restricted or prohibited by U.S. law. Such countries or destinations presently include:

Afghanistan, Albania, Bulgaria, Cambodia, Cuba, Czechoslovakia, Estonia, The German Democratic Republic (including East Berlin), Hungary, Laos, Latvia, Libya, Lithuania, Mongolian People's Republic, Nicaragua, North Korea, Peoples Republic of China, Poland, Romania, The Union of Soviet Socialist Republics and Vietnam and military police or apartheid-enforcing entities in Namibia and South Africa.

(b) The foregoing assurance is furnished by Distributor to satisfy the general license GTDR written assurance requirements under Part 779 of the U.S. Export Administration Regulations.

(c) Distributor further agrees to obtain any necessary export license or other documentation prior to export or re-export of any Product or technical data, including software, acquired from DSPG or any product of such technical data. Accordingly, distributor or its subsidiaries shall not sell, export, re-export, transfer, divert or otherwise dispose of any such Product or technical data directly or indirectly to any person, firm or entity, or country or countries, prohibited by U.S., Japan or applicable other country law.

(d) Further, Distributor shall give notice of the need to comply with such law to any person, firm entity which it has reason to believe is obtaining any such technical data or Product from DSPG with the intention or exportation.

(e) Each party shall secure, at its sole expense, such licenses and export and import documents as are necessary for it to fulfill its obligations under this Agreement.

(f) This Article shall survive the cancellation or termination of this Agreement.

(g) Seller shall attempt to give prior written notice of any contingent tax which might be imposed by the U.S. Government, including any federal, state, or local taxes.

8. ORDERING

(a) All purchases of Products pursuant to this Agreement shall be effected by the issuance of Purchase Orders by Distributor subject to the terms and conditions of this Agreement. Such Purchase Orders shall state unit quantities, unit descriptions, applicable prices, requested delivery dates, F.O.B. point of shipment, payment terms and shipping instructions. Distributor shall endeavor to provide firm quantity and shipment releases consistent with DSPG's lead time for subject Products.

(b) All Purchase Orders Issued by Distributor are subject to acceptance by DSPG at DSPG's home office in the U.S.A.

9. RESCHEDULING/CANCELLATION

(a) For the purposes of this Article the following definitions shall apply:

(i) "Standard Product" is defined as any Product which can be sold to any customer free of proprietary restrictions; and

(ii) "Custom Product" is defined as any Product which has been developed for a specific customer and which is not free of proprietary restrictions regarding its use or sale.

(b) Distributor may reschedule certain deliveries on existing orders for Standard Product upon written notice to DSPG according to the following schedule:

Number of Days in Advance of DSPG's Committed Delivery Date	Permitted Scheduling
Zero to sixty (60)	None Allowed
Sixty-one (61) to one hundred and twenty (120)	A one time "push-out" of not more than sixty (60) days on a max of fifty percent (50%) of the scheduled delivery amount
One hundred and twenty-one (121)	Any rescheduling permitted

(c) Distributor may reschedule certain deliveries on existing orders for Custom Product upon written notice to DSPG according to the following schedule:

Number of Days in Advance of DSPG's Committed Delivery Date	Permitted Scheduling
Zero to sixty (60)	None Allowed
Sixty-one (61) to one hundred and twenty (120)	A one time "push-out" of not more than thirty (30) days on a max of fifty percent (50%) of the scheduled delivery amount
One hundred and twenty-one (121)	Any rescheduling permitted

(d) Distributor may cancel deliveries on existing orders for Standard or Custom Product upon written notice to DSPG. In such event, Distributor shall pay a cancellation charge according to the following schedule:

Number of Days in Advance of DSPG's Committed Delivery Date	Cancellation Charge as a % of Canceled Order Value Standard Product	Custom Product
Zero to sixty (60)	100%	100%
Sixty-one (61) to one hundred and twenty (120)	50%	100%
One hundred and twenty-one (121)	0%	DSPG's actual costs

(e) Notwithstanding the cancellation charges in paragraph (d) above, Distributor may, within five (5) calendar days from the placement of any order with DSPG, cancel that order without penalty as long as DSPG has not shipped the order.

10. REPORTS

Distributor shall send to DSPG, within twenty (20) working days after the end of each month, a written report containing the following information by location:

(a) A detailed inventory of all Products, at the end of said month, with quantities and prices paid.

(b) A detailed Point of Sale (P.O.S) activity report including the names of customers with programs, Products, quantities purchased, and the dollar amounts invoiced to said customers.

(c) Sales projections and bookings targets for the next six (6) months.

(d) "Design-in" status activity with Distributor's assigned accounts.

11. ADVERTISING AND PROMOTION

(a) DSPG agrees to supply Distributor with its usual sales promotion and advertising material, in quantities to be mutually agreed upon, without cost to Distributor and to support the efforts of Distributor with DSPG's usual advertising and other sales promotion efforts. All such material shall be returned to DSPG in good condition, except for reasonable wear, immediately upon demand by DSPG.

(b) Distributor agrees to promote the sale of DSPG's Product, at its own expense, through various media advertising and other sales promotional efforts. Special advertising or promotion programs may be agreed upon from time to time in which the parties will agree to some sharing of the costs.

(c) A coop advertising program will be defined with a budget established which is equivalent to .2% of annual sales.

12. WARRANTY

(a) DSPG agrees to extend the one year limited warranty to Distributor as stated in Exhibit B to a period of eighteen (18) months from date of shipment by DSPG to Distributor, or one (1) year from date of shipment from Distributor to Distributor's customer, whichever comes first.

(b) THE WARRANTY IN EXHIBIT B AS EXTENDED ABOVE IS EXPRESSED IN LIEU OF ALL OTHER WARRANTIES, EXPRESS, IMPLIED OR STATUTORY, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND IN LIEU OF ALL OTHER OBLIGATIONS OR LIABILITIES ON THE PART OF DSPG.

(c) DSPG's LIABILITY UNDER THE WARRANTY SHALL BE LIMITED TO A REFUND OF THE DISTRIBUTOR'S PURCHASE PRICE. IN NO EVENT SHALL DSPG BE LIABLE FOR THE COST OF PROCUREMENT OF SUBSTITUTE GOODS OR FOR ANY SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES FOR BREACH OF WARRANTY.

13. RETURNS AND REPURCHASES

(a) Within thirty (30) days after the Initial twelve (12) month period of this Agreement, and within thirty (30) days following each successive twelve (12) month period thereafter, [***] at the net price paid less any prior credits granted by DSPG to the Distributor for such returned Product. For the purposes of this paragraph, [***].

(b) Products inventoried as new Products introduced by DSPG for original stocking orders or recommended stocking programs may be returned for credit to be applied against future purchases by the Distributor at the expiration of the initial twelve (12) month period of stocking. These returns will not be subject to any offsetting order requirements.

14. TERMINATION

(a) Either party may at any time terminate this Agreement with or without cause upon ninety (90) days written notice after having a review meeting with the other party to discuss the termination. It is expressly understood and agreed that the rights of termination set forth above are absolute, and that both parties hereto have considered the making of expenditures in preparing for performance under this Agreement and possible losses incident and resulting to them in the event of its termination. Therefore, in agreeing to said terms of termination, it is with full knowledge of such possibilities and either party hereto shall not be responsible to the other for damage, or otherwise, by reason of the fact of termination of the Agreement.

(b) Distributor warrants that all identifying signs, literature, logos and other evidence provided by DSPG and linking the parties shall be returned to DSPG upon termination of this Agreement. Distributor will cease production of any such materials upon termination, and shall cease advertising that there is any business relationship between the parties.

(c) Should this Agreement be terminated by either party prior to payment of amounts due hereunder or pursuant hereto, such amount shall be paid as and when due in accordance with the terms hereof.

(d) In event of termination of this Agreement without cause, all orders received and accepted by DSPG as of the date of such termination notice shall be unaffected by such notice. DSPG will accept orders from Distributor on C.O.D. terms for additional Product which Distributor is contractually obligated to furnish its customers and does not have in its inventory provided Distributor notifies DSPG of any and all such transactions in writing within (30) days of the termination date.

(e) If this Agreement is terminated by DSPG without cause, by Distributor with cause, or by Distributor for any reason during the first twelve (12) months term of this Agreement, DSPG shall repurchase at Distributor's option, any or all Products remaining in Distributor's inventory, provided that Distributor requests such repurchase in writing within thirty (3O) days of such termination, subject to the following:

(1) If price to be paid for the repurchase of said inventory shall be the net amount of Distributor cost at the time of purchase less any subsequent price credits issues by DSPG.

(2) All Products must be new, unused, undamaged, and in good merchantable condition after inspection and testing by DSPG, and in its original packaging. If requested by Distributor, DSPG will supply proper packaging material.

(3) All Products will be shipped F.O.B. Distributor's designated facility, freight collect.

(f) If this Agreement is terminated by DSP with cause, by Distributor without cause, following the first twelve (12) months term of this Agreement, DSPG shall repurchase at DSPG's option, all unsold Products remaining in Distributor's inventory subject to the following:

(1) The price to be paid for the repurchase of said inventory shall be the net amount of Distributor's cost at time of purchase less any subsequent price credits issued.

(2) All Product must be new, unused, undamaged, and in good merchantable condition after inspection and testing by DSPG.

(3) All Product will be shipped F.O.B. Distributor's designated facility, freight collect.

15. ACCOUNTING

(a) Terms of Payment:

[***]

(b) Billbacks (Rebills)

DSPG and Distributor shall be jointly responsible for reconciling their accounts in a timely manner. Distributor adjustments, debit memos, and billbacks must be forwarded to DSPG within sixty (60) days of the transaction date. DSPG must reply to any such adjustment, debit memo, and billback in writing within sixty (60) days of the date of notification. Any other entries will be considered valid and closed to further negotiations. The only exception to this policy will be for formal DSPG audit findings.

(c) DSPG Audits

DSPG may request audits of physical inventory and books of record pertaining to DSPG Product on annual basis. No audit shall be retroactive more than fifteen (15) months. Audit findings will be submitted to the Distributor in writing within ninety (90) days from the day the audit started. Therefore, when the audit findings are received by the Distributor, no item will be more than eighteen (18) months old.

16. GENERAL

(a) This Agreement, including any Exhibits hereto attached or incorporated by reference, constitutes the sole and entire Agreement between DSPG and Distributor concerning the subject matter hereof, supersedes all prior communications or agreements written or oral, and is intended as a complete and exclusive statement of the terms of the Agreement between the parties. Except as explicitly permitted herein, this Agreement may be modified only in writing, signed by authorized representatives of both parties.

(b) Both parties represent and warrant to each other that each has the right and power to enter into this Agreement, and that there are no outstanding assignments, grants, licenses, encumbrances, obligations or agreements, either written, oral or implied, inconsistent with this Agreement.

(c) The transfer, delegation or assignment by either party of this Agreement, or any of its duties, obligations, or rights hereunder, without the prior written consent of the other party shall be void.

(d) IN NO EVENT SHALL DSPG BE LIABLE TO DISTRIBUTOR OR ANY OTHER ENTITY FOR ANY SPECIAL, INCIDENTAL, CONSEQUENTIAL OR OTHER DAMAGES, HOWEVER CAUSED, WHETHER OR NOT DSPG HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE. THE ESSENTIAL PURPOSE OF THIS PROVISION IS TO LIMIT THE POTENTIAL LIABILITY OF DSPG ARISING OUT OF THIS AGREEMENT AND/OR SALE OF PRODUCTS HEREUNDER.

(e) DSPG shall not be liable for delays in delivery or failure to manufacture due to causes beyond its reasonable control, such as, but not limited to inability to obtain necessary labor, materials, or manufacturing facilities.

(f) Distributor agrees that DSPG owns all right, title, and interest in the product lines that include the Product now or hereafter subject to this Agreement, and in all of DSPG's patents, trade marks, trade names, inventions, copyrights, know-how and trade secrets relating to the design, manufacture, or operation of the Products. The use by Distributor of any of these property rights is authorized only for the purposes herein set forth, and upon termination of this Agreement for any reason such authorization shall cease.

(g) Distributor acknowledges that by reason of its relationship to DSPG hereunder, it may have access to certain information and materials concerning DSPG's business, plans, customers, technology, and products that are confidential and of substantial value to DSPG, which value would be impaired if such information were disclosed to third parties. Distributor agrees that it will not use in any way for its own account or the account of any third party, nor disclose to any third party, any such confidential information revealed to it by DSPG. Only items marked confidential by DSPG shall be deemed confidential. Distributor shall not publish any technical description of the Products beyond the description published by DSPG. In the event of termination of this Agreement, there shall be no use or disclosure by Distributor of any confidential information of DSPG. Distributor shall not manufacture or have manufactured any devices, components or assemblers utilizing any of DSPG's confidential information.

(h) All notices required to be given hereunder shall be given in writing by personal delivery or by a certified letter to the respective address as may be designated in writing by either party and delivered to the other party. Notice given by certified mail shall be deemed given five (5) days after mailing date to the current address of the party. The current addresses of the parties are as follows;

DSPG:	DSP Group, Inc. 4050 Moorpark Avenue San Jose, California 95117 U.S.A.
Distributor:	TOMEN Electronics Corp. 2-1-1, Uchisaiwaicho Chiyoda-ku, Tokyo, Japan

(i) This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed, and interpreted in accordance with the laws of the State of California, U.S.A.

(j) Any dispute between the parties arising out of this Agreement shall be submitted to final and binding arbitration in San Jose, California, under the then current Arbitration Rules and supervision of the American Arbitration Association, upon written notification and demand by either party hereto. The American Arbitration

Association shall be requested to submit a list of prospective arbitrators experienced in commercial contracts involving the semiconductor Industry, and the parties shall select a single arbitrator from such list to conduct the arbitration. The arbitrator may not award punitive or exemplary damages, and the decision and award of the arbitrator shall be final and binding and may be entered and any court of competent jurisdiction. The parties hereto agree to pay their own attorneys' fees associated with the arbitration, and to pay the other costs and expenses of the arbitration as the rules of the American Arbitration Association provided. The provisions of California Code of Civil Procedure Section 1283.05 permitting the taking of depositions and obtaining discovery shall be applicable to any arbitration.

(k) The terms and conditions herein contained together with the Exhibits attached hereto and incorporated by reference constitute the entire and final Agreement between the parties with respect to the subject matter hereof, supersede all previous communications, representations, understandings or agreements, either oral or written, between the parties with respect to such subject matter, and shall take precedence over any additional or conflicting terms which may be contained in either party's Quotations, Purchase Orders, Acknowledgements or Invoices.

(l) No agreement or understanding varying or extending any of the terms or provisions hereof shall be binding on either party unless in writing and signed by duly authorized representative of both parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

DSP GROUP, INC. ("DSPG")	("Distributor") TOMEN ELECTRONICS CORP.
By: /s/ Eli Porat	By: /s/ Junichi Ishikawa
Printed Name: Eli Porat	Printed Name: Junichi Ishikawa
Title: C.O.O.	Title: President
Date: 4/30/92	Date: 5/20/92

EXHIBIT A

DSP GROUP, INC. DISTRIBUTOR PRICE LIST

EXHIBIT B

DSP GROUP. INC.
("SELLER")
TERMS AND CONDITIONS OF SALE

1. GENERAL: The terms and conditions of sale contained herein apply to all quotations made and purchase orders entered into by the Seller. The said terms and conditions may in some instances conflict with some of the terms and conditions affixed to the form or order blank and/or specified by the Buyer. Therefore, acceptance of the Buyer's order is made only on the express understanding and condition that insofar as the terms and conditions of this acceptance conflict with any terms and conditions of the Buyer's order, the terms and conditions of this acceptance shall govern, irrespective of whether the Buyer accepts these conditions by a written acknowledgement, by implication, or acceptance and payment of goods ordered thereunder. Seller's failure to object to provisions contained in any communication from Buyer shall not be deemed a waiver of the provisions contained in any communication from Buyer shall not be deemed a waiver of the provisions of this acceptance. Any changes in the terms and conditions of sale contained herein must specifically be agreed to in writing by the general manager of the Sellers before becoming binding on either the Seller or the Buyer.

All orders or contracts must be approved and accepted by the Seller at his home office.

The said terms and conditions of sale shall be applicable whether or not they are attached to or enclosed with the products to be sold or sold hereunder.

2. PRICES: Irrespective of any prices quoted by Seller or listed on Buyer's order, an order is accepted only at the prices shown on Seller's acknowledgement.

Prices quoted for the items described on said acknowledgement are firm and not subject to audit or price redetermination. Prices are subject to revision only when interruptions, engineering changes or changes in the quality are caused or requested by Buyer.

3. TAXES: All prices are quoted, all orders accepted, and all billings rendered exclusive of all federal, state and local excise, sales, use and similar taxes. Consequently, in addition to the prices specified herein, the amount of any present or future excise, sales, use or similar tax applicable to the sale of the product hereunder

shall be paid by Buyer, or in lieu thereof Buyer shall provide Seller with a tax exemption certificate, acceptable to the taxing authorities. Such taxes, when receives a proper tax-exemption certificate from Buyer prior to shipment.

4. TERMS AND METHOD OF PAYMENT: Where Seller has extended credit to Buyer, terms of payment shall be net [***] days from date of invoice. No discounts are authorized. The amount of credit may be changed or credit withdrawn by Seller at any time. On any order on which credit is not extended by Seller, shipment or delivery shall be made, at Seller's election, Cash With Order (in whole or part), C.O.D., or Sight Draft attached to Bill of Lading or other shipping documents, with all costs of collection for the account of Buyer.

If in the judgement of the Seller, the financial condition of the Buyer at any time does not justify continuation of production or shipment on the terms of payment originally specified, the Seller may require full or partial payment in advance and, in the event of the bankruptcy or insolvency of the Buyer or in the event any proceeding is brought by or against the Buyer under bankruptcy or insolvency laws, the Seller shall be entitled to cancel any order then outstanding and shall receive reimbursement for its cancellation charges.

Each shipment shall be considered a separate independent transaction, and payment therefore shall be made accordingly. If shipments are delayed by the Buyer, payments shall become due on the date when the Seller is prepared to make shipment. If the work covered by the purchase order is delayed by the Buyer, payments shall be made based on the purchase price and the percentage of completion. Products held for the Buyer shall be at the risk an expense of the Buyer. The Seller reserves the right to ship to its order and make collection by sight draft with bill of lading attached.

5. TITLE AND DELIVERY: All sales are made F.O.B. point of shipment. Seller's title passes to Buyer and Seller's liability as to delivery ceases upon making delivery of material purchased hereunder to carrier at shipping point in good condition, the carrier acting as Buyer's agent. All claims for damages must be filed with the carrier. All shipments will normally be made by Parcel Post, Railway Express, Air Express or Air Freight. Unless specific instructions from Buyer specify which of the foregoing methods of shipment is to be used, the Seller will exercise his own discretion.

Shipping dates are approximate and are based upon receipt from Buyer of all necessary information.

Seller shall not be responsible for any failure to perform arising from causes beyond its control. These causes shall include but not be restricted to fire, storm, flood, earthquake, explosion, accident, acts of the public enemy, war, rebellion, insurrection, sabotage, epidemic, quarantine restrictions, labor disputes, labor shortages, transportation embargoes, or failure or delays in transportation, inability to secure raw materials or machinery for the manufacture of its devices, acts of God, acts of the Federal Government or any agency thereof, acts of any state or local government or agency thereof, and judicial action.

In the event of any such delay the date of delivery shall, at the request of the Seller, be deferred for a period equal to the time lost by reason of the delay.

In the event of any default by Buyer, Seller may decline to make further shipments without in any way affecting its rights under such order. If despite any default by Buyer, Seller elects to continue to make shipments, its action shall not constitute a waiver of any default by Buyer or in any way affect Seller's legal remedies of any such default. Right of possession of the products sold hereunder shall remain with Seller and such products shall remain personal property until all payments hereunder (including deferred payments whether evidence by notes or otherwise) shall have been made in full in each, and Buyer agrees to do all acts necessary to perfect and maintain such right and title in Seller.

6. ASSIGNMENTS: The Buyer shall not assign his order or any interest therein or any rights thereunder without the prior written consent of Seller.

7. PATENTS: Buyer shall indemnify, defend and hold Seller harmless against any expenses, damages or costs resulting from any suit or proceeding brought for infringement of patents or trademarks or for unfair competition arising from compliance with Buyer's designs or specifications or instructions.

With respect to products manufactured solely to Seller's designs or specifications, Seller shall defend any suit or proceeding brought against Buyer so far as based on a claim that any such products, or any parts thereof, furnished hereunder constitutes an infringement of any patent of the United States, if notified promptly of such cLaim in writing and given authority, information and assistance (at Seller's expense) for the defense of same, and Seller shall pay all damages and costs awarded therein against Buyer. In case said products or any parts thereof, are in such suit held to constitute infringement and the use of said products or parts is enjoined, Seller shall, in its sole discretion, at its own expense, either procure for the Buyer the right to continue using said products or parts or replace same with noninfringing products, or modify them so they become noninfringing, or remove said products and refund the purchase price and the transportation costs thereof. The foregoing states the entire liability of the Seller of patent infringement by the said products or any part thereof.

Seller shall not be liable for any costs or damages incurred by Buyer as a result of any suit or proceeding brought against the Buyer and Buyer will indemnify, defend and hold Seller harmless from any expenses, damages or costs resulting from any suit or proceeding brought against Seller, either severally, or jointly with Buyer, so far as such suit of processing brought against Seller, either severally, or jointly with Buyer, so far as such suit or proceeding is based on claims (a) that use of any product or any part thereof, furnished hereunder, in combination with products not supplied by Seller, or (b) that a manufacturing or other process utilizing any product, or any part thereof, furnished hereunder, constitute either direct or contributory infringement of any patent of the United States.

Sale of products or any parts thereof, hereunder confers on the Buyer no license under any patent rights of Seller governing or relating to (a) the structure of any devices to which the products or parts may be applied, or (b) a process or machine in connection with which they may be used.

8. WARRANTIES AND ADJUSTMENTS: (a) STANDARD PRODUCTS WARRANTY AND ADJUSTMENTS. Standard products of Seller are warranted to be free from defects in materials and workmanship and to meet the applicable specifications when tested to published specifications for a period of one year from date of shipment. THE FOREGOING IS IN LIEU OF ANY OTHER WARRANTY, EXPRESS, IMPLIED OR STATUTORY, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, ALL OF WHICH OTHER WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED. The liability of Seller under this warranty is limited solely in replacing, or repairing, or issuing credit (at the discretion of Seller) for such products that become defective or fail to meet the specifications during the schedule period, or prior to the date Buyer uses or resells such products, whichever date sooner occurs, provided that, Seller will not be liable under this warranty unless (i) Seller is promptly notified in writing by Buyer upon discovery of defects or failure too meet specifications, (ii) the defective unit is returned to Seller, transportation charges paid by Seller, (iii) the defective unit is received by Seller for adjustment no later than four weeks following the last day of the warranty periods, and (iv) Seller's examination of such unit shall disclose, to its satisfaction, that such defects or failures have not been caused by misuse, neglect, improper installation, repair, alteration or accident. Any authorization for repairs or alteration must be in writing or prevent voiding warranty. IN NO EVENT SHALL SELLER BE LIABLE TO BUYER FOR LOSS OF PROFITS, LOSS OF USE, OR DAMAGES OF ANY KIND BASED UPON A CLAIM FOR BREACH OF WARRANTY. This warranty excludes developmental products, which are covered by separate warranty.

(b) DEVELOPMENTAL PRODUCTS WARRANTY. Developmental products of Seller are warranted to be free from defects in materials and workmanship and to meet the applicable preliminary specifications upon receipt by Buyer. THE FOREGOING IS IN LIEU OF ANY OTHER WARRANTY, EXPRESS, IMPLIED OR STATUTORY, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, ALL OF WHICH OTHER WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED. The Liability of Seller under this warranty is limited solely to replacing, or repairing, or issuing credit (which will be negotiated by both parties) for such products as are defective at the time they are received by Buyer, provided that Seller will be liable under this warranty unless (i) Seller is promptly notified in writing upon discovery of defects by Buyer, (ii) the defective unit is returned to Seller transportation charges paid by Seller, (iii) the defective unit is received by Seller for adjustment no later than four weeks following the date on which such products are first shipped by Seller, and (iv) Seller's examination of such unit shall disclose, to its satisfaction, that such defects have not been caused by misuse, neglect, improper installation, repair, alteration or accident. IN NO EVENT SHALL SELLER BE LIABLE TO BUYER FOR LOSS OF PROFITS, LOSS OF USE, OR DAMAGES OF ANY KIND BASED UPON A CLAIM FOR BREACH OF WARRANTY.

Technical Advice. Seller's warranties as hereinabove set forth shall not be enlarged diminished or affected by, and no obligation or liability shall arise or grow out of, Seller's rendering of technical advice or service in connection with Buyer's order or the products furnished hereunder.

9. LIMITATION OF LIABILITY: IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR ANY INDIRECT, INCIDENTAL, CONSEQUENTIAL (INCLUDING LOSS OF PROFITS OR GOODWILL) OR SPECIAL DAMAGES RESULTING FROM ITS PERFORMANCE OR PERFORMANCE OR USE OF ANY GOODS OR SERVICES SOLD PURSUANT HERETO, WHETHER DUE TO A BREACH OF CONTRACT, BREACH OF WARRANTY, OR SUCH PARTY'S NEGlIGENCE.

EXHIBIT C

DEFINITIONS

A. TERMINATION FOR CAUSE

Any of the following events or occurrences are defined as a breach of the Agreement, giving the injured party the right to terminate the Agreement for cause, such termination exercisable by the injured party at its option. The waiver of any instance of breach under the Agreement shall not constitute waiving of the right to terminate the Agreement for any subsequent or like breach.

(1) Any proceeding in bankruptcy or insolvency filed by or against either party, or appointment of a Receiver or Trustee for such party or of a substantial portion of its assets; or any substantial assignment for the benefit of the creditors of either party without the prior written consent of the other party.

(2) Failure by either party to substantially perform any material covenant, obligation or warranty set forth in the Agreement; or violation by either party of any material covenant, obligation, agreement or warranty set forth in the Agreement.

(3) Any significant change in ownership of either party that adversely affects the relationship of the parties.

B. TERMINATION WITHOUT CAUSE

Termination without cause is the termination of the Agreement, by either party, upon the unilateral action of the terminating party for its primary convenience and interest, for reasons other than those defined as breach.

C. DISCONTINUANCE

Product will be considered discontinued by manufacturer if it is removed from DSPG's Distributor Price List upon advance written notice to Distributor.

D. TAXES

When DSPG has the legal obligation to collect federal, state, or local taxes, the appropriate amount shall be added to Distributor's invoice and paid by Distributor unless Distributor provides manufacturer with a valid tax exemption certificate acceptable to the appropriate taxing authority.

October 12, 2000

Amendment No. 1 to Non-Exclusive Distribution Agreement
Between
DSP Group Inc.
And
TOMEN Electronics Corp.
Dated May, 20, 1992

Paragraph 13 of the Non-Exclusive Distribution Agreement dated May 20, 1992 (the Original Agreement) is hereby amended as follows:

1. TOMEN shall keep permanently a level of inventory equal to one average month of delivery, based on the annual sales plan to be agreed upon each year by the two parties.

2. Based on TOMEN keeping 1 month inventory, DSPG shall pay TOMEN an annual amount equal to [***] of the actual annual billing of DSPG to TOMEN.

3. This amount will be paid to TOMEN with 30 days after December 31st of each year, beginning in December 31st, 2001.

4. TOMEN shall provide to DSPG an inventory report at the end of each month to enable DSPG to calculate the percentage of inventory rebate due.

5. No inventory returns will be allowed.

The two parties confirm that for the year [***], the annual plan is [***] Million as stated in the minutes of meeting dated [***], between the two parties, attachment 3.

Therefore, the constant level of inventories to be kept by TOMEN during the year 2001 shall be of [***]. The parties also confirm that the a/m amendment does not reduce in any way specific agreements reached by the two parties, such as the agreement of TOMEN to keep higher levels of inventories in order to meet the quarterly distribution plan ("the leveling plan") as per attachment 3 of the minutes of meeting dated September 26, 2000.

/s/ K. Taniguchi	/s/ E. Ayaloi
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For TOMEN Electronic Corp.	For DSP Group, Inc
Katsuyoshi Taniguchi, President	Eli Ayaloi, Chairman & CEO

EXHIBIT 11.1

DSP GROUP, INC.
STATEMENTS RE COMPUTATION OF PER SHARE EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Numerator:			
Net income	$ 49,835	$ 54,579	$ 14,415
Denominator:			
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	26,616	23,468	19,536
Incremental shares attributable to exercise of outstanding options (assuming proceeds would be used to purchase treasury stock)	2,053	1,974	496
Weighted average number of shares of common stock used to compute diluted earnings per share	28,669	25,442	20,032
Basic net income per share	$ 1.87	$ 2.33	$ 0.74
Diluted net income per share	$ 1.74	$ 2.15	$ 0.72

Selected Consolidated Financial Data

(US dollars in thousands, except per share amounts) Year Ended December 31,	2000	1999	1998	1997	1996
STATEMENTS OF OPERATIONS DATA:					
Revenues	$ 109,513	$ 76,433	$ 63,850	$ 61,959	$ 52,910
Income from continuing operations	$ 49,835	$ 54,579	$ 14,415	$ 11,034	$ 5,979
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	26,616	23,468	19,536	19,472	19,020
Weighted average number of common shares outstanding during the period used to compute diluted earnings per share	28,669	25,442	20,032	20,406	19,162
Net earnings per share - Basic	$ 1.87	$ 2.33	$ .74	$ .57	$ .32
Net earnings per share - Diluted	$ 1.74	$ 2.15	$ .72	$ .54	$ .31
BALANCE SHEET DATA:					
Cash, cash equivalents, marketable securities and cash deposits	$ 223,201	$ 161,371	$ 66,989	$ 65,944	$ 42,934
Working capital	$ 220,921	$ 163,747	$ 68,673	$ 66,947	$ 47,851
Total assets	$ 282,807	$ 206,179	$ 85,791	$ 85,826	$ 51,778
Total stockholders' equity	$ 246,165	$ 183,957	$ 75,695	$ 74,170	$ 54,449

(Unaudited, US dollars in thousands, except per share amounts) Fiscal Years by Quarter				2000				1999
QUARTERLY DATA:	4TH	3RD	2ND	1ST	4TH	3RD	2ND	1ST
Revenues	$ 31,425	$ 28,988	$ 25,713	$ 23,387	$ 25,973	$ 23,296	$ 16,702	$ 10,462
Gross profit	$ 18,167	$ 16,073	$ 13,776	$ 12,589	$ 14,418	$ 12,630	$ 9,543	$ 6,636
Net income	$ 8,743	$ 8,428	$ 17,255	$ 15,409	$ 33,918	$ 5,770	$ 13,709	$ 1,182
Net earnings per share - Basic	$ .33	$ .31	$ .65	$ .60	$ 1.35	$ .24	$ .60	$ .06
Net earnings per share - Diluted	$ .31	$ .29	$ .59	$ .54	$ 1.23	$ .22	$ .57	$ .06

The accompanying notes are integral part of the consolidated financial statements.

Price Range of Common Stock

DSP Group's common stock trades on the Nasdaq National Market (Nasdaq symbol "DSPG").
The following table presents for the periods indicated the intraday high and low sale prices for DSP Group's common stock as reported by the Nasdaq National Market:

2000	HIGH	LOW
FIRST QUARTER	$ 71.19	$ 38.00
SECOND QUARTER	$ 74.50	$ 35.00
THIRD QUARTER	$ 64.75	$ 36.38
FOURTH QUARTER	$ 38.00	$ 18.63

1999	HIGH	LOW
First Quarter	$ 11.32	$ 6.32
Second Quarter	$ 18.00	$ 7.35
Third Quarter	$ 21.13	$ 17.25
Fourth Quarter	$ 48.13	$ 19.00

As of December 31, 2000, there were approximately 69 holders of record of DSP Group's Common Stock, which DSP Group believes represents approximately 9,871 beneficial holders. DSP Group has not paid cash dividends on its Common Stock and presently intends to follow a policy of retaining any earnings for reinvestment in its business.

The accompanying notes are integral part of the consolidated financial statements.

RESULTS OF OPERATIONS

2000 has been a remarkable year for DSP Group in terms of revenue growth and expansion of its business. In the first quarter of 2000, DSP Group acquired a software company VoicePump, Inc. ("VoicePump") and entered the Voice Over DSL (VoDSL) and the Voice Over Internet Protocol (VOIP) markets, making use of its telephony technologies, DSP Cores architecture and VoicePump's VoDSL and VOIP gallery of software. Our marketing and sales teams introduced new products for the telephony line and achieved record high revenues for DSP Group in our product and licensing markets. DSP Group's liquidity and working capital continued to improve significantly throughout 2000 and by year end we achieved new record highs for DSP Group in cash, marketable securities, cash deposits and working capital. These increases were attained mainly due to additional sales of a portion of our equity investment in AudioCodes Ltd. as well as to cash provided from our operations. Our future operating results will be dependent upon a variety of factors. See "Factors Affecting Operating Results" in this report and in our Annual Report on Form 10-K for the year ended December 31,2000.

TOTAL REVENUES. Our total revenues were $109.5 million in 2000, $76.4 million in 1999 and $63.9 million in 1998. This represents an increase in total revenues of 43% in 2000 as compared with total revenues in 1999, and a 20% increase in total revenues in 1999 as compared with those in 1998. The increase in revenues in 2000 compared to 1999 was primarily the result of our successful lines of D16K and DL16K series products. Our licensing revenues in 2000 were $25.1 million compared to $19.0 million in 1999, and $14.6 million in 1998. This represents an increase in licensing revenues of 32% in 2000 as compared with 1999, and an increase of 30% in our licensing revenues in 1999 as compared with those in 1998.

Export sales, primarily consisting of Integrated Digital Telephony (IDT) speech processors shipped to manufacturers in Europe and Asia, including Japan, represented 86% of DSP Group's total revenues in 2000, 97% in 1999 and 95% in 1998. All export sales are denominated in U.S. dollars.

SIGNIFICANT CUSTOMERS. Revenues from one of our distributors, Tomen Electronics, accounted for 52% of our total revenues in 2000 as compared to 47% in 1999, and 45% in 1998. The loss of this one or more of our other major distributors or customers could harm our business, financial condition and results of operations.

GROSS PROFIT. Gross profit as a percentage of total revenues decreased to 55% in 2000, from 57% in 1999. Gross profit as a percentage of total revenues were 54% in 1998. The decrease in total gross profit in 2000 compared to 1999 was due to a slightly higher mix of product revenues, which have a lower gross profit than licensing sales, from total revenues.

Product gross profit as a percentage of product sales continued to slightly increase to 43% in 2000, from 42% in 1999 and from 41% in 1998. This ongoing increase was primarily due to the decrease in our costs of manufacturing. Our manufacturing costs have decreased due primarily to improvements in manufacturing technology, and to some extent the decreased manufacturing prices obtained from the foundries. Importantly, this increase in gross profit was achieved even though we continue to experience competitive, downward pricing pressure for our IDT products.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased significantly to $20.9 million in 2000, from $15.4 million in 1999 and from $10.2 million in 1998. The significant increase in research and development expenses in 2000 as compared to those in 1999 primarily resulted from the hiring of additional engineers associated with the acquisition of VoicePump, as well as from the increase in external services provided to our research and development team. Our engineering headcount increased in 2000 compared to 1999 by 45%. The increase in research and development expenses in 1999 as compared to those in 1998 primarily resulted from the following actions related to our RF cordless telephone applications: support for our new product line introduction of the D16K series; the acquisition of products, technology and RF laboratory equipment as well as an increase in our engineering headcount.

Research and development expenses as a percentage of total revenues were 19% in 2000, 20% in 1999 and 16% in 1998, respectively.

SALES AND MARKETING EXPENSES. Our sales and marketing expenses increased to $12.9 million in 2000, from $9.3 million in 1999 and from $5.2 million in 1998. The increase in expenses in 2000 as compared to those in 1999 was due to an increase of 17% in our sales and marketing personnel, as well as to an increase in our sales commissions, due to the increase in our revenues and higher facility costs for our Japanese subsidiary, Nihon DSP K.K. ("DSP Japan"). The increase in 1999 compared to 1998 was due primarily to our marketing and sales efforts of introducing our new line of IDT products, the D16K series, and our new RF wireless products, as well as an increase in our sales commissions, due to the increase in our revenues.

Sales and marketing expenses as a percentage of total revenues were 12% in both 2000 and 1999 and 8% in 1998.

GENERAL AND ADMINISTRATIVE EXPENSES. Our general and administrative expenses increased to $6.5 million in 2000 from $5.5 million in 1999 and from $4.6 million in 1998. General and administrative expenses increased in 2000 from 1999, mainly due to an increase in accounting, tax and legal professional expenses we incurred with respect to the proposed spin-off of our DSP Cores licensing division. General and administrative expenses increased in 1999 from 1998, mainly due to an increase in our rented property and associated facility expenses as a result of the increase in our total head-count. Additionally, we experienced an increase in costs in connection with an increase in our general legal and accounting services. However, we are closely monitoring all expenses and believe that this contributed to our general and administrative expenses as a percentage of total revenues decreasing slightly to 6% in 2000, from 7% in both 1999 and 1998.

UNUSUAL ITEMS. In the first quarter of 2000 we recorded two unusual expense items amounting to approximately $14.2 million. A write-off of $11.9 million was recorded relating to the acquired in-process research and development in connection with the acquisition of approximately 73% of the outstanding shares of VoicePump. An expense of $2.2 million was recorded reflecting the accelerated amortization of acquired assets and intangibles related to the 1999 acquisition of 900 MHz RF and baseband technology from Applied Micro Devices, Inc.

INTEREST AND OTHER INCOME. Interest and other income increased significantly to $13.5 million in 2000 from $6.0 million in 1999 and from $3.8 million in 1998. The increase in interest income in 2000 as compared with 1999 and 1998, is a result of higher levels of cash equivalents, marketable securities and cash deposits in 2000, mainly due to additional sales of a portion of our equity investment in AudioCodes, Ltd., ("AudioCodes") as well as higher yields of our financial investments.

EQUITY IN INCOME OF EQUITY METHOD INVESTEES. Equity in income of equity method investees was $2,644,000 in 2000, $2,475,000 in 1999 and $125,000 in 1998. In 2000 we recorded VoicePump's losses in the results of operations of our statements of income of approximately $2.2 million and included the minority interest in those losses in the amount of $627,000.

GAIN ON SALE OF MARKETABLE EQUITY SECURITY. In April 1998, DSP Group sold all of its Nexus Telecomunications Systems Ltd. ("Nexus") shares in a private transaction and realized a pre-tax one time gain on marketable equity securities of approximately $1.1 million, which is included under "Other income (expense)" in our consolidated statements of income for 1998.

CAPITAL GAIN. In May 1999, we exercised our option to purchase approximately 3.5% of the outstanding stock of AudioCodes for approximately $1.1 million. In the same month, AudioCodes completed its initial public offering (IPO) and is now listed on the Nasdaq SmallCap Market under the symbol "AUDC". In its IPO, AudioCodes issued 7.0 million shares at a price of $7.00 per share. As a result we recorded in "Other income (expense)" in our consolidated statements of income for 1999 a one-time capital gain in the amount of $11.8 million. This amount was comprised of $9.4 million, from the sale of our shares sold in the IPO and $2.5 million from the sale of approximately 494,000 of our AudioCodes shares to the underwriters to cover their over-allotment option. The gross proceeds from our sale were approximately $3.2 million. In October 1999, AudioCodes successfully concluded a follow-on public offering of 6.0 million shares at a price of $20.50 per share. In the follow-on offering, AudioCodes issued and sold 3.0 million shares and an additional 3.9 million shares were sold by shareholders, of which approximately 2,138,000 shares were sold by us in two separate transactions. Our proceeds from these transactions were approximately $42.8 million, and we recorded in 1999 an additional capital gain in the amount of $47.1 million. This amount was comprised of $10.8 million, which resulted from the public offering and $36.3 million from the sale of approximately 2,138,000 AudioCodes' shares. As of December 31, 1999, we held approximately 5.8 million AudioCodes shares, which represented about 15% of its outstanding shares. In January 2000, we sold 1,200,000 shares of AudioCodes for approximately $43.8 million and recorded in the first quarter of 2000 a capital gain in the amount of $40.0 million. In June 2000 we sold an addition 500,000 shares of AudioCodes for approximately $19.2 million and recorded in the second quarter of 2000, an additional capital gain in the amount of $17.6 million. In the fourth quarter of 2000 we purchased in the open market 300,000 of AudioCodes shares for approximately $4.9 million. This transaction created an excess of purchase price over net assets acquired (approximately $3,745,000 at the date of purchase), which was attributed to developed technology to be amortized over seven years. As of December 31, 2000, we own 4.45 million shares of AudioCodes common stock, which represents approximately 11% of the outstanding capital of AudioCodes. All shares and per share numbers with respect to AudioCodes have been adjusted to reflect the 2-for-1 stock split effected by AudioCodes in October 2000.

PROVISION FOR INCOME TAXES. The effective tax rate was 18% (excluding tax on capital gain) for the year ended December 31, 2000, 22% for the year ended December 31, 1999 and 25% for the year ended December 31, 1998. The tax rates for both 2000 and 1999 are lower compared to 1999 and 1998, respectively, due mainly to our utilization of foreign tax holiday benefits.

DSP Group Ltd., DSP Group's subsidiary in Israel, has been granted "Approved Enterprise" status by the Israeli government according to four investment plans. The Approved Enterprise status allows for a tax holiday for a period of two to four years and a reduced corporate tax rate of 10% for an additional eight or six years, on the respective investment plans' proportionate share of taxable income. The tax benefits under these investment plans are scheduled to gradually expire starting from 2005 through 2009.

Management has assessed the need for a valuation allowance against deferred tax assets and has concluded that it is more likely than not that $5.4 million deferred tax assets will be realized based on current levels of future taxable income and potentially refundable taxes.

LIQUIDITY AND CAPITAL RESOURCES

During 2000, DSP Group generated $33.0 million of cash and cash equivalents from its operating activities as compared to $18.3 million during 1999 and $15.1 million in 1998. The significant increase in 2000 of cash and cash equivalents as compared with that in 1999 occurred even though DSP Group experienced an decrease in net income in 2000 compared to 1999. The increase was due mainly to the non-cash effects of the increase of amortization of the in-process research and development costs in connection with the VoicePump acquisition, reduced capital gains attributed to the sale of AudioCodes stock and the increases in accounts payable and accrued expenses. These were off-set by the decrease in deferred income taxes as well as to the increase in income tax payable. The increase in 1999 of cash and cash equivalents as compared with that in 1998 occurred primarily because of our significant increase in net income. In addition, the increase in cash and cash equivalents was attributable primarily to the non-cash effects of the increase in deferred income tax and the cash used by the increase in accounts payable. However, the increase was mainly offset by the increase in capital gain and partially offset by the increase in our inventories and an increase in accounts receivable.

We invest excess cash in short-term cash deposits and marketable securities of varying maturity, depending on our projected cash needs for operations, capital expenditures and other business purposes. In 2000, DSP Group purchased $155.0 million of investments classified as short-term cash deposits and marketable securities, $131.4 million in 1999 and $60.0 million in 1998. In addition, $120.0 million of our investments classified as marketable securities matured in 2000 compared to $48.7 million in 1999 and $60.6 million in 1998. During 2000, the average maturity for our investments was less than 12 months but slightly higher from the previous average of less than 12 months in 1999.

Our capital equipment purchases amounted to $3.4 million in 2000, $5.2 million in 1999 and $2.3 million in 1998 for computer hardware and software used in engineering development, engineering test and lab equipment, leasehold improvements, vehicles, and furniture and fixtures. The acquisitions of capital equipment during 1999 were primarily for new lab equipment associated with the RF technology, and other computer equipment, testing equipment and software for our research and development efforts during the year.

On February 2, 1999, DSP Group announced that it had entered into a stock purchase agreement with Magnum Technologies, Ltd., ("Magnum") an international investment fund, in which DSP Group issued and sold 2,300,000 new shares (pre-split 2:1) of DSP Group common stock to Magnum. Based in part on Magnum's representations, the transaction was exempt from the registration requirements of the Securities Act of 1933 according to Section 4(2) of the Securities Act. These shares, representing 19.6% of DSP Group's outstanding common stock at the time of the transaction, were issued for a price of $15 per share (pre-split 2:1) or an aggregate of $34.5 million in total net proceeds to DSP Group. As part of the agreement, Magnum may acquire additional shares of DSP Group in the open market, but may not bring its total holdings to more than 35% of DSP Group's outstanding shares of common stock. Furthermore, Magnum agreed to restrict its sales of the DSP Group shares it purchased for an eighteen-month period from the date of the transaction under Rule 144(e)(i) of the Securities Act of 1933, unless it received the prior written approval of DSP Group. Additionally, DSP Group invited Magnum to appoint two new directors to the Board of Directors, which currently brings the total number of members of our Board of Directors to six. In February and August 2000, Magnum exercised its option to sell our common stock, and sold 2.9 million shares of its holdings. After the sale, Magnum holds approximately 2.9 million DSP Group shares representing approximately 11% of our outstanding shares of common stock.

STOCK SPLIT. On January 24, 2000, our Board of Directors declared a stock dividend whereby each holder of record of our common stock on February 16, 2000 received one additional share of common stock for each share then owned. The dividend was paid on March 1, 2000.

REPURCHASE PROGRAM. In March 1999, our Board of Directors authorized a new plan to repurchase up to an additional 2,000,000 shares of our common stock from time to time on the open market or in privately negotiated transactions, increasing the total shares authorized to be repurchased to 4,000,000 shares. Accordingly, during the year 2000 we repurchased 850,000 shares of our common stock at an average price of $24.13 per share, for an aggregated purchase price of $20.5 million. During 1999 we repurchased 400,000 shares of our common stock at an average purchase price of $6.78 per share, for an aggregate purchase price of approximately $2.7 million. In 1998, we repurchased 1,628,000 shares of our common stock at an average purchase price of $8.77 per share for an aggregate purchase price of approximately $14.3 million. In 2000, we issued 1,032,000 shares of our common stock to employees who have exercised their stock options and in 1999 we issued 908,000 shares.

In September 2000, we invested approximately $485,000 (31.0 million Yen) in shares of our Japanese distributor's parent company, Tomen Ltd., as part of a long-term strategic relationship. Tomen's shares are traded on the Japanese stock exchange, and are recorded in "Other Investments" on our balance sheets, and accounted for as available for sale marketable equity securities.

In 1997, DSP Group invested $176,000 in convertible debentures of Aptel. Subsequently, in December 1997, Aptel's shareholders, including DSP Group, exchanged their shares in Aptel for shares in Nexus. In April 1998, DSP Group sold all of its Nexus shares in a private transaction for approximately $1.3 million and realized a pre-tax one time gain on marketable equity securities of approximately $1.1 million, which is included under "Other income (expense)" in our consolidated statements of income for the year ended December 31, 1998.

Cash received upon the exercise of employee stock options and through purchases pursuant to DSP Group's employee stock purchase plan in 2000 totaled $15.6 million as compared with $20.4 million in 1999 and $1.2 million in 1998.

At December 31, 2000, DSP Group's principal source of liquidity consisted of cash and cash equivalent deposits totaling $45.0 million and marketable securities and short-term cash deposits of $178.2 million. DSP Group's working capital at December 31, 2000 was $220.9 million.

We believe that our current cash, cash equivalent, cash deposits and marketable securities will be sufficient to meet our cash requirements through at least the next 12 months. In addition, as part of our business strategy, we occasionally 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. There can be no assurance that we will consummate any such transactions. See "Factors Affecting Future Operating Results There are Risks Associated with our Acquisition Strategy" for more detailed information.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK. It is DSP Group's policy not to enter into derivative financial instruments. DSP Group does not currently have any significant foreign currency exposure since it does not transact business in foreign currencies. Due to this, DSP Group did not have significant overall currency exposure at December 31, 2000.

FOREIGN CURRENCY RATE RISK. As nearly all of DSP Group's sales and expenses are denominated in U.S. Dollars, DSP Group has experienced only insignificant foreign exchange gains and losses to date, and does not expect to incur significant gains and losses in the next 12 months. DSP Group did not engage in foreign currency hedging activities during 2000 and 1999. See "Factors Effecting Future Operating Results - Risks of Operating in Israel" in more detailed information.

EUROPEAN MONETARY UNION

Within Europe, the European Economic and Monetary Union (the "EMU") introduced a new currency, the euro, on January 1, 1999. During 2002, all EMU countries are expected to be operating with the euro as their single currency. Uncertainty exists as to the effect the euro currency will have on the marketplace. Additionally, all of the final rules and regulations have not yet been defined and finalized by the European Commission with regard to the euro currency. We are assessing the effect the euro formation will have on DSP Group's internal systems and the sale of DSP Group products. We expect to take appropriate actions based on the results of such assessment. We believe that the cost related to this issue will not be material to us and will not have a substantial effect on our financial condition and results of operations.

RISK FACTORS AFFECTING OPERATING RESULTS

The stockholders' letter and the discussion in this annual report that concerns DSP Group's future products, expenses, revenue, liquidity and cash needs as well as DSP Group's plans and strategies contain forward-looking statements concerning our future operations and financial results. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Numerous factors could cause results to differ from those described in these statements and prospective investors and stockholders should carefully consider the factors set forth below in evaluating these forward-looking statements.

OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY.
Our quarterly results of operations may vary significantly in the future for a variety of reasons, including the following:

- fluctuations in volume and timing of product orders;
- timing of recognition of license fees;
- level of per-unit royalties;
- changes in demand for our products due to seasonal customer buying patterns and other factors;
- timing of new product introductions by us, our customers, licensees or competitors;
- changes in the mix of products sold by us;
- fluctuations in the level of sales by original equipment manufacturers (OEMs) and other vendors of products incorporating our products; and
- general economic conditions, including the changing economic conditions in the United States.

Each of the above factors is difficult to forecast and thus could harm our business, financial condition and results of operations. Through 2001, we expect that revenues from our DSP core designs and TrueSpeech algorithms will be derived primarily from license fees rather than per unit royalties. The uncertain timing of these license fees has caused, and may continue to cause, quarterly fluctuations in our operating results. Our per unit royalties from licenses are dependent upon the success of our OEM licensees in introducing products utilizing our technology and the success of those OEM products in the marketplace. Per unit royalties from TrueSpeech licensees have not been significant to date.

OUR AVERAGE SELLING PRICES CONTINUE TO DECLINE. We have experienced a decrease in the average selling prices of our IDT processors, but have to date been able to offset this decrease on an annual basis through manufacturing cost reductions and the introduction of new products with higher performance. However, we cannot guarantee that our on-going efforts will be successful or that they will keep pace with the anticipated, continuing decline in average selling prices.

WE DEPEND ON THE IDT MARKET WHICH IS HIGHLY COMPETITIVE. Sales of IDT products comprise a substantial portion of our product sales. Any adverse change in the digital IDT market or in our ability to compete and maintain our position in that market would harm our business, financial condition and results of operations. The IDT market and the markets for our products in general are extremely competitive and we expect that competition will only increase. Our existing and potential competitors in each of our markets include large and emerging domestic and foreign companies, many of which have significantly greater financial, technical, manufacturing, marketing, sale and distribution resources and management expertise than we do. It is possible that we may one day be unable to respond to increased price competition for IDT processors or other products through the introduction of new products or reductions of manufacturing costs. This inability would have a material adverse effect on our business. Likewise, any significant delays by us in developing, manufacturing or shipping new or enhanced products also would have a material adverse effect on our business.

The 900 Mhz Digital Spread Spectrum RF and Base Band technology acquired in 1999 from Advances Micro Devices gave us a "cheap entry ticket" to this market. This technology is not state of the art and we have noticed a trend of decreasing sales for the product models which are based on this technology. We may not succeed in our development of new RF and Base Band models and those which are going to be developed may not be accepted by the market.

Despite the recent success of development and sales of our DSP Cores, the market needs extensive R&D efforts in new technologies not currently owned by the company, and we may not succeed in developing such technologies in due time, which could affect our competitive position.

WE DEPEND ON INDEPENDENT FOUNDRIES TO MANUFACTURE OUR INTEGRATED CIRCUIT PRODUCTS. All of our integrated circuit products are manufactured by independent foundries. While these foundries have been able to adequately meet the demands of our increasing business, we are and will continue to be dependent upon these foundries to achieve acceptable manufacturing yields, quality levels and costs, and to allocate to us a sufficient portion of foundry capacity to meet our needs in a timely manner. To meet our increased wafer requirements, we have added additional independent foundries to manufacture our processors. Our revenues could be harmed should any of these foundries fail to meet our request for products due to a shortage of production capacity, process difficulties, low yield rates or financial instability. For example, foundries in Taiwan produce a significant portion of our wafer supply. As a result, earthquakes, aftershocks or other natural disasters in Asia, could preclude us from obtaining an adequate supply of wafers to fill customer orders and could harm our business, financial condition, and results of operations.

WE MAY NEED TO INCREASE OUR RESEARCH AND DEVELOPMENT EFFORTS TO REMAIN COMPETITIVE. The DSP Cores market is experiencing extensive efforts by some of our competitors to use new technologies to manipulate the chip design programming to increase the parallel processing of the chip. One such technology used is VeryLong Instruction Word (VLIW), which some of our competitors possess elements of, but which we do not possess at the present time. If such technology continues to improve the programming processing of these chips, then we may need to further our research and development to obtain such technology in order to remain competitive in the markets in which we compete.

WE DEPEND ON INTERNATIONAL OPERATIONS. We are dependent on sales to customers outside the United States. We expect that international sales will continue to account for a significant portion of our net product and license sales for the foreseeable future. As a result, the occurrence of any negative international political, economic or geographic events could result in significant revenue shortfalls. These shortfalls could cause our business to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;
- fluctuations in the exchange rate for the United States dollar;
- imposition of tariffs and other barriers and restrictions;
- burdens of complying with a variety of foreign laws;
- political and economic instability; and
- changes in diplomatic and trade relationships.

RISKS OF OPERATING IN ISRAEL. Our principal research and development facilities are located in the State of Israel and, as a result, at December 31, 2000, 164 of our 217 employees were located in Israel, including 113 out of 135 of our research and development personnel. In addition, although DSP Group is 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 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-1980's, 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, we cannot predict whether or in what manner these problems 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.

Moreover, many of our expenses in Israel are paid in Israeli currency which subjects us to the risks of foreign currency fluctuations and to economic pressures resulting from Israel's general rate of inflation. While substantially all of our sales and expenses are denominated in United States dollars, a portion of our expenses are denominated in Israeli shekels. Our primary expenses paid in Israeli currency are employee salaries and lease payments on our Israeli facilities. As a result, an increase in the value of Israeli currency in comparison to the United States dollar could increase the cost of technology development, research and development expenses and general and administrative expenses. We cannot provide assurance that currency fluctuations, changes in the rate of inflation in Israel or any of the other factors mentioned above will not have a material adverse effect on our business, financial condition and results of operations.

ANY FUTURE PROFITABILITY MAY BE DIMINISHED IF TAX BENEFITS FROM THE STATE OF ISRAEL ARE REDUCED OR WITHHELD. The Company receives certain tax benefits in Israel, particularly as a result of the "Approved Enterprise" status of the Company's facilities and programs. To be eligible for tax benefits, the Company 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. The Company believes that it will be able to meet such conditions. Should the Company fail to meet such conditions in the future, however, it would be subject to corporate tax in Israel at the standard rate of 36%, and could be required to refund tax benefits already received. There can be no assurance that such grants and tax benefits will be continued in the future at their current levels or otherwise. The termination or reduction of certain programs and tax benefits (particularly benefits available to the Company as a result of the Approved Enterprise status of the Company's facilities and programs) or a requirement to refund tax benefits already received may have a material adverse effect on the Company's operating results and financial condition.

PROPOSED ISRAELI TAX REFORM. On May 4, 2000, a committee chaired by the Director General of the Israeli Ministry of Finance, Avi Ben-Bassat, issued a report recommending a sweeping reform in the Israeli system of taxation. The proposed reform would significantly alter the taxation of individuals, and would also affect corporate taxation. In particular, the proposed reform would reduce, but not eliminate, the tax benefits available to approved enterprises such as ours. The proposed reform would also impose a capital gains tax on individuals on the sale of shares, unless the selling shareholder is entitled to benefits under a tax treaty. The Israeli cabinet has approved the recommendations in principle, but implementation of the reform requires legislation by Israel's Knesset. The Company cannot be certain whether the proposed reform will be adopted, when it will be adopted or what form any reform will ultimately take. The elimination of our approved status could have negative tax consequences discussed above and could have a material adverse effect on our business.

WE DEPEND ON OEMS AND THEIR SUPPLIERS TO OBTAIN REQUIRED COMPLEMENTARY COMPONENTS. Some of the raw materials, components and subassemblies included in the products manufactured by our OEM customers, which also incorporate our products, are obtained from a limited group of suppliers. Supply disruptions, shortages or termination of any of these sources could have an adverse effect on our business and results of opera-tions due to the delay or discontinuance of orders for our products by customers until those necessary components are available.

WE DEPEND UPON THE ADOPTION OF INDUSTRY STANDARDS BASED ON TRUESPEECH TECHNOLOGY. Our prospects are partially dependent upon the establishment of industry standards for digital speech compression based on TrueSpeech algorithms in the computer telephony and Voice over IP markets. The development of industry standards utilizing TrueSpeech algorithms would create an opportunity for us to develop and market speech co-processors that provide TrueSpeech solutions and enhance the performance and functionality of products incorporating these co-processors.

In February 1995, the ITU established G.723.1, which is predominately composed of a TrueSpeech algorithm, as the standard speech compression technology for use in video conferencing over public telephone lines. In March 1997, the International Multimedia Teleconferencing Consortium, a nonprofit industry group, recommended the use of G.723.1 as the default audio coder for all voice transmissions over the Internet or for IP applications for H.323 conferencing products. If TrueSpeech algorithms are not adopted as the standard speech compression technology for different applications, the sales of our TrueSpeech products may not achieve anticipated levels.

THERE ARE RISKS ASSOCIATED WITH OUR ACQUISITION STRATEGY. DSP Group has 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 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 provide assurance that we will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our operations, or expand into new markets. Once integrated, acquisitions may not achieve comparable levels of revenues, profitability or productivity as the existing business of DSP Group 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.

PROTECTION OF OUR INTELLECTUAL PROPERTY IS LIMITED; RISKS OF INFRINGEMENT OF RIGHTS OF OTHERS. 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. For example, AT&T has asserted that G.723.1, which is primarily composed of a TrueSpeech algorithm, includes certain elements covered by patents held by AT&T and has requested that video conferencing manufacturers license the technology from AT&T. Other organizations including Lucent Microelectronics, NTT and VoiceCraft have raised public claims that they also have patents related to the G.723.1 technology. 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 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 and to suspend the manufacturing of products utilizing the technology. We believe that the ultimate resolution of these matters will not harm our financial position, results of operations, or cash flows.

OUR STOCK PRICE MAY BE VOLATILE. 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.

YEAR 2000 ISSUE. The "Year 2000 issue" refers to the use by many computer hardware and software systems of only two digits to represent the calendar year. As a result, these systems and programs may not process dates beyond 1999, which may cause errors in information or systems failures. The Company believes it has taken all reasonable and prudent steps to protect its assets and operations from the impact of the Year 2000 Issue. To date there have been no known adverse effects on any of the Company's operations or offices. While the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company have been fully resolved. The Company believes that exposure to business disruption remains, but does not expect it would have a material impact on the Company's results of operations, liquidity and financial condition.

Report of Independent Auditors

TO THE STOCKHOLDERS OF DSP GROUP, INC.

We have audited the accompanying consolidated balance sheets of DSP Group, Inc. (the "Company") and its subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of DSP Group, Inc. and its subsidiaries as of December 31, 2000 and 1999, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ KOST FORER & GABBAY

KOST FORER & GABBAY
A member of Ernst & Young International
Tel Aviv, Israel
January 22, 2001,
Except for Note 9, as to which the date is February 14, 2001

Consolidated Statements of Income

(US dollars in thousands, except per share amounts) Years Ended December 31,	2000	1999	1998
REVENUES:			
Product sales	$ 84,384	$ 57,397	$ 49,252
Licensing, royalties and other	25,129	19,036	14,598
TOTAL REVENUES	109,513	76,433	63,850
COSTS OF REVENUES:			
Product sales	47,861	33,051	29,002
Licensing, royalties and other	1,047	155	426
TOTAL COST OF REVENUES	48,908	33,206	29,428
GROSS PROFIT	60,605	43,227	34,422
OPERATING EXPENSES:			
Research and development, net	20,912	15,404	10,181
Sales and marketing	12,909	9,309	5,222
General and administrative	6,515	5,511	4,632
Impairment of tangible and intangible assets	2,285	-	-
In-process research and development write-off	11,869	-	-
TOTAL OPERATING EXPENSES	54,490	30,224	20,035
OPERATING INCOME	6,115	13,003	14,387
FINANCIAL AND OTHER INCOME (EXPENSE):			
Interest and other income	13,507	6,048	3,810
Interest and other expenses	(186)	(232)	(189)
Gain on sale of available-for-sale marketable securities	-	-	1,086
Equity in income of affiliate	2,644	2,475	125
Minority interest in losses of subsidiary	627	-	-
Loss from issuance of subsidiary's stock	(100)	-	-
Capital gains from realization of investments	57,593	58,931	-
INCOME BEFORE PROVISION FOR INCOME TAXES	80,200	80,225	19,219
Provision for income taxes	(30,365)	(25,646)	(4,804)
NET INCOME	49,835	54,579	$ 14,415
NET EARNINGS PER SHARE:			
Basic	$ 1.87	$ 2.33	$ 0.74
Diluted	$ 1.74	$ 2.15	$ 0.72

The accompanying notes are integral part of the consolidated financial statements.

Consolidated Balance Sheets

(US dollars in thousands) December 31,	2000	1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 45,035	$ 20,778
Marketable securities and short term deposits	178,166	140,593
Trade receivable, less allowance for returns of $123 in 2000 and $123 in 1999 and doubtful accounts of $200 in 2000 and $140 in 1999	16,932	10,435
Deferred income taxes	4,554	1,707
Other accounts receivable and prepaid expenses	1,445	1,362
Inventories	2,815	3,283
TOTAL CURRENT ASSETS	248,947	178,158
Property and equipment, net	6,451	6,948
LONG TERM ASSETS:		
Other investments	21,000	18,433
Other assets, net of accumulated amortization	4,259	1,250
Severance pay fund	2,150	1,390
Total Long term assets	27,409	21,073
TOTAL ASSETS	$ 282,807	$ 206,179
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payable	$ 8,092	$ 6,079
Accrued compensation and benefits	5,276	4,207
Income taxes payable	6,414	1,054
Accrued royalties	2,472	803
Accrued expenses and other accounts payable	5,772	2,268
TOTAL CURRENT LIABILITIES	28,026	14,411
LONG TERM LIABILITIES:		
Accrued severance pay	2,147	1,431
Deferred income taxes	5,559	6,380
Minority interest	910	-
COMMITMENTS AND CONTINGENCIES	8,616	7,811
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value:		
Authorized shares-- 5,000 as of December 31, 2000 and 1999		
Issued and outstanding shares-- none as of December 31, 2000 and 1999	-	-
Common stock, $0.001 par value:		
Authorized shares -- 50,000 as of December 31, 2000 and 1999		
Issued and outstanding shares -- 26,248 as of December 31, 2000 and 25,342 as of December 31, 1999 (see note 4)	27	12
Additional paid-in capital	151,787	119,163
Retained earnings	114,291	64,782
Less cost of treasury stock	(19,940)	-
TOTAL STOCKHOLDERS' EQUITY	246,165	183,957
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 282,807	$ 206,179

The accompanying notes are integral part of the consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(US dollars in thousands) Three Years Ended December 31, 2000	COMMON SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK AT COST	RETAINED EARNINGS (ACCUMULATED-DEFICIT)	OTHER COMPREHENSIVE INCOME	TOTAL STOCKHOLDERS EQUITY
BALANCE AT JANUARY 1, 1998	10,094	$ 10	$ 74,418	$ -	$ (1,308)	$ 1,050	$ 74,170
Net income	-	-	-	-	14,415	-	14,415
Comprehensive income Unrealized gains on Marketable securities	-	-	-	-	-	(1,050)	(1,050)
Total comprehensive income	-	-	-	-	-	-	13,365
Purchase of Treasury Stock	(814)	(1)	-	(14,273)	-	-	(14,274)
Exercise of Common Stock options by employees	94	-	-	1,821	(908)	-	913
Sale of Common Stock under employee stock purchase plan	32	-	-	399	(70)	-	329
Income tax benefit from stock options exercised	-	-	1,192	-	-	-	1,192
BALANCE AT DECEMBER 31, 1998	9,406	$ 9	$ 75,610	$(12,053)	$ 12,129	$ -	$ 75,695
Net income	-	-	-	-	54,579	-	54,579
Total comprehensive income	-	-	-	-	-	-	54,579
Purchase of Treasury Stock	(200)	(*)	-	(2,710)	-	-	(2,710)
Issue of Common Stock to investor	2,300	2	34,367	-	-	-	34,369
Exercise of Common Stock options by employees	256	-	5,640	-	-	-	5,640
Issue of Treasury Stock upon exercise of stock options	879	1	1,948	14,272	(1,813)	-	14,408
Issue of Treasury Stock upon purchase of ESPP shares	30	(*)	7	491	(113)	-	385
Income tax benefit from stock options exercised	-	-	1591	-	-	-	1,591
BALANCE AT DECEMBER 31, 1999	12,671	$ 12	$119,163	$ -	$ 64,782	$ -	$183,957
Net income	-	-	-	-	49,835	-	49,835
Total comprehensive income	-	-	-	-	-	-	49,835
Purchase of Treasury Stock	(850)	(1)	-	(20,512)	-	-	(20,513)
Exercise of Common Stock options in exchange of acquisition of VoicePump	261	1	14,897	-	-	-	14,898
Exercise of Common Stock options by employees	1,032	1	14,660	-	-	-	14,661
Issue of Stock upon purchase of ESPP shares	41	(*)	651	-	-	-	651
Issue of Treasury Stock upon exercise of stock options	24	1	-	572	(326)	-	247
Income tax benefit from stock options exercised	-	-	2,429	-	-	-	2,429
Stock split effected as a stock dividend (100%)	13,069	13	(13)	-	-	-	-
BALANCE AT DECEMBER 31, 2000	26,248	$ 27	$151,787	$(19,940)	$114,291	$ -	$246,165

(*) Represents an amount of less than $1.

The accompanying notes are integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

(US dollars in thousands) Years Ended December 31,	2000	1999	1998
OPERATING ACTIVITIES			
Net income	$ 49,835	$ 54,579	$ 14,415
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,758	2,455	1,572
In - process Research and Development write-off	11,869	-	-
Increase (decrease) in deferred revenue	(90)	54	(2,324)
Increase (decrease) in deferred income taxes, net	(1,337)	8,487	2,470
Gains on sale of available for sale marketable securities	-	-	(1,086)
Capital gains from realization of investments	(34,193)	(43,328)	-
Acquired assets and workforce	-	(2,000)	-
Impairment of tangible, intangible assets and amortization of goodwill	2,764	885	-
Accrued interest on held to maturity marketable securities	(2,617)	-	-
Equity in income of affiliate	(2,644)	(2,475)	(125)
Minority interest in losses of subsidiary	(627)	-	-
Increase in trade receivable	(6,301)	(4,714)	(2,127)
Decrease (increase) in inventories	468	(1,101)	1,934
Decrease (increase) in other accounts reccivable and prepaid expenses	(3)	246	(167)
Decrease (increase) in other assets	(230)	-	15
Increase (decrease) in trade payable	2,009	3,719	(959)
Increase in accrued compensation and benefits	802	1,652	384
Increase (decrease) in accrued severance pay, net	(44)	10	31
Increase (decrease) in income taxes payable	5,360	(855)	218
Increase in accrued royalties	1,669	156	476
Increase in accrued expenses and other accounts payable	3,575	484	408
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 33,023	$ 18,254	$ 15,135

The accompanying notes are integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows (continued)

(US dollars in thousands) Years Ended December 31,	2000	1999	1998
INVESTING ACTIVITIES			
Purchase of marketable securities and cash deposits	$ (154,992)	$ (131,357)	$ (59,980)
Sale and maturity of marketable securities and cash deposits	120,038	48,715	60,648
Purchases of property and equipment	(3,403)	(5,167)	(2,320)
Proceeds from sale of property and equipment	57	-	-
Proceed from realization of investment in an investee	39,623	30,445	1,262
Investment in investees	(5,353)	(1,241)	-
Cash acquired in acquisition of consolidated subsidiary	106	-	-
NET CASH USED IN INVESTING ACTIVITIES	(3,924)	(58,605)	(390)
FINANCING ACTIVITIES			
Issuance of Common Stock for cash upon exercise of options, warrants, and employee stock purchase plan	15,559	20,432	1,240
Issuance of Common Stock to investor	-	34,369	-
Issuance of shares to minority shareholders in consolidated subsidiary	112	-	-
Purchase of treasury stock	(20,513)	(2,710)	(14,273)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(4,842)	52,091	(13,033)
Increase in cash and cash equivalents	24,257	11,740	1,713
Cash and cash equivalents at beginning of year	20,778	9,038	7,325
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 45,035	$ 20,778	$ 9,038
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the period for:			
Income taxes	$ 26,035	$ 17,300	$ 1,530
CASH ACQUIRED IN ACQUISITION OF CONSOLIDATED SUBSIDIARY			
Estimated fair value of assets acquired and liabilities assumed of the subsidiary at the date of acquisition:			
Working capital (excluding cash and cash equivalents)	$ (127)		
Property and equipment	(17)		
Minority interest in subsidiaries at date of acquisition	91		
In-process Research and Development and goodwill arising on acquisition	(14,739)		
Issuance of DSP shares	14,898		
	$ 106		

The accompanying notes are integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

1. GENERAL

DSP Group, Inc. (the "Company") is involved in the development and marketing of digital signal processing cores used in a wide range of applications for industries such as wireless communications, broadband communications, VoIP, multimedia, advanced telecommunications systems and personal computing. By combining its DSP core technology with its advanced speech processing algorithms, DSP Group also delivers a wide range of enabling application-specific Integrated Circuits (ICs), such as ICs for fully featured Integrated Digital Telephony (IDT) products and applications, including 900 MHz and 2.4 GHz wireless technologies and for IP telephony applications. The Company has five wholly owned subsidiaries: DSP Group Ltd. ("DSP Group Israel"), an Israeli corporation primarily engaged in research, development, marketing, sales, technical support and certain general and administrative functions; RF Integrated Systems Inc. ("RF US"), a USA corporation primarily engaged in research and development of RF technology for wireless products; Nihon DSP K.K. ("DSP Japan"), a Japanese corporation primarily engaged in marketing and technical support activities; DSP Group Europe SARL, a French corporation primarily engaged in marketing and technical support activities; and Voicecom Ltd. ("Voicecom"), an Israeli corporation primarily engaged in research and development for 900 MHz and 2.4 GHz wireless telephony products. The Company also has a partial holding of approximately 71% in VoicePump Inc. ("VoicePump") a USA corporation primarily engaged in the design, research, development and marketing of software applications for the Voice Over DSL (VODSL) and Voice Over Internet Protocol (VoIP). See note 2 - acquisition of VoicePump Inc.

Revenues derived from the Company's largest reseller Tomen Electronics represented 52%, 47% and 45% of the Company's revenues for 2000, 1999 and 1998, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with General Accepted Accounting Principles in the United States, ("GAAP").

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

REVENUE RECOGNITION

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), as amended in June 2000, which summarizes the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company adopted SAB 101 during the fourth quarter of 2000. The adoption did not have a significant effect on our consolidated results of operations or financial postition.

PRODUCT SALES

Product sales of integrated digital telephony ("IDT") processors for communications applications, telephony and other products are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable. The Company has no ongoing commitments after shipment other than for warranty and sales returns/exchanges by distributors. The Company's provision for returns is provided in accordance with FAS 48. "Revenue Recognition when Right-Off Return Exists" The Company accrues estimated sales returns/exchanges upon recognition of sales. The Company has not experienced significant warranty claims to date, and accordingly, the Company provides for the costs of warranty when specific problems are identified.

LICENSING AND ROYALTY REVENUES

The Company accounts for software license in accordance with Statement of Position (SOP) 97-2, "Software Revenue Recognition". SOP 97-2, generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair value of the elements. The Company has adopted SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions," for all multiple element transactions entered into after January 1, 2000. SOP 98-9 requires that revenue be recognized under the "residual method" when vendor specific objective evidence (VSOE) of fair value exists for all undelivered elements and VSOE does not exist for all of the delivered elements.

Revenues are recognized when: (1) collection is probable; (2) delivery has accrued; (3) the license fee is otherwise fixed and determinable; and (4) persuasive evidence of an arrangement exists.If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer provided that all other revenue recognition criteria have been met. Maintenance and support revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement. Costs related to insignificant obligations, primarily telephone support, are accrued upon shipment and are included in cost of revenues. VSOE of fair value of the undelivered elements (maintenance, support and services) is determined based on the price charged for the undelivered element where sold separately.

Certain royalty agreements provide for per unit royalties to be paid to the Company based on shipments by customers of units containing the Company's products. Revenue under such agreements is recognized at the time of shipment by the customers as they are reported to the Company by them. Non refundable payment on account of future royalties from similar agreements, are recognized upon payments, provided no future obligation exists.

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosure About Fair Value of Financial Instruments", requires disclosures about the fair value of financial instruments. The carrying values of cash and cash equivalents, short term deposits, trade receivables and trade payables approximate fair values due to the short-term maturities of these instruments. The fair value for marketable securities is based on quoted market prices.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its subsidiaries. Intercompany transactions and balances, including profits from intercompany sales not yet realized outside the group, have been eliminated in consolidation.

ASSET IMPAIRMENT

The Company accounts for asset impairment in accordance with the provisions of FASB Statement No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", which requires impairment losses to be recorded on long-lived assets used in operations, certain identifiable intangibles, and the goodwill related to those assets, when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In this case, an impairment loss is recognized to the extent that the carrying amount exceeds the fair value of the assets. Statement No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. Such assets are reported at the lower of their carrying amount of fair value, less costs to sell the assets.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives, at the following annual rates:

	%
Computers and peripheral equipment	20-33
Office furniture and equipment	7-10
Motor vehicles	15
Leasehold improvements	(over the terms of the lease)

INVENTORIES

Inventories are stated at the lower of cost or market value. Cost is detremined for all kind of inventories using the average cost method. The Company periodically evaluates the quantities on hand relative to current and historical selling prices and historical and projected sales volume. Based on these evaluations, provisions are made in each period to write inventory down to its net realizable value. Inventories are composed of the following:

(US dollars in thousands) December 31,	2000	1999
Work-in-process	$ 34	$ 169
Finished goods	2,781	3,114
	$ 2,815	$ 3,283

OTHER INVESTMENTS

Other investments are comprised of:

(US dollars in thousands) December 31,	2000	1999
Equity method investments:		
Investment in AudioCodes Ltd.	$ 20,417	$ 18,335
Available for sale investments:		
Tomen Electronics Ltd.	485	-
Cost method investments:		
Other investments	98	98
	$ 21,000	$ 18,433

AUDIOCODES, LTD.

AudioCodes, Ltd. ("AudioCodes") is an Israeli corporation primarily engaged in design, research, development, manufacturing and marketing hardware and software products that enable simultaneous transmission of voice and data over networks including Internet, ATM and Frame Relay. The Company acquired an approximate 35% ownership in AudioCodes in two separate transactions in 1993 and 1994. In July 1997, AudioCodes completed a private placement of additional equity securities without the participation of the Company and, as a result, the Company's equity ownership interest in AudioCodes was diluted from 35% to approximately 29%. The Company also had an option under certain conditions to purchase up to an additional 5% of the outstanding stock of AudioCodes.

The Company accounts for its ownership in AudioCodes using the equity method. The Company's original investment in AudioCodes included the excess of purchase price over net assets acquired (approximately $1,907,000 at the date of purchase), which was attributed to developed technology to be amortized over seven years. The private placement by AudioCodes in July 1997 was at a price per share greater than the Company's then current investment in AudioCodes. As a result, even though the Company's ownership interest decreased from 35% to 29%, the Company's proportionate share of the net assets of AudioCodes increased from $816,000 to $1,481,000 at the date of the private placement. This increase in the Company's proportionate share of the net assets of AudioCodes reduced the remaining unamortized excess of purchase price over net assets acquired from $1,080,000 to $415,000 as of the date of the private placement.

In May 1999, the Company exercised its option to purchase approximately 3.5% of the outstanding stock of AudioCodes for approximately $1.2 million. In the same month AudioCodes completed its initial public offering (IPO) and is now listed on the Nasdaq SmallCap Market under the symbol AUDC. In its IPO, AudioCodes issued 7.0 million shares at a price of $7.00 per share. As a result, the Company recorded in "Financial and Other income (expense)" in its consolidated statements of income for 1999 a one-time capital gain in the amount of $11.8 million. This amount was comprised of $9.4 million, which was sold in the IPO and $2.5 million from the sale of approximately 496,000 AudioCodes shares to the underwriters, to cover their over-allotment option. The gross proceeds to the Company from this sale were approximately $3.2 million. In October 1999, AudioCodes successfully concluded a follow-on public offering of 6.0 million shares at a price of $20.50 per share. In the follow-on, AudioCodes issued and sold 3.0 million shares and an additional 3.9 million shares were sold by shareholders, of which approximately 2,138,000 shares were sold by the Company in two separate transactions. The gross proceeds to the Company from these transactions were approximately $42.8 million, and were recorded as additional capital gain in the amount of $47.1 million. This amount was comprised of $10.8 million, which resulted in the public offering and $36.3 million from the sale of approximately 2,138,000 AudioCodes shares. As of December 31, 1999, the Company amortized all the remaining portion of the excess of purchase price over net assets.

In January 2000, the Company sold an additional 1,200,000 shares of AudioCodes for approximately $43.8 million and recorded in the first quarter of 2000, an additional capital gain in the amount of $40.0 million. In May 2000 the Company sold an additional 500,000 shares of AudioCodes for approximately $19.2 million and recorded in the second quarter of 2000, an additional capital gain in the amount of $17.6 million. In December 2000 DSP Group purchased in the open market 300,000 of AudioCodes shares for approximately $4.9 million. This transaction created an excess of purchase price over net assets acquired (approximately $3,745,000 at the date of purchase), which was attributed to developed technology to be amortized over seven years. As of December 31, 2000, the Company holds 4.45 million of AudioCodes shares, which represents approximately 11% of the outstanding shares of

AudioCodes. The Company's equity in the net income of AudioCodes was $2,644,000 in 2000, $2,475,000 in 1999, and $125,000 in 1998. All shares and per share numbers with respect to AudioCodes have been adjusted to reflect the 2 for 1 Stock Split effected by AudioCodes in October 2000. As of December 31, 2000, the fair market value of the Company's investment in AudioCodes was approximately $60.4 million.

APTEL LTD. AND NEXUS TELECOMMUNICATIONS SYSTEMS LTD.

In July 1996, the Company invested in Aptel Ltd. ("Aptel"), which is located in Israel. The Company accounted for its investment in Aptel using the equity method. The Company's equity in the net losses of Aptel, including amortization of related intangibles, was $408,000 in 1997. As of June 30, 1997, the Company had fully written-off its investment in Aptel.

In December 1997, Aptel's shareholders, including the Company exchanged their shares in Aptel for ordinary shares of Nexus Telecommunications Systems Ltd. ("Nexus"). Nexus is an Israeli company whose shares are registered and traded on the Nasdaq SmallCap Market under the symbol NXUSF. In October 1997, the Company invested $176,000 in a convertible debenture in Aptel which was converted into ordinary shares of Aptel prior to the closing of the Nexus transaction. The Company received approximately 297,000 ordinary shares of Nexus in the exchange transaction amounting to approximately 3% ownership interest in Nexus. The Company's basis in the Nexus stock received is $176,000. At December 31, 1997, the Company's investment in Nexus was presented in the Company's consolidated balance sheet at the market value of $1,226,000, with the unrealized gain of $1,050,000 recorded as other comprehensive income, as a separate component of stockholder's equity. In April 1998, the Company sold all of its Nexus shares in a private transaction for approximately $1.3 million and realized a pre-tax gain on marketable equity securities of approximately $1.1 million, which is included under "Financial and Other income (expense)" in the Company's consolidated statements of income for 1998.

ACQUISITION OF VOICEPUMP INC.

VoicePump, Inc. ("VoicePump") is an US corporation primarily engaged in the design, research, development and marketing of software applications for Voice Over DSL (VoDSL) and Voice Over Internet Protocol (VoIP). In March 2000, the Company acquired (1) approximately 1,960,250 shares of Common Stock of VoicePump from certain shareholders in exchange for approximately 261,000 shares of its Common Stock and a nominal amount of cash (to pay for fractional shares) and (2) approximately 1,027,397 shares of VoicePump common stock directly from VoicePump together with warrants to purchase up to 1,027,397 shares of VoicePump Common Stock at an exercise price of $4.866 per share within two years (of the issuance of the warrant) and up to 1,027,397 additional shares at an exercise price of $4.866 per share within three years (of the issuance of the warrant) for $5,000,000. The shares acquired from VoicePump and its shareholders (not including the shares issuable upon exercise of the warrants) represent approximately 73% of the outstanding shares of VoicePump. In the second quarter of 2000 the investment in VoicePump was diluted due to exercise of warrants by a VoicePump shareholder to approximately 71% of the outstanding shares of VoicePump. Due this transaction, the Company recorded in the second quarter of 2000 a loss of $100,000 which was attributed to minority gain in VoicePump's stock issue. The Company's original investment in VoicePump included the excess of purchase price over net assets acquired (approximately $16,070,000 at the date of purchase), which was attributed to in-process research and development and to goodwill. The operation expenses include unusual items in the amount of $11,869,000 related to the acquired in-process research and development which was written off in the first quarter of 2000. The write-off was due to unestablished technological feasibility and to no alternative future use. Other intangible assets acquired had an estimated fair value of $4,201,000 and were recorded as goodwill. As of December 31, 2000 the balance of this goodwill to be amortized in seven years was approximately $3,854,000. Pro forma information in accordance with APB-16 has not been provided, since the revenues of 2000 and 1999 were not material in relation to total consolidated revenues and net income (loss). The consolidated statements of income for the year ended December 31, 2000 (commencing from the Acquisition date) include losses in the investment in VoicePump of approximately $2.2 million and include the minority interest in those losses in the amount of $627,000. See note 9.

TOMEN LTD.

In September 2000, the Company invested approximately $485,000 (31.0 million Yen) in shares of its Japanese distributor's parent company, Tomen Ltd., as part of a long-term strategic relationship. Tomen's shares are traded on the Japanese stock exchange, and are recorded in "Other Investments" on our balance sheets. The Company accounts for investments in debt and equity securities (other than those accounted for under the equity method of accounting) in accordance with FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Securities available for sale are carried at fair value, with the unrealized gains and losses, net of income taxes, reported as a separate component of shareholders' equity, accumulated other comprehensive income (loss). Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statement of income. At December 31, 2000 the carrying amount of securities approximated the fair value and the amount of unrealized gain or loss was not significant.

ACQUIRED ASSETS AND WORKFORCE

In the beginning of 1999, the Company acquired two integrated groups of engineers, one located in Israel and the other in the United States. These twenty-five engineers specialize in the design of integrated circuits for wireless communications. In addition, the company acquired technology and products, including associated intellectual property, related to 900 megahertz narrow-band cordless telephones and 900 megahertz spread spectrum cordless telephones.

In connection with the above, the Company capitalized approximately $2.0 million of acquired assets and work force. As of December 31, 1999, the net balance of these capitalized assets and workforce was approximately $1.1 million. The Company accounts for asset impairment in accordance with the provisions of FASB Statement No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", accordingly, in the first quarter of 2000 the Company recorded two unusual expense items, of which the outstanding balance of the capitalized assets were amortized. Management believes that the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

FOREIGN CURRENCY TRANSLATIONS

A majority of the revenues of the Company and its subsidiaries is generated in U.S. dollars ("dollar"). In addition, a substantial portion of the Company's and its subsidiaries costs is incurred in dollars. Company's management believes that the dollar is the primary currency of the economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into U.S. dollars in accordance with Statement No. 52 of the Financial Accounting standard Board ("FASB") - "Foreign Currency Translations". All transactions gains and losses of the remeasurement of monetary balance sheet items are reflected in the statements of operations as financial income or expenses as appropriate.

NET EARNINGS PER SHARE

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

(US dollars in thousands except per share amounts)	2000	1999	1998
Numerator:			
Net Income	$ 49,835	$ 54,579	$ 14,415
Denominator:			
Weighted average number of shares of common stock outstanding during the period used to compute basic earning per share	26,616	23,468	19,536
Incremental shares attributable to exercise of outstanding options (assuming proceeds would be used to purchase treasury stock)	2,053	1,974	496
Weighted average number of shares of common stock used to compute diluted earnings per share	28,669	25,442	20,032
Basic net earnings per share	$ 1.87	$ 2.33	$ 0.74
Diluted net earnings per share	$ 1.74	$ 2.15	$ 0.72

Weighted average number of options outstanding to purchase approximately 432,000, 182,000 and 1,314,000 shares of common stock for the years ended December 31, 2000, 1999 and 1998, respectively, were not included in the computation of diluted net earning per share, because option exercise prices were greater than the average market price of the common shares and therefore, the effect would have been antidilutive.

CONCENTRATION OF CREDIT RISK

SFAS No. 105, "Disclosure of Information About Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk", requires disclosures of any significant off-balance-sheet and credit risk concentrations. The Company has no significant off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities, other cash deposits, short-term deposits and trade receivables.

The Company's cash and cash equivalents are invested in short-term deposits with major U.S. and Israeli banks. Cash deposits in the United States may be in access of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions holding the Company's investments are financially sound, and accordingly, minimal credit risk exists with respect to these investments. The majority of the Company's sales of products are to distributors who in turn sell to manufacturers of consumer electronics products. The Company's licensing revenues are primarily from customers that have licensed rights to use the Company's DSP Core microprocessor architectures and speech compression technology. No collateral is required from the Company's licensing customers; however, some of the customers pay using letters of credit. Write-offs for bad debts have not been significant to date.

CONCENTRATION OF OTHER RISKS

All of the Company's integrated circuit products are manufactured by independent foundries. While these foundries have been able to adequately meet the demands of the Company's increasing business, the Company is and will continue to be dependent upon these foundries to achieve acceptable manufacturing yields, quality levels and costs, and to allocate to the Company sufficient portion of foundry capacity to meet the Company's needs in a timely manner. To meet the Company's increased wafer requirements, the Company has added additional independent foundries to manufacture its processors. Revenues could be materially and adversely affected should any of these foundries fail to meet the Company's request for products due to a shortage of production capacity, process difficulties, low yield rates or financial instability. For example, foundries in Taiwan produce a significant portion of our wafer supply. As a result, earthquakes, aftershocks or other natural disasters in Asia, could preclude us from obtaining an adequate supply of wafers to fill customer orders and could harm our business, financial condition, and results of operations. Additionally, certain of the raw materials, components, and subassemblies included in the products manufactured by the Company's OEM customers, which also incorporate the Company's products, are obtained from a limited group of suppliers. Disruptions, shortages, or termination of certain of these sources of supply could occur.

CASH EQUIVALENTS

The Company considers all highly liquid investments which are readily convertible to cash with an original maturity of three months or less when purchased to be cash equivalents.

MARKETABLE SECURITIES AND SHORT TERM DEPOSITS

At December 31, 2000, all marketable securities have been designated as held to maturity under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). The amortized cost of held to maturity securities is adjusted for the amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest and other income. Realized gains and losses and declines in value judged to be other-than-temporary on held to maturity securities are included in interest and other income. The cost of securities sold is based on the specific identification method. Interest on securities classified as held to maturity are included in financial and other income. Cash deposits originally purchased with a maturity of over three months and less than one year are considered as short-term investments and are presented at cost as short-term deposits.

The following is a summary of held-to-maturity securities and cash deposits at December 31, 2000 and 1999:

(US dollars in thousands) AMORTIZED COST	2000	1999
Obligations of states and political subdivisions	$ 52,253	$ 96,312
Corporate obligations	110,916	30,440
Cash deposits	58,270	21,961
	$ 221,439	$ 148,713
Amounts included in marketable securities and short-term deposits	$ 178,166	$ 140,593
Amounts included in cash and cash equivalents	43,273	8,120
	$ 221,439	$ 148,713

At December 31, 2000 and 1999 the carrying amounts of securities approximated fair value.

Gross realized gains or losses for 2000, 1999, and 1998 were not significant. The amortized cost of held-to-maturity debt and securities at December 31, 2000, by contractual maturities, are shown below:

(US dollars in thousands)	AMORTIZED COST
Due in one year or less	$ 94,256
Due after one year to three years	83,910
	$ 178,166

OTHER ASSETS, NET OF ACCUMULATED AMORTIZATION CONSIST OF THE FOLLOWING:

(US dollars in thousands)	2000	1999
Goodwill	$ 3,854	$ -
Intangible assets	-	1,115
Deposit and other	405	135
	$ 4,259	$ 1,250

SEVERANCE PAY

The Company's subsidiaries, DSP Group Israel and Voicecom, have liability for severance pay pursuant to Israeli law, based on the most recent monthly salary of the employees multiplied by the number of years of employment as of the balance sheet date for all employees. The Company's liability is fully provided by monthly deposits with severance pay funds and insurance policies.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of these policies is recorded as an asset in the Company's balance sheet.

Severance expenses for the years ended December 31, 2000, 1999 and 1998, were approximately $890,000, $593,000 and $367,000, respectively.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, ("APB-25"), "Accounting for Stock Issued to Employees" and interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN-44") in accounting for its employee stock options. Under APB-25, when the exercise price of the employee's options equals or is higher than the market price of the underlying Company stock on the date of grant, no compensation expense is recognized. The pro-forma information with respect to the fair value of the options is provided in accordance with the provisions of statement No. 123 "Accounting for stock Based Compensation" (see Note 4).

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, which is required to be adopted in years beginning after June 15, 2000. Because of the Company's minimal use of derivatives, management does not anticipate that the adoption of the new statement will have a significant effect on earnings or the financial position of the Company.

INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". This statement prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to the statement of operations as incurred.

3. PROPERTY AND EQUIPMENT

Composition of assets, grouped by major classifications, is as follows:

(US dollars in thousands) December 31,	2000	1999
Computers and peripheral equipment	$ 15,229	$ 12,216
Office furniture and equipment	1,076	985
Motor vehicles	1,145	1,163
Leasehold improvements	2,076	1,866
	19,526	16,230
Less accumulated depreciation	13,075	9,282
Depreciated cost	$ 6,451	$ 6,948

4. STOCKHOLDERS' EQUITY

PREFERRED STOCK

The Board of Directors has the authority, without any further vote or action by the stockholders, to provide for the issuance of up to 5,000,000 shares of Preferred Stock in one or more series with such designations, rights, preferences, and limitations as the Board of Directors may determine, including the consideration received, the number of shares comprising each series, dividend rates, redemption provisions, liquidation preferences, sinking fund provisions, conversion rights, and voting rights.

DIVIDEND POLICY

At December 31, 2000, the Company had retained earnings of approximately $114.3 million. The Company has never paid dividends on its Common Stock and presently intends to follow a policy of retaining any earnings for reinvestment in its business.

STOCK SPLIT EFFECTED AS A STOCK DIVIDEND

On January 24, 2000, the Company's Board of Directors declared a stock split to be effected as a stock dividend whereby each holder of record of Common Stock on February 16, 2000 received one additional share of common stock for each share then owned. The stock split effected as stock dividend was paid on March 1, 2000.

All shares and stock option information in the consolidated financial statements have been retroactively restated for all periods to reflect the stock split effected as a stock dividend.

STOCK ISSUANCE TO INVESTOR

On February 2, 1999, the Company announced that it had entered into a stock purchase agreement with Magnum Technologies, Ltd., an international investment fund, in which the Company issued and sold 4,600,000 new shares of the Company's common stock to Magnum. Based in part on Magnum's representations, the transaction was exempt from the registration requirements of the Securities Act of 1933 according to Section 4(2) of the Securities Act. These shares, representing

19.6% of the Company's outstanding common stock at the time of the transaction, were issued for a price of $7.5 per share, or an aggregate of $34.4 million in total net proceeds to the Company. As part of the agreement, Magnum may acquire additional shares of the Company in the open market, but may not bring its total holdings to more than 35% of the Company's outstanding shares of common stock. Furthermore, Magnum agreed to restrict its sales of the Company's shares it purchased for an 18 month period from the date of the transaction under Rule 144(e)(i) of the Securities Act of 1933, unless it received the prior written approval of the Company. Additionally, the Company invited Magnum to appoint two new directors to the Board of Directors, which currently brings the total number of members of the Board of Directors to six. In February and August 2000, Magnum exercised its option and sold 2.9 million shares of the Company's common stock. After the sale, Magnum holds approximately 2.9 million shares representing approximately 11% of the Company's outstanding shares of common stock.

SHARE REPURCHASE PROGRAM

In March 1999, the Company's Board of Directors authorized a new plan to repurchase up to an additional 2,000,000 shares of the Company's common stock from time to time on the open market or in privately negotiated transactions, increasing the total shares authorized to be repurchased to 4,000,000 shares. Accordingly, in 2000, 1999 and 1998, the Company repurchased 850,000, 400,000 and 1,628,000 shares, respectively, of its common stock at an average purchase price of $24.13, $6.78 and $8.77 per share, respectively, for an aggregate purchase price of approximately $20.5 million, $2.7 million and $14.3 million, respectively. In 2000 and 1999, the Company issued 65,000 and 1,818,000 shares, respectively, of the Company's common stock to employees who have exercised their stock options.

Such repurchases of common shares are accounted for as treasury stock, and result in a reduction of stockholders' equity. When treasury shares are reissued, the Company charges the excess of the repurchase cost over issuance price using the weighted average method to retain earnings. In case the repurchasing cost is lower than the issuance price, the Company charges the difference to additional paid in capital.

STOCK PURCHASE PLAN AND STOCK OPTION PLANS

The Company has various stock plans under which employees, consultants, officers, and directors may be granted options to purchase the Company's common stock. A summary of the various plans is as follows:

1991 EMPLOYEE AND CONSULTANT STOCK PLAN. In 1991, the Company adopted the 1991 Employee and Consultant Stock Plan (the "1991 Plan"). Under the 1991 Plan, employees and consultants may be granted incentive or non-qualified stock options or stock purchase rights for the purchase of the Company's common stock. The 1991 Plan expires in 2001 and currently provides for the purchase of up to 8,600,000 shares of the Company's common stock.

The exercise price of options under the 1991 Plan shall not be less than the fair market value of the common stock for incentive stock options and not less than 85% of the fair market value of the common stock for nonqualified stock options at the date of grant, as determined by the Board of Directors. The Company's policy is to grant option at fair value.

Options under the 1991 Plan are generally exercisable over a 48-month period beginning 12 months after issuance or as determined by the Board of Directors. Options under the 1991 Plan expire up to seven years after the date of grant.

1993 DIRECTOR STOCK OPTION PLAN. Upon the closing of the Company's initial public offering, the Company adopted the 1993 Director Stock Option Plan (the "Directors' Plan"). Under the Directors' Plan the Company is authorized to issue nonqualified stock options to purchase up to 550,000 shares of the Company's common stock at an exercise price equal to the fair market value of the common stock on the date of grant. The Directors' Plan, following certain amendments in 1996 approved by the Company's stockholders, provides that each person who is an outside director on the effective date of the Directors' Plan and each outside director who subsequently becomes a member of the Board of Directors shall automatically be granted an option to purchase 30,000 shares (the First Option). Additionally, each outside director shall automatically be granted an option to purchase 10,000 shares (a Subsequent Option) on January 1 of each year if, on such date, he/she shall have served on the Board of Directors for at least six months.

Options granted under the Directors' Plan generally have a term of ten years. The First Option is 25% exercisable after the first year (one-third after the first year for options granted after May 1996) and in quarterly installments over the ensuing three years (one-third at the end of each twelve-month period for options granted after May 1996). Each Subsequent Option becomes exercisable in full on the fourth anniversary from the date of grant (one-third at the end of each twelve-month period from the date of grant for options granted after May 1996).

1993 ISRAELI PLAN. In 1993, the Company adopted the 1993 DSP Group, Inc. Israeli Stock Option Plan (the "1993 Israeli Plan") under which the Company is authorized to issue nonqualified stock options to purchase up to 334,000 shares of the Company's common stock at an exercise price equivalent to fair market value. Options are immediately exercisable and expire five years from the date of grant. All options and shares are held in a trust until the later of 24 months from the date of grant or the shares are vested based on a vesting schedule determined by a committee appointed by the Board of Directors.

1998 NON-OFFICER EMPLOYEE STOCK OPTION PLAN. In 1998, the Company adopted the 1998 Non-Officer Employee Stock Option Plan (the "1998 Plan"). Under the 1998 Plan, employees may be granted non-qualified stock options for the purchase of the Company's common stock. Officers and directors of the Company are excluded from participating under the 1998 Plan. The 1998 Plan expires in 2008 and currently provides for the purchase of up to 3,600,000 shares of the Company's common stock.

The exercise price of options under the 1998 Plan shall not be less than the fair market value of the common stock for nonqualified stock options, as determined by the Board of Directors.

Options under the 1998 Plan are generally exercisable over a 48-month period beginning 12 months after issuance or as determined by the Board of Directors. Options under the 1998 Plan expire up to seven years after the date of grant.

A summary of activity under the 1991 Plan, the 1993 Israeli Plan, the Directors' Plan, and the 1998 Plan is as follows:

		OPTIONS OUTSTANDING	
(Shares in thousands)	SHARES AVAILABLE FOR GRANT	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE
BALANCE AT JANUARY 1, 1998	506	2,634	$ 8.44
Authorized	3,900	-	$ -
Granted	(1,624)	1,624	$ 9.27
Exercised	-	(188)	$ 4.98
Canceled	272	(272)	$ 6.80
BALANCE AT DECEMBER 31, 1998	3,054	3,798	$ 9.09
Authorized	2,400	-	$ -
Granted	(3,600)	3,600	$ 14.33
Exercised	-	(2,272)	$ 8.84
Canceled	316	(316)	$ 9.93
BALANCE AT DECEMBER 31, 1999	2,170	4,810	$ 13.07
Authorized	500	-	$ -
Granted	(2,262)	2,262	$ 32.71
Exercised	-	(1,438)	$ 10.37
Canceled	348	(348)	$ 11.03
BALANCE AT DECEMBER 31, 2000	756	5,286	$ 22.34

A summary of the average fair exercise price and the number of options exercisable for the years 2000, 1999 and 1998, is as follows:

	2000	1999	1998
Number of options exercisable as of December 31, (options in thousands)	847	78	938
Weighted average exercise price of exercisable options	$ 15.43	$ 14.36	$ 9.27

A summary of the Company's stock option activity and related information as of December 31, 2000, is as follows:

	OPTIONS OUTSTANDING				OPTIONS EXERCISABLE
RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING	AVERAGE REMAINING CONTRACTUAL LIFE YEARS	WEIGHTED - AVERAGE EXERCISE PRICE	WEIGHTED- NUMBER OF EXERCISABLE OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
$ 3.81 - $ 9.41	868,047	4.66	7.86	138,714	6.17
$ 9.44 - $ 9.44	919,748	5.06	9.44	242,001	9.44
$ 9.63 - $ 21.44	735,697	5.13	16.18	268,846	14.44
$ 22.00 - $ 22.00	993,000	6.82	22.00	37,500	22.00
$ 22.53 - $ 39.00	773,600	6.31	33.95	160,002	32.64
$ 40.22 - $ 54.06	996,817	6.43	42.73	0	0
	5,286,909	5.78	$ 22.34	847,063	$ 15.43

Weighted average grant date fair value of options granted during the year whose exercise price is equal to the market price of the shares at date of grant are as follows:

	2000	1999	1998
Exercise price equals fair value at date of grants	$ 29.82	$ 10.61	$ 9.65

1993 EMPLOYEE STOCK PURCHASE PLAN

Upon the closing of the Company's initial public offering, the Company adopted the 1993 Employee Stock Purchase Plan (the "1993 Purchase Plan"). The Company has reserved an aggregate amount of 700,000 shares of Common Stock for issuance under the 1993 Purchase Plan. The 1993 Purchase Plan provides that substantially all employees may purchase stock at 85% of its fair market value on specified dates via payroll deductions. There were approximately 55,000, 60,000 and 64,000 shares issued under the Purchase Plan in 2000, 1999 and 1998, respectively.

COMMON STOCK RESERVED FOR FUTURE ISSUANCE

Shares of Common Stock of the Company reserved for future issuance at December 31, 2000, are as follows:

(US dollars in thousands)

Employee Stock Purchase Plan	384
Stock Options	6,042
Undesignated Preferred Stock	5,000
	11,426

STOCK BASED COMPENSATION

Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123"), which requires the use of option valuation models that were not developed for use in valuing employee stock options. For example, the Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The fair value of the Company's employee stock options was estimated at the date of grant using a Black-Scholes multiple option pricing model with the following weighted average assumptions; risk-free interest rates of 4.88 %, 5.5% and 5.02% for 2000, 1999 and 1998, respectively; a dividend yield of 0.0%

for each of those years; a volatility factor of the expected market price of the Company's Common Stock of 0.81, for 2000, 0.76 for 1999 and 0.77 for 1998; and a weighted-average expected life of the option of 2.9 years for 2000, 2.9 years for 1999 and 3.0 years for 1998.

The Company does not recognize compensation cost related to employee stock purchase rights under the Employee Stock Purchase Plan. To comply with the pro forma reporting requirements of SFAS 123, compensation cost is estimated for the fair value of the employees' stock purchase rights using the Black-Scholes model with the following assumptions for those rights granted in 2000, 1999 and 1998; dividend yield of 0.0%; an expected life ranging up to 0.5 years; expected volatility factor of 1.0 in 2000, 0.70 in 1999 and 0.71 in 1998; and a risk free interest rate of 4.87% in 2000, 6.33% in 1999 4.84% in 1998. The weighted average fair value of those purchase rights granted in January 2000, July 2000, January 1999, July 1999, January 1998 and July 1998 were $36.16, $42.84, $6.33, $17.05, $10.70 and $9.57, respectively.

Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(US dollars in thousands, except per share data)	2000	1999	1998
Net income as reported	$ 49,835	$ 54,579	$ 14,415
Pro forma net income	$ 32,284	$ 47,513	$ 10,428
Pro forma basic earnings per share	$ 1.21	$ 2.03	$ .54
Pro forma diluted earnings per share	$ 1.20	$ 2.03	$ .54

5.INDUSTRY SEGMENT REPORTING

The Company has two reportable segments, principally the development and licensing of affordable, high performance, cost effective DSP-based software and the sales of integrated circuits and circuit boards. The information evaluated by the Company's decision makers in deciding how to allocate resources to these segments are total revenues, gross margin and segments assets as presented in the statement of operations and balance sheet.

The accounting policies of the segments are in accordance with the requirements of FAS 131 "Disclosure About Segments of an Enterprise and Related Information".

Segment revenues, gross margins and assets for the year ended December 31, 2000:

(US dollars in thousands)	DSP CORE TECHNOLOGY	IC'S AND OTHER	TOTAL
Revenues	$ 22,910	$ 86,603 *	$ 109,513
Gross margin	22,500	38,105	60,605
Segment assets	2,431	27,171	29,602

(*) Including $1,945 of Truespeech licensing and royalties revenues.

Segment revenues, gross margins and assets for the year ended December 31, 1999:

(US dollars in thousands)	DSP CORE TECHNOLOGY	IC'S AND OTHER	TOTAL
Revenues	$ 18,201	$ 58,232 *	$ 76,433
Gross margin	17,993	25,234	43,227
Segment assets	1,902	24,595	26,497

(*) Including $702 of Truespeech licensing and royalties revenues.

Segment revenues, gross margins and assets for the year ended December 31, 1998:

(US dollars in thousands)	DSP CORE TECHNOLOGY	IC'S AND OTHER	TOTAL
Revenues	$ 13,244	$ 50,606 *	$ 63,850
Gross margin	12,963	21,459	34,422
Segment assets	1,088	5,846	6,934

(*) Including $1,264 of Truespeech licensing and royalties revenues.

The following is a summary of operations within geographic areas based on customer locations:

(US dollars in thousands)	2000	1999	1998
REVENUE DISTRIBUTION:			
United States	$ 16,114	$ 7,098	$ 3,821
Japan	61,239	43,758	35,711
Europe	7,645	6,226	10,591
Asia	21,546	15,392	12,616
Israel	2,969	3,959	1,111
	$ 109,513	$ 76,433	$ 63,850
LONG-LIVED ASSETS:			
United States	$ 21,493	$ 21,694	$ 2,085
Israel	7,972	4,742	4,783
Other	137	61	66
	$ 29,602	$ 26,497	$ 6,934

6. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Company leases certain equipment and facilities under noncancelable operating leases. The Company has significant leased facilities in Herzelia Pituach, Israel and in Santa Clara, California. In 1996, the Company negotiated the assignment of certain of its Santa Clara facility use obligations to another company (the "Assignee"). The Company received payments from the Assignee in the Santa Clara facility, of $322,000 in both 2000 and 1999. In August 1997, the Company entered into a new lease for its Israel facilities in Herzelia Pituach. The lease agreement is effective until November 2003. In December 1999, May 1999 and September 1998, the Company entered into three new leases for additional office space at its Israel facilities in Herzelia Pituach. The lease agreements for the additional spaces are effective until November 2003. VoicePump leases office facilities in Palo Alto, California. The lease is effective from March 2000 until February 2006. Voicepump also leased office facilities for its research and development personnel in Schaumburg, Illinois, the lease is effective until November 2003. In November 2000, DSP Japan entered into a new facility in Tokyo, Japan. This new lease is effective until October 2004. The Company has car operating lease agreements which terminate in 2003.

At December 31, 2000, the Company is required to make the following minimum lease payments:

(US dollars in thousands)	YEAR	AMOUNT
	2001	1,724
	2002	1,528
	2003	1,370
	2004	417
	2005	211
	2006	35
		$ 5,285

Total rental expense for all leases was approximately $964,000 (net of sublease income of $322,000), $736,000 (net of sublease income of $322,000), $545,000 (net of sublease income of $365,000), for the years ended December 31, 2000, 1999, and 1998, respectively.

CONTINGENCIES

The Company is involved in certain claims arising in the normal course of business, including claims that it may be infringing patent rights owned by third parties. The Company is unable to foresee the extent to which these matters will be pursued by the claimants or to predict with certainty the eventual outcome. However, the Company believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position, results of operations, or cash flows.

7. INCOME TAXES

The provision for income taxes is as follows:

(US dollars in thousands)	2000	1999	1998
FEDERAL TAXES:			
Current	$ 7,405	$ 1,080	$ 2,751
Deferred	(3,286)	6,168	1,181
	4,119	7,248	3,932
STATE TAXES:			
Current	1,798	1,140	216
Deferred	(41)	209	97
	1,757	1,349	313
FOREIGN TAXES:			
Current	24,554	16,684	559
Deferred	(65)	365	-
	24,489	17,049	559
	$ 30,365	$ 25,646	$ 4,804

PROVISION FOR INCOME TAXES

The tax benefits associated with the exercise of stock options reduced taxes currently payable by $2,429,000 in 2000, $1,591,000 in 1999, and $1,192,000 in 1998. Such benefits were credited to paid in capital.

Pretax income from foreign operations was $21,239,000, $14,965,000 and $7,330,000 in 2000, 1999 and 1998, respectively. Unremitted foreign earnings that are considered to be permanently invested outside of the U.S., and on which no deferred taxes have been provided, amount to approximately $30.0 million at December 31, 2000. If such amounts were remitted, the Company would be subject to U.S. income taxes (subject to an adjustment for foreign tax credits) and additional Israeli corporate income and withholding taxes of approximately $6.0 million.

A reconciliation between the Company's effective tax rate and the U.S. statutory rate:

(US dollars in thousands) Years Ended December 31,	2000	1999	1998
Tax at U.S. statutory rate	$ 28,070	$ 27,276	$ 6,534
State taxes, net of federal benefit	1,142	890	207
In process R&D and goodwill amortization	4,344	-	-
Foreign income taxed at rates other than U.S. rate	(3,864)	(3,934)	(1,806)
Different rate from sale of affiliate	-	1,179	-
Tax credits utilized	(66)	-	(264)
Other individually immaterial items	739	235	133
	$ 30,365	$ 25,646	$ 4,804

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2000 and 1999 are as follows:

(US dollars in thousands)	2000	1999
DEFERRED TAX ASSETS (LIABILITIES):		
Tax credit carryforwards	$ 4,237	$ 545
Deferred revenue	805	-
Reserves and accruals	1,387	1,349
Valuation allowance	(1,875)	-
Investment in affiliate	$ (5,559)	$ (6,790)
Other	-	223
TOTAL DEFERRED TAXES	$ (1,005)	$ (4,673)

As of December 31, 2000, the Company had foreign tax credit carryovers of approximately $4.2 million. These foreign tax credit carryovers are available to offset US federal income taxes, subject to certain limitation calculations, and will expire in years 2004 and 2005 if not used. In addition, utilization of the foreign tax credit carryovers may also be subject to an annual limitation based on the change in ownership rules under the Tax Reform Act of 1986.

Management believes that the deferred net tax assets will be realized based on current levels of future taxable income and potentially refundable taxes. Management provided valuation allowance for certain foreign tax credits that may be subject to limitations on their utilization.

The valuation allowance increased by $1,875,000 in 2000, and decreased by $1,250,000 in 1999.

DSP Group Israel's production facilities have been granted "Approved Enterprise" status under Israeli law in connection with four separate investment plans.

According to the provisions of such Israeli law, DSP Group Israel has chosen to enjoy "Alternative plan benefits," which is a waiver of grants in return for tax exemption. Accordingly, DSP Group Israel's income from an "Approved Enterprise" is tax-exempt for a period of two or four years and is subject to a reduced corporate tax rate of 10% - 25% (based on percentage of foreign ownership) for an additional period of eight or six years, respectively. The tax benefits under these investment plans are scheduled to gradually expire starting from 2005 through 2009.

DSP Group Israel's first and second plans, which were completed and commenced operation in 1994 and 1996, respectively, are tax exempt for two and four years from the first year it has taxable income, respectively, and are entitled to a reduced corporate tax rate of 10% - 25% (based on percentage of foreign ownership) for an additional period of eight and six years, respectively.

The third plan which was completed and commenced operation in 1998 is tax exempt for two years, from the first year it has taxable income and is entitled to a reduced corporate tax rate of 10% - 25% (based on percentage of foreign ownership) for an additional period of eight years from the first year it has taxable income.

The fourth plan was approved 1998. It entitled DSP Group Israel to a corporate tax exemption for a period of two years and to a reduced corporate tax rate of 10% - 25% (based on percentage of foreign ownership)for an additional period of eight years.

The period of tax benefits, as detailed above, is subject to limitations of the earlier of 12 years from commencement of production, or 14 years from receipt of approval.

The tax exempt income attributable to an "Approved Enterprise" can be distributed to stockholders without subjecting DSP Group Israel to taxes only upon the complete liquidation of DSP Group Israel. The Company has determined that such tax exempt income will not be distributed as dividends. Accordingly, no deferred income taxes have been provided on income attributable to DSP Group Israel's "Approved Enterprise."

Through December 31, 2000, DSP Group Israel has met all the conditions required under these approvals.

Should DSP Group Israel fail to meet such conditions in the future, however, it could be subject to corporate tax in Israel at the standard rate of 36% and could be required to refund tax benefits already received.

Income from sources other than the "Approved Enterprise" during the benefit period will be subject to tax at the standard rate of corporate tax in Israel of 36%.

By virtue of such Israeli law, DSP Group Israel is entitled to claim accelerated rates of depreciation on equipment used by an "Approved Enterprise" during the first five tax years from the beginning of such use.

8. RELATED PARTY TRANSACTIONS

In 1993, the Company entered into a development and licensing agreement with AudioCodes (see Note 2 Other Investments). Under the agreement, AudioCodes is to perform certain research and development services for the Company. Upon development of the technology, the Company is to pay AudioCodes a service fee and additional royalty fees of 15% to 50% of the net revenue and 3% to 10% of the gross margin realized from the sale of the technology incorporated in the Company's products. In 2000, 1999 and 1998 the Company recorded the following:

(US dollars in thousands)	2000	1999	1998
RELATED PARTY TRANSACTIONS			
REVENUES:			
Product sales	$ 1,216	$ 861	$ 944
Licensing	$ 65	$ 92	$ 82
COST OF REVENUES:			
Cost of products	$ 521	$ 324	$ 384
Cost of licensing	$ 461	$ 63	$ 160
OPERATING EXPENSES:			
Research and development	$ 80	$ 358	$ 345
LIABILITIES AS OF DECEMBER 31,	$ 100	$ 109	$ 121

9. SUBSEQUENT EVENTS

VOICEPUMP ACQUISITION

In February 2001, the Company exercised its option and acquired the remaining VoicePump common stock. The Company acquired approximately 1,210,750 shares of common stock of VoicePump in exchange for approximately 161,433 shares of its common stock and a nominal amount of cash (to pay for fractional shares).

EXHIBIT 21.1

LIST OF SUBSIDIARIES

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
1. DSP Group Europe SARL	France
2. DSP Group Ltd.	Israel
3. Nihon DSP K.K.	Japan
4. RF Integrated Systems, Inc.	Delaware, U.S.
5. Voicecom Ltd.	Israel
6. VoicePump, Inc.	Delaware, U.S.
7. DSP Cores Inc.	Delaware, U.S.
8. DSP Technologies Inc.	Delaware, U.S.
9. SmartCore Ltd.	Israel

EXHIBIT 23.1

CONSENT OF KOST FORER & GABBAY,
A MEMBER OF ERNST & YOUNG INTERNATIONAL, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-52104 and 333-35568) (pertaining to the 1991 Employee and Consultant Stock Plan, the 1991 DSP Group, Inc. Israeli Stock Option Plan, the 1993 Director Stock Option Plan, the 1993 Employee Stock Purchase Plan and the 1998 Non-Officer Employee Stock Option Plan) and Form S-3 (Nos. 333-35566) of our report dated January 22, 2001 (except for Note 9, as to which the date is February 14, 2001, with respect to the consolidated financial statements of DSP Group, Inc. for the two years ended December 31,2000 included in this Annual Report (Form 10-K) for the year ended December 31, 2000.

/s/ Kost Forer & Gabbay,
Kost Forer & Gabbay
A Member of Ernst & Young International

Tel-Aviv, Israel
March 30, 2001