SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended SEPTEMBER 30, 1996

or

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

For the transition period from ________ to ___________

Commission File Number 0-23006

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

DELAWARE	94-2683643
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

3120 SCOTT BOULEVARD, SANTA CLARA, CALIFORNIA	95054
(Address of Principal Executive Offices)	(Zip Code)

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

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

As of October 31, 1996, there were 9,540,000 shares of Common Stock ($.001 par value per share) outstanding.

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DSP GROUP, INC.

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

DSP GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	September 30, 1996	December 31, 1995
ASSETS	(Unaudited)	(Note)
CURRENT ASSETS		
Cash and cash equivalents	$24,152	$14,679
Marketable securities	9,361	19,149
Accounts receivable, net	5,051	8,129
Inventories	5,389	3,000
Deferred income taxes	784	784
Prepaid expenses and other	836	876
Total current assets	45,573	46,617
PROPERTY AND EQUIPMENT	7,389	6,688
Accumulated depreciation and amortization	(3,637)	(2,591)
	3,752	4,097
EQUITY INVESTMENT, net	2,586	2,244
OTHER ASSETS, net	505	507
DEFERRED TAXES	1,389	1,389
TOTAL ASSETS	$53,805	$54,854
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$1,127	$2,437
Other current liabilities	3,752	4,876
Total current liabilities	4,879	7,313
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stock, par value $0.001 per share: Authorized- 5,000 shares; None issued and outstanding	--	--
Common Stock, par value $0.001 per share: Authorized - 20,000 shares; Issued and outstanding- 9,540 shares at September 30 and 9,439 shares at December 31	9	9
Additional paid-in capital	66,782	66,287
Stockholders' notes receivable	(122)	(434)
Accumulated deficit	(17,743)	(18,321)
	48,926	47,541
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$53,805	$54,854

Note: The balance sheet at December 31, 1995 has been derived from the audited inancial statements at that date.
See notes to condensed consolidated financial statements.

DSP GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Revenues:				
Product sales	$11,403	$10,850	$29,136	$30,262
Royalties, licensing and other	2,208	2,218	8,693	7,152
Total revenues	13,611	13,068	37,829	37,414
Cost of revenues:				
Cost of product sales	8,378	6,324	21,511	17,277
Cost of royalties, licensing and other	218	137	596	620
Total cost of revenues	8,596	6.461	22,107	17,897
Gross profit	5,015	6,607	15,722	19,517
Operating expenses:				
Research and development	1,802	2,260	6,584	6,208
Sales and marketing	941	1,196	3,316	3,790
General and administrative	1,125	1,065	4,370	4,361
Acquired in-process technology	1,529	-	1,529	-
Unusual items	-	-	-	913
Total operating expenses	5,397	4,521	15,799	15,272
Operating income (loss)	(382)	2,086	(77)	4,245
Other income (expense):				
Interest and other income	331	358	1,131	1,047
Other expenses	(116)	(102)	(325)	(306)
Equity in income (loss) of investees	(125)	71	(83)	71
Gain on sale of stock in affiliate	-	-	-	1,893
Income (loss) before income taxes	(292)	2,413	646	6,950
Provision (benefit) for income taxes	(29)	(77)	68	309
Net income (loss)	$ (263)	$2,490	$ 578	$6,641
Net income (loss) per share	$(.03)	$.26	$.06	$.69
Number of shares used in per share computation	9,534	9,729	9,567	9,656

See notes to condensed consolidated financial statements.

DSP GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Nine Months Ended September 30, 1996	1995
CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,888	$ 1,070
INVESTING ACTIVITIES:		
Purchase of available-for-sale marketable securities	(9,145)	(24,005)
Sale of available-for-sale marketable securities	18,933	14,105
Purchases of equipment	(700)	(2,553)
Equity investment in Aptel	(2,158)	-
Sale of equipment	-	62
Sale of Nogatech, Inc.	-	1,259
Sale of stock in affiliated company	-	1,893
Capitalized software development costs	(152)	(261)
	6,778	(9,500)
FINANCING ACTIVITIES:		
Line of credit borrowings	-	5
Repayment of stockholders' notes receivable	312	706
Sale of common stock for cash upon exercise of options and warrants	495	1,882
	807	2,593
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 9,473	$ (5,837)

See notes to condensed consolidated financial statements.

DSP GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996
(UNAUDITED)

NOTE A - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 1996, are not necessarily indicative of the results that may be expected for the year ended December 31, 1996. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

NOTE B - INVENTORIES

Inventory is valued at the lower of cost (first-in, first-out method) or market. The components of inventory consist of the following (in thousands):

	September 30, 1996	December 31, 1995
Raw materials	$ -	$ 2
Work-in-process	17	28
Finished goods	5,372	2,970
	$5,389	$3,000

NOTE C - NET INCOME PER SHARE

Net income (loss) per share is computed using the weighted average number of shares of Common Stock and, if applicable, dilutive common equivalent shares from stock options and warrants (using the treasury stock method). Dual presentation of primary and fully diluted net income (loss) per share is not shown on the face of the income statement because the differences are not significant.

DSP GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE D - INVESTMENTS

The following is a summary of the cost of available-for-sale securities (in thousands):

	September 30, 1996	December 31, 1995
Corporate obligations	$23,167	$ -
Obligations of states and political subdivisions	5,695	14,753
Tax-free auction rate preferred and municipal mutual fund	3,600	4,400
Other	-	636
	$32,462	$19,789
Amounts included in marketable securities	$ 9,361	$19,149
Amounts included in cash and cash equivalents	23,101	640
	$32,462	$19,789

At September 30, 1996, the cost of securities approximated their fair market value and the amount of unrealized gain was not significant. Gross realized gains or losses for the three months and nine months ended September 30, 1996 and 1995 were not significant. The contractual maturities of debt securities are all less than one year.

NOTE E - INCOME TAXES

The effective tax rate used in computing the provision (benefit) for income taxes is based on projected fiscal year income before taxes, including estimated income by tax jurisdiction. The difference between the effective tax rate and the statutory rate is due primarily to the utilization of tax loss carryforwards and tax exempt interest income.

NOTE F - SIGNIFICANT CUSTOMERS

Revenues from two distributors accounted for 25% and 11% of revenues for the three months ended September 30, 1996, respectively, and 14% and 11% of revenues for the nine months ended September 30, 1996, respectively. Sales to these distributors accounted for 27% and 3% for the three months ended September 30, 1996, respectively, and 23% and 7% of revenues for the three and nine months ended September 30, 1995, respectively. The loss of one or more major distributors could have an adverse effect on the Company's business, financial condition and results of operations.

NOTE G - OTHER INVESTMENT

The Company sold its remaining 131,000 shares of the common stock of DSP Communications, Inc. ("DSPC"), the successor of a former subsidiary, DSP Telecommunications Ltd., in April 1995 upon the exercise of underwriters' overallotment options. As the Company's basis in the investment had no book value, the sale resulted in a pre-tax gain of approximately $1.2 million. The Company had sold 73,000 shares in DSPC's March 1995 initial public offering, resulting in a pre-tax gain of approximately $666,000 in the first quarter of 1995. DSPC is a Delaware corporation primarily engaged in the development and marketing of integrated circuits based on digital signal processing ("DSP") technology for the wireless communications market. In addition, the Company recorded $8,000 of revenues in the nine months ended September 30, 1996, for engineering services performed for DSPC and $299,000 and $734,000 in the three and nine months ended September 30, 1995, respectively, for such engineering services.

NOTE H - EQUITY INVESTMENT

In July 1996, the Company invested $2 million of cash for approximately 40% of the equity interests in Aptel Ltd. ("Aptel"), which is located in Netanya, Israel. Aptel is an emerging company in its product development stage. Aptel has expertise in spread spectrum direct sequence modulation technology, which is applicable to the development of products for two-way paging systems and telemetry applications. Expenses related to the acquisition were $158,000. The acquisition was accounted for as a purchase in accordance with Accounting Principles Board Opinion No. 16. The total cost of the acquisition was allocated to the estimated fair value of the assets acquired, and as a result the Company incurred a one-time write-off of acquired in-process technology of $1.5 million based on an independent estimate of value.

The Company has a two-year option to purchase additional stock from Aptel at the same valuation to enable the Company to increase its ownership interest to 51% in Aptel, and an additional option to acquire the then remaining outstanding stock of Aptel from its shareholders payable at the seller's option in either cash or stock of the Company. Igal Kohavi, Chairman of the Company, is Chairman of Dovrat Shrem & Associates Direct Investment Funds which held, together with other associated parties under its leadership, an approximate 70% equity interest in Aptel prior to the Company's investment, and is a director of Aptel.

NOTE I - SALE OF NOGATECH AND UNUSUAL ITEMS

During the second quarter of 1995, the Company decided to divest its 89% equity interest in its Nogatech, Inc. ("Nogatech") subsidiary. The Company incurred a $500,000 charge for the write-down of Nogatech's intangible assets in accordance with Statement of Financial Accounting Standards No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Pursuant to a Stock Purchase Agreement, the Company on August 11, 1995 sold its equity interest in Nogatech to two purchasers for $1.5 million in cash. Nogatech's revenues for periods from July 1, 1995, to August 11, 1995, and January 1, 1995, to August 11, 1995, were $143,000 and $500,000, respectively, and Nogatech's operating loss for these periods, exclusive of the $500,000 write-down, were $52,000 and $767,000, respectively.

The Company also incurred $413,000 of severance expenses in the second quarter of 1995 as a result of the resignation of the former Chairman of the Board.

NOTE J - CONTINGENCIES

The Company has been and may from time to time be notified of claims that it may be infringing patents or intellectual property rights owned by third parties. The Company is unable to state 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.

In November 1995, after the Company's stock price declined, several lawsuits were filed in the United States District Court for the Northern District of California accusing the Company, its former Chief Executive Officer, and its former Chief Financial Officer of issuing materially false and misleading statements in violation of the federal securities laws. These lawsuits were consolidated into a single amended complaint in February 1996. In the amended complaint, plaintiffs sought unspecified damages on behalf of all persons who purchased shares of the Company's Common Stock during the period June 6, 1995 through November 10, 1995. On June 11, 1996, the Court granted the Company's motion to dismiss the lawsuit, with leave to amend. The plaintiffs filed an amended complaint on July 11, 1996 and the Court on August 14, 1996 held a hearing on the Company's motion to dismiss the complaint. The Company believes the lawsuit to be without merit and intends to defend itself vigorously.

NOTE K - BORROWINGS

In June 1996, the Company obtained a revolving line of credit with a domestic bank that provides for borrowings of up to $2.0 million, including letters of credit. The line of credit expires in June 1997. The line of credit is unsecured, and the Company is subject to certain financial covenants. In June 1996, the bank issued a $290,000 standby letter of credit used as a security deposit for the sublease of the building the Company leases as its main headquarters.

NOTE L - SUBSEQUENT EVENT

In October 1996, the Company entered into a settlement agreement with Rockwell International ("Rockwell"). Under the agreement, Rockwell licensed three versions of TrueSpeech (8.5, 6.3 and G.723) and the Company dismissed all litigation against Rockwell. The Company will realize in the fourth quarter of 1996 gross profit, net of direct expenses, of approximately $700,000 attributable to the licensing of TrueSpeech G.723 and 6.3, and other income, net of direct expenses for legal and other costs, of approximately $3.7 million attributable to the licensing of TrueSpeech 8.5.

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

RESULTS OF OPERATIONS

TOTAL REVENUES. Total revenues increased to $13.6 million in the third quarter of 1996 from $13.1 million in the third quarter of 1995 due primarily to increased shipments of the Company's TAD speech processors, especially those utilizing flash memory. In the first nine months of 1996, total revenues increased to $37.8 million from $37.4 million in the comparable period of 1995. This increase was due primarily to the increased licensing of the Company's DSP core design products. Product sales for the first nine months of 1996 decreased to $29.1 million from $30.3 million in the first nine months of 1995 due primarily to lower average selling prices and decreased sales in the first quarter of 1996 of the Company's TAD speech processors resulting from a softness in the TAD market following weak economic conditions during the 1995 Christmas period.

Export sales, primarily consisting of TAD speech processors shipped to manufacturers in Europe and Asia as well as license fees on DSP core design products, represented 94% and 92% of total revenues for the Company in the three and nine months ended September 30, 1996, respectively, and 82% and 74% of total revenues in the three and nine months ended September 30, 1995, respectively. All export sales are denominated in U.S. dollars.

Revenues from Tomen Electronics (a distributor) and DSP Solutions (a distributor), accounted for 25% and 11% of total revenues in the three months ended September 30, 1996, respectively, and 14% and 11% of total revenues in the nine months ended September 30, 1996, respectively. Tomen Electronics and DSP Solutions (formerly RTI Industries) accounted for 27% and 3% of total revenues in the three months ended September 30, 1995, respectively, and 23% and 7% of total revenues in the nine months ended September 30, 1995, respectively.

GROSS PROFIT. Gross profit as a percentage of total revenues declined to 37% in the third quarter of 1996 from 51% in the third quarter of 1995, and declined to 42% in the first nine months of 1996 from 52% in the first nine months of 1995. The decreases were due primarily to decreases in product gross margins. The decrease in product gross margins in the nine months ended September 30, 1996, was partially offset by the increases in licensing revenues, which have a higher gross margin than product sales. Product gross profit as a percentage of product sales decreased to 27% in the third quarter of 1996 from 42% in the third quarter of 1995, and decreased to 26% in the first nine months of 1996 from 43% in the first nine months of 1995. The decreases in product margin were due primarily to decreases in sales prices of the Company's TAD products due to downward competitive market pricing pressures.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses decreased to $1.8 million in the third quarter of 1996 from $2.3 million in the third quarter of 1995 due primarily to a decrease in the cost of materials associated with the Company's development of new speech processors for TAD products and personal computer telephony applications and reductions in engineering personnel. In the first nine months of 1996, research and development expenses increased to $6.6 from $6.2 million in the same period in 1995. The increase was primarily due to the increased cost of such materials incurred in the first six months of 1996, and increased facilities expenses offsetting reductions in engineering personnel. As a result, research and development expenses as a percentage of total revenues were 13% and 17% in the three and nine months ended September 30, 1996, respectively, compared to 17% in both the three and nine months ended September 30, 1995.

SALES AND MARKETING EXPENSES. Sales and marketing expenses decreased to $941,000 in the third quarter of 1996 from $1.2 million in the third quarter of 1995. In the first nine months of 1996, sales and marketing expenses decreased to $3.3 million from $3.8 million in the comparable period of 1995. These decreases were due primarily to reductions in sales and marketing personnel. Sales and marketing expenses as a percentage of total revenues decreased to 7% and 9% in the three and nine months ended September 30, 1996, respectively, compared to 9% and 10% in the three and nine months ended September 30, 1995, respectively.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were $1.1 million in both the third quarter of 1996 and 1995. General and administrative expenses were $4.4 million in both the first nine months of 1996 and 1995 as reductions in legal expenses in 1996 compared to 1995 were offset by the addition of two new officers and severance expenses to former officers. General and administrative expenses as a percentage of total revenues were 8% in both the three months ended September 30, 1996, and 1995, and 12% in both the nine months ended September 30, 1996, and 1995.

ACQUIRED IN-PROCESS TECHNOLOGY. In August 1996, the Company expensed $1.5 million of in-process technology in connection with the purchase of an approximately 40% equity interest in Aptel Ltd. See Note H of Notes to Condensed Consolidated Financial Statements.

UNUSUAL ITEMS. In the second quarter of 1995, the Company decided to sell its equity interest in its Nogatech subsidiary. Accordingly, the Company incurred a charge of $500,000 to write down Nogatech to its estimated net realizable value less disposal costs. In addition, in April 1995, the former Chairman of the Board resigned to pursue personal business interests and the Company incurred $413,000 of severance expense as a result of this resignation.

OTHER INCOME (EXPENSE). Interest and other income was $1.1 million in the nine months ended September 30, 1996, compared to $1.0 million in the nine months ended September 30, 1995. The amount of the investments and yield have been approximately equivalent between the periods.

EQUITY IN INCOME (LOSS) OF INVESTEES. The consolidated statement of operations includes the Company's $127,000 loss on an equity basis in Aptel's results of operations for the period from August 7, 1996, the date of closing, to September 30, 1996. This amount is net of $4,000 and $46,000 of income on an equity basis in AudioCodes for the three and nine months ended September 30, 1996, respectively.

GAIN ON SALE OF STOCK IN AFFILIATE. The Company sold its remaining equity interest in DSP Communications ("DSPC") in the second quarter of 1995 upon the exercise of the underwriters' overallotment option. DSPC is the successor of a former subsidiary of the Company, DSP Telecommunications Ltd. The equity interest, which had no book value, was sold for $1.2 million of cash. In addition, in March 1995, DSPC completed its initial public offering and the Company sold a portion of its equity interest in DSPC, which had no book value, for $666,000 in cash.

PROVISION (BENEFIT) FOR INCOME TAXES. In 1996 and 1995 the Company benefited from the utilization of its net operating loss carryforwards and tax exempt interest income, as well as the recognition of certain other deferred tax assets in 1995.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. During the nine months ended September 30, 1996, net cash provided by operations was $1.9 million, primarily composed of (i) $578,000 of net income, (ii) $1.4 million of depreciation and amortization, (iii) a $2.4 million decrease in accounts receivable, and (iv) the $1.5 million charge for acquired research and development. These were offset by a $2.4 million increase in inventories and a $1.3 million decrease in accounts payable.

INVESTING ACTIVITIES. The Company purchased $9.1 million and sold $18.9 million of investments classified as marketable securities in the first nine months of 1996. Capital equipment additions in the first nine months of 1996 totaled $700,000, primarily for computer hardware and software used in research and development, engineering test equipment, and furniture and fixtures. In the first nine months of 1996, the Company capitalized $152,000 of software development costs.

In the third quarter of 1996, the Company invested $2 million in cash for approximately 40% of the equity interest in Aptel Ltd. ("Aptel"), and incurred $158,000 in acquisition expenses. See Note H of Notes to Condensed Consolidated Financial Statements.

FINANCING ACTIVITIES. During the first nine months of 1996, the Company received $495,000 upon the exercise of employee stock options, and $312,000 upon the repayment of stockholders' notes receivable.

At September 30, 1996, the Company's principal source of liquidity consisted of cash and cash equivalents totaling $24.1 million, marketable securities of $9.4 million and amounts available under a domestic bank line of credit of $1.7 million. The Company's working capital at September 30, 1996 was $40.7 million.

The Company believes that its current cash and its available line of credit will be sufficient to meet its cash requirements through at least the next twelve months. The Company occasionally investigates means to acquire greater control over wafer production, whether by joint venture, prepayments, equity investments in or loans to wafer suppliers. There can be no assurance that the Company will consummate any such transactions. As part of its business strategy, the Company occasionally evaluates potential acquisitions of businesses, products and technologies. Accordingly, a portion of its available cash may be used for the acquisition of complementary products or businesses. Such potential transactions may require substantial capital resources, which may require the Company to seek additional debt or equity financing. There can be no assurance that the Company will consummate any such transactions.

FACTORS AFFECTING FUTURE OPERATING RESULTS.

THIS FORM 10-Q CONTAINS FORWARD LOOKING STATEMENTS CONCERNING THE COMPANY'S FUTURE PRODUCTS, EXPENSES, REVENUE, LIQUIDITY AND CASH NEEDS AS WELL AS THE COMPANY'S PLANS AND STRATEGIES. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND THE COMPANY ASSUMES NO OBLIGATION TO UPDATE THIS INFORMATION. NUMEROUS FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER SIGNIFICANTLY FROM THE RESULTS DESCRIBED IN THESE FORWARD- LOOKING STATEMENTS, INCLUDING THE FOLLOWING RISK FACTORS.

POTENTIAL FLUCTUATIONS IN QUARTERLY OPERATING RESULTS. The Company's revenues are derived predominately from product sales and accordingly vary significantly depending on the volume and timing of product orders. The Company's quarterly operating results also depend on the timing of the recognition of license fees and the level of per unit royalties. Through 1997, the Company expects that revenues from its DSP core designs and TrueSpeech will be derived primarily from license fees rather than per unit royalties. The uncertain timing of such license fees has caused, and may continue to cause, quarterly fluctuations in the Company's operating results. The Company's per unit royalties from licenses are totally dependent upon the success of the original equipment manufacturer ("OEM") utilizing the Company's technology and the success of those OEM products in the marketplace. In the fourth quarter of 1995, the first shipment of products utilizing the Company's PineDSPCore-TM- technology occurred; however, royalties from such shipments as well as TrueSpeech products have not been significant to date.

The Company's quarterly operating results may also vary significantly as demand for TADs varies during the year due to seasonal customer buying patterns, and as a result of other factors such as the timing of new product introductions by the Company or its customers, licensees or competitors; market acceptance of new products and technologies; the mix of products sold; fluctuations in the level of sales by OEMs and other vendors of products incorporating the Company's products; the ability to generate new products; and changes in general economic conditions. Sales of TAD products comprise a substantial portion of the Company's product sales. Any adverse change in the digital TAD market or the Company's ability to compete and maintain its position in that market would have a material adverse effect on the Company's business, financial condition and results of operations.

DECLINING AVERAGE SELLING PRICES AND GROSS MARGINS; DEPENDENCE ON DIGITAL TAD MARKET. The Company has experienced a significant decline in the gross margin of its TAD speech processors due to competitive market pricing pressures, delays in its ongoing cost-reduction efforts, and an adjustment in the second quarter of 1996 for excess and slow moving inventory. There is no guarantee that these cost-reduction efforts will improve margins. The Company's existing and potential competitors in each of its 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 the Company. Any inability of the Company to respond to increased price competition for its TAD speech processors and its other products through the continuing and frequent introduction of new products or reductions of manufacturing costs would have a material adverse effect on the Company's business, financial condition and results of operations.

RELIANCE ON INDEPENDENT FOUNDRIES. 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 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 a sufficient portion of foundry capacity to meet the Company's needs in a timely manner. To meet its increased wafer requirements, the Company has contracted with additional independent foundries to manufacture its TAD speech processors. The Company believes that it now has sufficient foundry capacity through 1997. Revenues could be materially and adversely affected should any of these foundries fail to meet the Company's demand for products due to a shortage of production capacity, process difficulties or low yield rates.

RELIANCE ON OEMS TO OBTAIN REQUIRED COMPLEMENTARY COMPONENTS. 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. For example, the Company's customers for TAD speech processors have experienced in the past difficulties obtaining sufficient timely supplies of audio-grade random access memories ("ARAMs"), which are included in current digital TADs. Such supply disruptions, shortages or termination could have an adverse effect on the Company's business and results of operations, due to the customers' possible delay or discontinuance of orders for the Company's products until such components are available.

ACQUISITION STRATEGY. The Company has pursued, and will continue to pursue, growth opportunities through internal development and acquisition of complementary businesses, products and technologies. The Company is unable to predict whether or when any prospective acquisition will be completed. In July 1996, the Company entered into an agreement regarding the acquisition of approximately 40% of the equity of Aptel, a developer of spread spectrum direct modulation technology. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- Acquired In-Process Technology." The process of integrating an acquired business such as Aptel may be prolonged due to unforeseen difficulties and may require a disproportionate amount of resources and management's attention. There can be no assurance that the Company will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into its operations, or expand into new markets. Once integrated, acquisitions may not achieve comparable levels of revenues, profitability or productivity as the existing business of the Company or otherwise perform as expected. The occurrence of any of these events could have a material adverse effect on the Company's business, financial condition or results of operations. Future acquisitions may require substantial capital resources, which may require the Company to seek additional debt or equity financing.

INTELLECTUAL PROPERTY. As is typical in the semiconductor and software industries, the Company has been and may from time to time be notified of claims that it may be infringing patents or intellectual property rights owned by third parties. For example, AT&T has asserted that G.723, 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 such technology from AT&T. If it appears necessary or desirable, the Company may seek licenses under such patents or intellectual property rights that it is allegedly infringing. Although holders of such intellectual property rights commonly offer such licenses, no assurances can be given that licenses will be offered or that the terms of any offered licenses will be acceptable to the Company. The failure to obtain a license for key intellectual property rights from a third party for technology used by the Company could cause the Company to incur substantial liabilities and to suspend the manufacture of products utilizing the technology. Any litigation relating to patent infringement or other intellectual property matters could have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE UPON ADOPTION OF INDUSTRY STANDARDS BASED ON TRUESPEECH. The Company's prospects are partially dependent upon the establishment of industry standards for digital speech compression based on TrueSpeech algorithms in the computer, personal computer and other markets. The establishment of industry standards incorporating TrueSpeech algorithms would create an opportunity for the Company to develop and market speech co-processors that provide TrueSpeech solutions and enhance the performance and functionality of products incorporating these co-processors. The failure to establish industry standards based on TrueSpeech algorithms or to develop and market competitive speech co-processors, or the failure of significant markets to develop for the Company's speech co-processors would have a material adverse effect on the Company's business, financial condition and results of operations.

ONGOING LITIGATION. In November 1995, after the Company's stock price declined, several lawsuits were filed in the United States District Court for the Northern District of California accusing the Company, its former Chief Executive Officer, and its former Chief Financial Officer of issuing materially false and misleading statements in violation of the federal securities laws. These lawsuits were consolidated into a single amended complaint in February 1996. In the amended complaint, plaintiffs sought unspecified damages on behalf of all persons who purchased shares of the Company's Common Stock during the period from June 6, 1995, to November 10, 1995. On June 11, 1996, the Court granted the Company's motion to dismiss the lawsuit, with leave to amend. The plaintiffs filed an amended complaint on July 11, 1996, and on August 14, 1996, the Court held a hearing on the Company's motion to dismiss the complaint. The Company believes the lawsuit to be without merit and intends to defend itself vigorously. The Company believes the ultimate resolution of this matter will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

However, the Company anticipates that in the near term it may
incur significant legal expenses to defend itself.

The variety and uncertainty of the factors affecting the Company's operating results, and the fact that the Company participates in a highly dynamic industry, may result in significant volatility in the Company's Common Stock price.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 22, 1996, the lawsuit between the Company and Rockwell International Corporation was settled and Rockwell purchased a license for three versions of the Company's TrueSpeech speech technology. The litigation had been pending since February 1995 in Superior Court of Santa Clara County, California. The Company had alleged unfair competition, violations of state law and an attempt by Rockwell to unfairly influence the DSVD Consortium, a group of companies formed to select a speech compression technology that enables modems to transmit computer data and digital voice simultaneously, in the selection of speech compression technology. A preliminary injunction was issued by the Court in March 1995 enjoining Rockwell from granting royalty-free licenses of its speech compression product during the pendency of the action or until further order of the Court. Rockwell had appealed from the issuance of the preliminary injunction and such appeal remained pending.

In November 1995, after the Company's stock price declined, several lawsuits were filed in the United States District Court for the Northern District of California accusing the Company, its former Chief Executive Officer, and its former Chief Financial Officer of issuing materially false and misleading statements in violation of the federal securities laws. These lawsuits were consolidated into a single amended complaint in February 1996. In the amended complaint, plaintiffs sought unspecified damages on behalf of all persons who purchased shares of the Company's Common Stock during the period June 6, 1995, through November 10, 1995. On June 11, 1996, the Court granted the Company's motion to dismiss the lawsuit, with leave to amend. The plaintiffs filed an amended complaint on July 11, 1996, and the Court on August 14, 1996 held a hearing on the Company's motion to dismiss the complaint. The Company believes the lawsuit to be without merit and intends to defend itself vigorously.

On April 12, 1996, Elk Industries, Inc. ("Elk") commenced an action in the United States District Court for the Southern District of Florida against the Company. The action alleges patent infringement by the Company in connection with the Company's making, selling and using an audio storage and distribution system allegedly covered under a patent held by Elk. The complaint seeks unspecified damages and injunctive relief. The Company believes the lawsuit to be without merit and intends to defend itself vigorously.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Severance Agreement, dated October 25, 1996, between John P. Goldsberry III and the Company.

11.1 Statement re: Computation of Per Share Earnings

27.1 Financial Data Schedule

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the three months ended September 30, 1996.

SIGNATURES

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

DSP GROUP, INC.
(Registrant)

By /s/ Avi Basher

Avi Basher, Vice President of Finance and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Date November 14, 1996

EXHIBIT INDEX

10.1	Severance Agreement, dated October 25, 1996, between John P. Goldsberry III and the Company.
11.1	Statement re: Computation of Per Share Earnings
27.1	Financial Data Schedule

SEVERANCE AND CONSULTING AGREEMENT

This Severance and Consulting Agreement is entered into effective as of this 25th day of October, 1996 (the "Execution Date") by and between John Goldsberry ("Goldsberry") and DSP Group, Inc., a Delaware corporation ("DSPG").

RECITALS

A. Goldsberry has served as DSPG's Chief Financial Officer and Vice President of Finance.

B. Goldsberry has resigned as DSPG's Chief Financial Officer and Vice President of Finance effective October 21, 1996 (the "Termination Date"), on the terms set forth below.

AGREEMENT

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Eight (8) days after DSPG receives satisfactory evidence of the fully executed original of this Agreement (assuming that Goldsberry has executed this Agreement and has not revoked acceptance within the seven (7) day period as set forth in Section 2 (below), DSPG will cause to be delivered to Goldsberry $250, plus an amount equal to the unpaid salary, if any, Goldsberry would have earned through October 31, 1996 if his employment had not been previously terminated, less applicable deductions required by law, if any.

2. Provided that Goldsberry does not revoke this Agreement prior to the eighth day after the date that this Agreement was executed by Goldsberry, and so long as Goldsberry is not in breach of this Agreement or any Confidentiality Agreement with DSPG, DSPG shall agree (a) to pay to Goldsberry an amount equal to $14,583.33 per month for a three (3) month period commencing on November 1, 1996 (the "Consulting Fee"), subject to applicable withholding taxes, deductions, etc., in exchange for Goldsberry's agreement to consult on a full-time basis with the Chief Executive Officer and the Chairman of the Board of DSPG and to not compete, in any way directly or indirectly, with DSPG during such three (3) months period, (b) thereafter to pay to Goldsberry an additional amount equal to $14,583.33 per month for an additional three (3) months, subject to applicable withholding taxes, deductions, etc. which shall constitute the equivalent of a severance payment plus the pro-rated amount of such annual bonus that Goldsberry would have earned had he remained employed by DSPG to qualify for such bonus (collectively, the "Final Severance Amount") and (c) provide a mutually acceptable letter of reference. The Consulting Fee and Final Severance Amount shall accrue over a six (6) month period from November 1, 1996 through April 30, 1997 (the "Severance Period") and be paid in twelve (12) equal bi-monthly payments, in arrears, with the first such payment commencing on the later of November 15, 1996 and eight (8) days after DSPG receives satisfactory evidence of the fully executed original of this Agreement by Goldsberry during which period Goldsberry has not revoked this Agreement. Despite Goldsberry's termination, Goldsberry's stock options in DSPG shall continue to vest up to and through the end of the Severance Period. Thereafter, Goldsberry shall have a period of forty-five (45) days after the end of the Severance Period to exercise his stock options vested as of the termination of the Severance Period in accordance with the terms of such stock options and thereafter all unexercised stock options shall be null and void. During the Severance Period, DSPG shall also continue to provide to Goldsberry at its cost the employment benefits which Goldsberry is currently receiving to the extent it may lawfully and contractually provide such benefits to him.

3. Upon execution of this Agreement, Goldsberry shall submit to DSPG a written report describing in detail all on-going contacts and activities made or performed by Goldsberry on DSPG's behalf in order to provide a smooth transition and Goldsberry shall return to DSPG all DSPG property in Goldsberry's possession and control, including, but not limited to, all keys to DSPG offices and facilities, equipment, and all DSPG credit cards owned by DSPG, except for the portable computer used by Goldsberry which he may keep.

4. Upon execution of this Agreement, Goldsberry acknowledges his resignation as the Chief Financial Officer, Vice President of Finance and as an employee of DSPG effective as of October 21, 1996, and confirms that he has resigned as the Chief Financial Officer and Vice President of Finance of DSPG, notwithstanding any right to revoke other terms of this Agreement concerning the termination of his employment as set forth herein.

5. Subject to the terms and conditions of this Agreement, Goldsberry hereby agrees that he is entitled to no further severance or bonus from DSPG and agrees that the Final Severance Amount is greater than the severance and bonus, if any, to which Goldsberry was entitled.

6. Goldsberry represents that Goldsberry has had the opportunity to thoroughly discuss all aspects of this letter, including the general release provisions, with his advisors; has carefully read and understood all of the provisions of this Agreement; and, that Goldsberry has voluntarily entered into this Agreement.

7. Goldsberry acknowledges that this Agreement was delivered to Goldsberry on October 25, 1996, and DSPG agreed that Goldsberry had until the close of business on November 15, 1996 (21 days later), to consider the Agreement. Goldsberry elected to execute this Agreement on the Execution Date as a matter of Goldsberry's choice and acknowledges that he has been afforded sufficient time to consider the Agreement and has obtained legal advice. DSPG acknowledges that Goldsberry may revoke this Agreement for a period of seven (7) days following the date the Agreement is executed by Goldsberry, but such revocation shall not effect the termination of Goldsberry's employment status as Chief Financial Officer and Vice President of Finance.

8. As a material inducement to execute this Agreement, and except for the provisions herein and any Confidentiality Agreements entered into by Goldsberry with DSPG, Goldsberry hereby irrevocably and unconditionally releases, acquits, and forever discharges DSPG (for purposes of this Section and Sections 9 and 10 (below), DSPG shall include DSPG's predecessors, successors, assigns, agents, subsidiaries, former subsidiaries, directors, former directors, officers, former officers, employees, representatives, attorneys, affiliates (and agents, directors, officers, employees, representatives, and attorneys of such affiliates and former officers, directors, and agents thereof)), and all persons acting by, through, under, or in concert with any of them (collectively "Releasees"), or any of them, from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of actions, suits, rights, demands, costs, losses, debts, and expenses (including attorneys' fees and costs actually incurred), of any nature whatsoever, known or unknown ("Claim" or "Claims") which Goldsberry now has, owns, or holds, or claims to have, owns, or holds, or which Goldsberry at any time heretofore had, owned, or held, or claimed to have, owns, or holds, against DSPG or any of DSPG's Releasees.

9. Goldsberry expressly waives and relinquishes all rights and benefits afforded by Section 1542 of the Civil Code of the State of California and does so understanding and acknowledging the significance and consequence of such specific waiver of Section 1542. Section 1542 of the Civil Code of the State of California states as follows:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Thus, notwithstanding the provisions of Section 1542, and for the purpose of implementing a full and complete release and discharge of the Releasees, Goldsberry expressly acknowledges that this Agreement is intended to include in its effect, without limitation, all Claims which Goldsberry may have against DSPG, up to and through the last date of execution of this document, including but not limited to those under the Age Discrimination and Employment Act, even though Goldsberry is not currently aware of or suspects such claim to exist in his favor at the time of execution hereof, and that this Agreement contemplates the extinguishment of any such Claim or Claims.

10. Without limiting the generality of the foregoing, DSPG and Goldsberry, each hereby agree that in the event that any party hereto should bring any action, suit, or other proceedings against any other party hereto, concerning a breach of this Agreement, the claims released by this Agreement, or contesting the validity of this Agreement, or attempting to rescind, negate, modify or reform this Agreement or any of its terms or provisions, or to remedy, prevent or obtain relief from a breach of this Agreement, the prevailing party to such an action, suit or proceeding, shall be entitled to the attorneys' fees reasonably incurred in each and every such action, suit, or other proceeding, including any and all appeals or petitions therefrom.

11. Goldsberry represents and acknowledges that in executing this Agreement he has not relied upon any representation or statement made by any of the Releasees or by any of the Releasees' agents, representatives, or attorneys with regard to the subject matter, basis, or effect of this Agreement, or otherwise.

12. This Agreement shall be binding upon the parties hereto and their heirs, administrators, representatives, executors, successors and assigns (collectively, the "Interested Parties") , and shall inure to the benefit of DSPG and Goldsberry, their respective Interested Parties and each of them, and to their heirs, administrators, representatives, executors, successors, and assigns.

13. This Agreement is made and entered into in the State of California, and shall in all respects be interpreted, enforced, and governed under the laws of said State.

14. This Agreement constitutes the entire agreement and understanding between the parties with respect to the subject matters herein, and supersedes and replaces any prior agreements and understandings, whether oral or written between them with respect to such matters. The provisions of this Agreement may be waived, altered, amended or repealed in whole or in part only upon the written consent of both parties to this Agreement.

DSP GROUP, INC.

By /s/ ELI AYALON	/s/ JOHN P. GOLDSBERRY III
Eli Ayalon, Chief Executive Officer	John P. Goldsberry III

Exhibit 11.1

DSP GROUP, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Net income	$(263)	$2,490	$578	$6,641
PRIMARY:				
Computation of weighted average common and common equivalent shares outstanding:				
Weighted average common shares outstanding	9,534	9,422	9,500	9,323
Common equivalent shares from stock options and warrants	-	307	67	333
Shares used in per share computation	9,534	9,729	9,567	9,656
Net income per share	$(.03)	$.26	$.06	$.69
FULLY DILUTED:				
Computation of weighted average common and common equivalent shares outstanding:				
Weighted average common shares outstanding	9,534	9,422	9,500	9,323
Common equivalent shares from stock options and warrants	-	307	67	337
Shares used in per share computation	9,534	9,729	9,567	9,660
Net income per share	$(.03)	$.26	$.06	$.69

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS IN THE QUARTERLY REPORT ON FORM 10-Q OF DSP GROUP, INC. FOR THE QUARTER ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS
DEC-31-1996
JAN-01-1996
SEP-30-1996
24,152
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578
.06
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