
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, 1997

COMMISSION FILE NUMBER 0-23006

DSP GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation and organization)

94-2683643
(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 2, 1998, as reported on the Nasdaq National Market, was approximately \$231,228,988. 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 2, 1998 the Registrant had outstanding 10,086,095 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended December 31, 1997 are incorporated by reference into Part II of this Form 10-K Report. With the exception of those portions which are incorporated by reference, the Registrant's 1997 Annual Report is not deemed filed as part of this Report.
 2. Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 19, 1998 are incorporated by reference into Part III of this Form 10-K Report.
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PART I

ITEM 1. BUSINESS.

FOR A DISCUSSION OF VARIOUS RISKS AND UNCERTAINTIES AFFECTING THE COMPANY'S FUTURE OPERATIONS SEE "FACTORS AFFECTING FUTURE OPERATING RESULTS" BEGINNING ON PAGE 16 BELOW. THIS ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1997 CONTAINS TRADEMARKS OF THE COMPANY.

DSP Group develops and markets digital signal processing integrated circuits and software for use in digital speech products targeted at the consumer telephone and computer telephony markets. Digital speech technology provides several advantages over analog speech technology, including higher attainable levels of compression, greater ability to process and manipulate data, and faster development of products through use of a programmable digital signal processor ("DSP") rather than dedicated analog hardware. As a result, digital speech technology is incorporated today in the digital telephone answering device ("TAD") market and enables the implementation of many new applications in computer telephony such as voice mail messaging, digital simultaneous voice and data ("DSVD") transmission and video conferencing.

The Company has developed digital signal processing and digital speech technologies, including proprietary algorithms, software, system designs and VLSI circuit designs that have enabled the introduction of three synergistic product families: speech and telephony digital signal processing integrated circuits, proprietary architectures for digital signal processors ("DSP core designs") and proprietary TrueSpeech-Registered Trademark- digital speech compression algorithms.

SPEECH AND TELEPHONY PROCESSORS

The Company has developed two series of speech and telephony processors for use in the consumer telephone and computer telephony markets. Both series are based on the Company's DSP core designs, incorporate several of its digital telephony signal processing algorithms and provide TrueSpeech compression capabilities. In 1989, the Company introduced the first cost effective speech processor for use in digital TADs and today the Company is the leading independent supplier of DSPs to digital TAD suppliers. The Company's TAD speech processors are incorporated in the products of leading digital TAD suppliers such as Alcatel, British Telecom, L.G. Electronics, Panasonic, Philips, Sagem, Samsung, Sanyo, Siemens, Sony and Uniden.

DSP Group has also developed a series of speech co-processors for use in conjunction with microprocessors in personal computers and in many standalone applications to enhance the microprocessors' speech and telephony capabilities. The Company's speech co-processors utilize many of the same technologies used in its TAD speech processors. These speech co-processors provide a variety of real-time speech applications for personal computers, standalone videophones, portable dictation devices and Internet telephony applications, such as voice mail messaging, DSVD transmission and video conferencing.

DSP CORE DESIGNS

DSP Group has also developed proprietary, low power DSP core designs--the PineDSPCore-Registered Trademark- and OakDSPCore-Registered Trademark---which represent low cost solutions for current and emerging digital signal processing applications. The Company's DSP core designs are incorporated in its own family of speech and telephony processors and are also licensed to more than twenty-five entities, including Adaptec, Fujitsu, Kawasaki, LSI Logic, NEC, Samsung, Siemens, Temic and VLSI Technology. These licensees are able to use the Company's DSP core designs to develop their own DSPs for various products, including cellular telephones, modems, audio boards and cordless telephones. In the fourth quarter of 1995, the first shipment of products utilizing the Company's PineDSPCore-Registered Trademark- technology occurred. Royalties from two DSP Core licensees have started to become meaningful in 1997.

DSP Group is in the process of developing a new generation of DSP core--the TeakDSPCore-TM-. In order to enhance versatility, efficiency and ease of use, the TeakDSPCore is offered in two complementary versions: the TeakLite-TM- and the Teak-TM-. Each version is designed to provide effective solutions for different segments of the DSP market. The Company's developers have designed the TeakLite to improve the performance of the existing OakDSPCore-Registered Trademark- in three areas: lower power consumption, higher frequency and greater portability. The TeakLite is now available for licensing.

The Teak will possess the TeakLite features as well as improved DSP architectural features such as dual arithmetic units, larger addressing space and support for DSP algorithm. The Teak will be available in the second half of 1998.

TRUESPEECH

The Company has developed TrueSpeech, a family of proprietary speech compression algorithms which it incorporates in its TAD speech processors and personal computer speech co-processors and also licenses to various companies in the computer telephony and personal computer industries. The Company believes that TrueSpeech offers several advantages over other currently available speech compression technologies, including a combination of high compression ratios, high quality speech playback and cost effectiveness. The proliferation of speech applications in the computer telephony, personal computer and consumer markets requires standardized digital speech compression technologies. The Company seeks to establish industry standards for its target markets based on TrueSpeech algorithms. However, the establishment of industry standards depends upon the acts of third parties, which are not within the control of the Company. The development of industry standards utilizing TrueSpeech algorithms would create an opportunity for the Company to develop and market speech co-processors that provide complete TrueSpeech solutions and enhance the performance and functionality of products incorporating these speech co-processors. For example, in the personal computer market, Microsoft has incorporated a TrueSpeech algorithm in Windows 95. In addition, in the video conferencing market, the International Telecommunications Union ("ITU") in February 1995 established G.723.1, which is predominantly composed of a TrueSpeech algorithm, as the standard speech compression technology for use in video conferencing over public telephone lines.

PRODUCT FAMILIES, TECHNOLOGY AND CUSTOMERS

The Company has incorporated its proprietary algorithms and technologies in three product families--speech and telephony processors, DSP core designs and TrueSpeech software--for use in the consumer telephone and computer telephony markets.

SPEECH AND TELEPHONY PROCESSORS

The Company has developed and introduced two series of DSPs--speech processors for digital TADs, telephony applications, modems, disk controllers and other communication applications, which were first introduced in 1989 for digital TADs, and personal computer speech co-processors, which were first introduced in late 1994, to maximize the benefits of TrueSpeech compression in personal computer applications. Both series are based upon the Company's cost effective, low power DSP core designs and incorporate its TrueSpeech algorithms.

The following chart describes some of the Company's other speech and telephony technologies that may be incorporated in various combinations in its products.

TECHNOLOGY	DESCRIPTION
Triple Rate Coder-TM- G.723.1	Instructs the system to decide automatically between better voice quality and longer recording time. Provides the speech compression algorithm for video conferencing over POTS lines (H.324 video conferencing standard)
Caller ID and Call Waiting Caller ID	Identifies the telephone number being used by the calling party, when the line is not engaged and when the receiving party is already engaged on another call
Call Progress Tone Detection	Detects standard telephony signals during the progress of the telephone call
DTMF Signaling	Detects and generates DTMF signals ("touch tones") that comply with telephone requirements
Full Duplex Speakerphone	Allows simultaneous two-way (full-duplex), hands-free operation of the telephone and incorporates acoustical echo cancellation for suppression of room echoes and electrical echo cancellation for elimination of electrical echoes
Speech Prompts	Provides time-date stamp capabilities and allows the user to access operating instructions
Variable Speed Playback (FlexiSpeech-Registered Trademark-)	Permits playback of distortion-free, natural sounding speech at variable speeds
Voice Operated Switch ("VOX") (Smart-Vox-Registered Trademark-)	Detects human speech and stops recording during periods of silence, thereby conserving available memory
Alpha Least Cost Routing ("LCR")/Super LCR	Executes telephone calls automatically via a telephone provider with the lowest available rates.
Voice Recognition	Allows voice command operation of functions

These technologies enable the Company's speech and telephony processors to provide a variety of speech capabilities for digital TAD, telephony and computer telephony products.

TAD SPEECH PROCESSORS. DSP Group's TAD speech processors are currently incorporated in over 90 models of digital TADs from more than 40 different companies. These models include standalone digital TADs, integrated digital TADs, facsimile machines with integrated digital TADs, standalone speaker phones with integrated digital TADs, hand-held devices and digital cordless telephones with integrated digital TADs. To date, the Company has shipped approximately 22 million speech processors to digital TAD suppliers, including approximately 9.0 million TAD speech processors in 1997. TAD speech processor product sales accounted for 79% of the Company's total revenues in 1997.

The Company's TAD speech processors use TrueSpeech to provide high quality speech recording and playback. All of the Company's TAD speech processors are based on the Company's PineDSPCore-Registered Trademark- and incorporate certain of the Company's technologies, including VOX, caller ID, call waiting, DTMF signaling and call progress tone detection. Some of the Company's TAD speech processors feature additional technologies, including speech prompt capabilities, variable speed playback and full duplex speakerphone.

The following table sets forth certain characteristics of the primary TAD speech processors currently offered by the Company:

DSP GROUP'S TAD SPEECH PROCESSORS

	D6305	D6365	D6455	D6386	D6471	D6301
Process Geometry (microns).....	0.5	0.6	0.8	0.8	0.5	0.5
Minutes Record, 4 Mbit Memory.....	15-17	15-17	25-27	15-17	25-27	15
Memory Type.....	ARAM	ARAM	ARAM	ARAM	Flash	Flash
Advanced Features:						
Speech Prompts.....	Yes	Yes	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
Voice Recognition.....	--	--	--	Yes	--	--
Other Required Components:						
Microcontroller.....	Yes	Yes	Yes	Yes	Yes	Yes
Codec.....	Yes	Yes	Yes	Yes	Yes	Yes
EPROM.....	Yes	Yes	Yes	Yes	--	--
Battery.....	Yes	Yes	Yes	Yes	--	--

DSP Group's D6301 and D6471 interface directly with a new flash memory chip introduced by Samsung and facilitate lower overall system costs for digital TADs. The new Samsung flash memory chip is designed for speech recording and is less expensive than other currently available flash memories. The D6301 and D6471 eliminate the need for audio-grade random access memories ("ARAMs"), which from time to time have constrained the growth of the digital TAD market due to supply shortages. By allowing substitution of a flash memory for an ARAM, the D6301 and D6471 also eliminate the need for battery circuitry to maintain the data in the ARAM during power failures and an EPROM to store pre-recorded voice prompts and time-date stamps.

In 1997, the Company developed an advanced compression technology called Triple Rate Coder-TM-. The new technology provides for tradeoffs between quality and recording time. The Triple Rate Coder-TM- provides three compression rates as follows:

- Long recording time--22 to 25 minutes recording time (on a four megabit flash memory).
- Quality recording--the technology provides approximately 10 recording minutes (on a four megabit flash memory). The speech quality equals that of a line telephone conversation. This technology overcomes one of the disadvantages of digital speech, i.e., the inferior clarity of digitized speech.
- Tradeoff between long recording time and high quality recording is enabled through another compression rate. The technology allows approximately 15 recording minutes with a quality that matches G.723.1 standard (Part of H.324, video conferencing standard).

ADVANCED VOICE-ACTIVATED DIGITAL TAD. In 1997, the Company announced that it had attained the capability of voice recognition, a technology that the Company believes may become well sought after for speech and telephony processors. The Company believes that this new voice recognition capability, combined with the Company's TrueSpeech-Registered Trademark- low bit rate voice compression and full duplex SpeakerPhone-Registered Trademark-, provides the Company with an advantage over competitors in the field. Also contained in the voice recognition processor are: caller ID, caller ID on call waiting, and other key telephony algorithms. This voice recognition processor provides for hands free operation of an answering machine either locally or from a remote location.

VOICE ACTIVATED CAR KIT. The Company has expanded its products line to include a hands free digital speech processor, which the Company believes will be highly in demand in the cellular telephone and automotive markets. The product line provides a unique combination of functions such as voice recognition, echo suppression, noise reduction, and True Speech-Registered Trademark- voice compression. The combination of voice recognition and full duplex speaker phone, enables free hand operation of a car phone for example, thus contributing to the driver's safety. The voice recognition processor with its unique integration of full duplex Speaker Phone-Registered Trademark- makes it possible for the Company to enter the market of car phones and hand held devices.

The following is a list of TAD manufacturers and resellers whose products incorporate the Company's TAD speech processors:

TAD MANUFACTURERS AND RESELLERS

TAD MANUFACTURERS

TAD RESELLERS

TAD MANUFACTURERS	TAD RESELLERS
Alcatel	Maxon
Ascom	National Telecom
CCT Telecom	Panasonic
Daewoo	Philips
D&B Electronics	Sagem
Giant	Samsung
Hagenuk	Sanyo
Hanchang	Siemens
Hanwha Telecom	Smoothline
HPF Ascom	Sony
Hyundai	Thomson
I.N.T. Corp.	Tiptel
Kinpo	Uniden
L.G. Electronics	Yupiteru
Matra	

PERSONAL COMPUTER SPEECH CO-PROCESSORS. The Company has developed its personal computer speech co-processors as complementary application-specific DSPs to enhance the performance and functionality of personal computer, computer telephony and consumer products using TrueSpeech. While the current generation of microprocessors contained in personal computers can compress and record speech in real-time, the microprocessors are not specifically designed to run digital speech processing algorithms and, therefore, require a substantial amount of the personal computer's computing power to do so. As a result, the use of speech co-processors that incorporate TrueSpeech in personal computers provides a more efficient utilization of the personal computer's computing power. The Company believes personal computer users will demand real-time speech compression capability and manufacturers will begin to provide real-time speech compression by including application-specific DSPs on personal computer products such as modems, audio boards, PCMCIA cards and personal computer based videophone and video conferencing products.

To date, the Company has announced and begun shipments of three speech co-processors--the CT8005, CT8015 and CT8020--for use in personal computers, voice-over-data modems, video telephones and video conferencing equipment. These speech co-processors are based on the Company's DSP core designs, incorporate TrueSpeech and many of its other proprietary algorithms and technologies, and are fully controlled by the personal computer's host processor. All of the Company's speech co-processors contain the TrueSpeech algorithm incorporated in Windows 95. The CT8005 provides telephone and speech recording and playback functions in personal computers and in digital voice recorders, while the CT8015 is designed as a low-cost solution for use in voice-over-data modems, in wireless voice and in Internet telephony products. The CT8020 is designed for use in video telephones and video conferencing equipment and also implements all the specifications of the G.723.1 speech compression standard for video telephony. The CT8020 also is being utilized in many Internet-based telephone applications.

The following table sets forth the features of the personal computer speech co-processors currently offered by the Company:

DSP GROUP'S PERSONAL COMPUTER SPEECH CO-PROCESSORS

	CT8005	CT8015	CT8020
DSP Core Design.....	PineDSPCore	PineDSPCore	OakDSPCore
Process Geometry (microns).....	0.8	0.8	0.6
TrueSpeech Algorithm Data Rate, Kilobits Per Second.....	8.5	8.5	8.5, 6.3, 5.3, 4.8 & 4.1
Features:			
Voice Mail Messaging.....	Yes	--	Yes
Telephone Answering.....	Yes	--	Yes
Full Duplex Speakerphone.....	Yes	Yes	Yes
Variable Speed Message Playback.....	Yes	--	--
Full Duplex DSVD.....	--	Yes	Yes
Video Conferencing.....	--	--	Yes
Internet Telephony.....	Yes (HDX)	Yes	Yes

FUTURE SPEECH AND TELEPHONY PROCESSORS. The Company is developing its next generation of TAD speech processors based on 0.35 micron technology to reduce its manufacturing costs and increase its competitiveness in the price sensitive TAD business. In addition, the Company intends to continue to enhance its existing speech and telephony processors through the addition of advanced capabilities and to develop new speech and telephony processors for emerging applications. For example, the Company intends to enhance its TAD speech processors through the addition of capabilities such as improved speech quality, full duplex speakerphone, advanced voice recognition algorithm, integrated micro processor, and integrated analog functions.

The Company believes that emerging applications for its personal computer speech co-processors may include other personal computer products such as laptop computers, personal digital assistants ("PDAs"), personal communications systems and other mobile computing devices. In addition, DSP Group believes that its digital signal processing and digital speech expertise will also be applicable to emerging digital speech applications for consumer electronics. For example, one manufacturer has introduced and is shipping a personal digital voice recorder with one hour of recording time based on a DSP Group TAD speech processor. This recorder utilizes the Company's variable speed playback algorithm and provides the capability of editing a stored speech file. The recorder also provides memory storage in a detachable module with a PCMCIA connector, allowing transfer of the recorded speech file to a computer with a PCMCIA interface for storage, playback or transmittal over a modem. The Company intends to develop additional speech co-processors for the personal digital voice recorder market, and intends to pursue the use of its technologies for other speech applications in the computer telephony, personal consumer and consumer electronics market.

DSP CORE DESIGNS

The Company's DSP core designs--PineDSPCore-Registered Trademark- and OakDSPCore-Registered Trademark---are low power, low voltage and low cost digital signal processing integrated circuit architectures with associated advanced software development tools. The Company's DSP cores and associated instruction sets are designed for general purpose applications including speech processing, speakerphone, telephony algorithms and cellular, which enables efficient processing for digital speech applications. The DSP core designs operate at both 3 volts and 5 volts and incorporate power management features for low power consumption. As digital signal processing and software migrate into high volume communication and computing products, the Company believes there will be a significant demand for low cost, low power DSP platforms. The efficient processing, flexible design and scaleable memories of the Company's DSP core designs allow the development of smaller and lower cost DSP solutions and shorten time to market for new products and product enhancements.

The Company's DSP core designs are small, highly efficient, 16-bit, general purpose DSPs with adjacent modular RAM and ROM and general I/O blocks for flexible layout and design. Universal design rules are used in the DSP core designs to allow easy implementation across multiple semiconductor process technologies. The DSP cores, initially implemented in 1.0 micron CMOS technology, were converted into 0.8 micron CMOS technology and then were further redesigned for 0.6 micron CMOS technology to reduce cost and increase performance. The Company is currently in the process of converting the DSP cores into 0.35 micron CMOS technology. These successive cost reductions in manufacturing are aimed at reducing the product cost and increasing product performance.

The PineDSPCore-Registered Trademark-, first introduced in 1992, was developed by the Company's VLSI designers and its software developers to efficiently process speech and telephony algorithms. During 1994, the Company announced its OakDSPCore-Registered Trademark-, an enhanced version of the PineDSPCore-Registered Trademark- that achieves a higher processing speed through improved architecture and is specifically suited for use in personal communication products and higher level processing applications, such as digital cellular telephones, high bit rate modems, DSVD modems and video telephone conferencing applications. The OakDSPCore-Registered Trademark- offers significantly improved processing features compared to the PineDSPCore-Registered Trademark-, including a higher processing speed of 80 MIPS and an advanced, more efficient instruction set. Algorithms implemented on the PineDSPCore-Registered Trademark- instruction set may also be run on the OakDSPCore-Registered Trademark-. The Company recently has started developing the next generation DSP core--the TeakDSPCore-TM-. This core will contain two arithmetic units, which will both function in parallel. This will improve the performance of a notable portion of the application. The Company is targeting this DSP core to the new cellular application standards (e.g., half rate GSM and wide band CDMA) and for advanced wire line modems (e.g., 56kbit/ second) as well as for multimedia applications (e.g., AC3, MPEG2).

The following table shows a comparison of the Company's DSP core designs:

DSP GROUP'S DSP CORE DESIGNS

	PINEDSPCORE	OAKDSPCORE
	-----	-----
Word Length.....	16 bit	16 bit
Process Geometry (microns).....	0.5	0.35
Performance.....	40 MIPS	65 MIPS
Voltage.....	5.0 V	3.3V
Advanced Instruction Set.....	--	Yes

The Company incorporates its DSP core designs in its speech and telephony processors and also licenses them to original equipment manufacturers ("OEMs"). The Company's licensing program, introduced in 1992, enables OEMs to incorporate the Company's DSP core designs in the OEMs' products. Licensing revenues are generally recognized on shipment by the Company provided that no significant vendor or post contract support obligations remain outstanding and that collection of the resulting receivable is deemed probable. In addition, most licenses require the licensee to pay the Company ongoing per-unit royalties based on the unit shipments of the licensee's products and a monthly support fee. The timing and amount of royalties from licensing of the DSP core designs will depend on the timing of each licensee's product development and the degree of market acceptance of such licensee's product, both of which are not within the Company's control. Royalties from two DSP Core licensees have started to become meaningful in 1997.

The following is a partial list of companies who have licensed the Company's DSP core designs and representative applications for which they are able to use the DSP core designs:

DSP CORE DESIGN LICENSEES

LICENSEES	REPRESENTATIVE APPLICATIONS
Adaptec.....	Disk Drives
Asahi Kasei Microsystems.....	Cordless Telephones
Atmel.....	ASIC, Communications
DSP Communications, Inc.....	Digital Cellular Telephones
Fujitsu.....	ADSL, Communications
GEC Plessey.....	Communications
Harris Semiconductor.....	Video Conferencing
Hyundai.....	Communications
Integrated Circuit Systems.....	Multimedia Boards
Kawasaki.....	ASIC, Communications
Kenwood.....	Audio Products
LSI Logic.....	ASIC, Communications, DBA
NEC.....	Communications and Consumer Products
ROHM.....	ASIC, Communications
Samsung.....	ASIC, Communications and Multimedia
Siemens.....	Digital Cellular Telephones, Communications
TDK Semiconductor.....	Modems
TEMIC (Daimler-Benz).....	DBA, Communications
TSMC.....	ASIC Library
VLSI Technology.....	ASIC, Communications
Xicor.....	Programmable DSP

The Alta Group of Cadence, Mentor Graphics and Synopsys have announced the development of electronic design automation ("EDA") tools, system level design kits and software co-design and co-simulation products for systems designers that use the PineDSPCore-Registered Trademark- and OakDSPCore-Registered Trademark-. In addition, a number of independent software vendors, including VoCal Technologies and Enigma, have announced the development of digital signal processing algorithms that operate on the PineDSPCore-Registered Trademark- and OakDSPCore-Registered Trademark- for a variety of communications and multimedia applications. The Company believes that these developments make its DSP core designs more attractive to potential OEM licensees. In addition, the Company believes that these software tools assist in the creation of the PineDSPCore-Registered Trademark- and the OakDSPCore-Registered Trademark- as industry standards, much as most ASIC vendors worldwide are in fact DSP Group licensees.

RISC CORE

The Company has entered into an agreement with National Semiconductors Corporation ("NSC") to become the worldwide exclusive distributor for general licensing and support of the CompactRISC core technology. The Company decided to enter the RISC market because it believes that customers use RISC cores along with DSP cores in their applications to implement control functions efficiently. The Company established this relationship with NSC to shorten the time to market for the Company's products and to make use of already proven and established technology.

Currently, Advanced RISC Machines ("ARM") controls the RISC market. The Company estimates that the CompactRISC technology is better suited for the embedded market than ARM's products because CompactRISC is a true 16-bit machine, whereas the ARM core is a 32-bit machine with a wrapper. As such, the CompactRISC consumes less power and is less expensive in die size and memory consumption. However, ARM's brand name is prevailing and there is no assurance that the CompactRISC technology will be able to compete effectively in the market.

The following table sets forth the key features of the CompactRISC core design:

	CR16B

Word Length.....	16 bit
Process Geometry (microns).....	0.35
Performance.....	50 MIPS
Voltage.....	3.0 to 5.0 V

TRUESPEECH PRODUCTS

TrueSpeech is a high-quality, cost effective speech compression technology 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 this speech into digital data and then selectively eliminates and enhances certain sound data to replicate human speech. Originally developed for consumer telephone applications, such as the Company's TAD speech processors, the Company has since enhanced TrueSpeech for use in the computer telephony and personal computer markets.

The Company seeks to establish industry standards for digital speech compression technology based on its TrueSpeech algorithms for emerging speech applications in the consumer telephone and computer telephony markets. However, the establishment of industry standards depends upon the acts of third parties, which are not within the control of the Company. The development of industry standards utilizing TrueSpeech algorithms would create an opportunity for the Company to develop and market speech co-processors that would serve as complementary application-specific DSPs to enhance the performance and functionality of personal computers using TrueSpeech. In the personal computer market, Microsoft has incorporated a TrueSpeech algorithm in Windows 95. In the video telephone market, the ITU in February 1995 established G.723.1, which is predominantly composed of a TrueSpeech algorithm, as the standard speech compression technology for video conferencing over public telephone lines. In addition to the Company's TrueSpeech algorithm, G.723.1 incorporates elements of algorithms developed by France Telecom and the University of Sherbrooke. In addition, although the ITU committee has approved the G.723.1 standard for analog telephone line, there is no assurance that the video conference market in analog line will be widely accepted, mainly due to quality of the current implementations and price issues. Furthermore, in March 1997, the International Multimedia Teleconferencing Consortium ("IMTC"), 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 Internet Protocol ("IP") applications for H.323 conferencing products. The IMTC membership approved this recommendation in 1997.

The Company believes that the principal advantages of TrueSpeech compared with other currently available digital speech compression technologies are as follows:

HIGH COMPRESSION RATIO. The three versions of TrueSpeech currently offered for license by DSP Group compress digital speech at ratios ranging from 15:1 to 26:1. These compression ratios are between seven and twelve times greater than the compression provided by Pulse Code Modulation ("PCM") used in current generation telephone speech transmissions and four to six times greater than compression using Adaptive Differential PCM ("ADPCM") currently used in personal computer audio cards. As a result, a standard 1.4 megabyte floppy diskette can hold approximately 37 minutes of speech using the most advanced version of TrueSpeech commercially available, compared to approximately three minutes using PCM and six minutes using ADPCM. Competitors have introduced other advanced speech compression algorithms that offer compression ratios comparable to the most advanced TrueSpeech algorithms, including competing algorithms that were submitted by several companies to the ITU standards committee evaluating speech compression algorithms for video telephones. The ITU testing showed that TrueSpeech provides superior quality playback and requires lower computational complexity than these competing algorithms.

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. TrueSpeech has received high scores for speech quality from a number of independent evaluators. For example, TrueSpeech scored the highest on the ITU's intricately structured 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.

COST EFFECTIVENESS. TrueSpeech's ability to achieve high speech compression with lower computational complexity provides it with a competitive cost advantage. As an example, competing speech compression algorithms evaluated by the ITU use 20% to 50% more computing power for the same compression and transmission rates, and more RAM and ROM for storage and operation. Consequently, competing speech compression algorithms require larger, more expensive DSPs and result in higher cost solutions.

The Company incorporates its TrueSpeech technology in its speech and telephony processors and also licenses TrueSpeech to computer telephony and personal computer companies for inclusion in their products. The Company's TrueSpeech licensees include Analog Devices, Cirrus Logic, Creative Labs, Dialogic, IBM, Integrated Circuit Systems, Intel, LSI Logic, Lucent, Microsoft, Netspeak, Philips, Phylon, Prodigy, Siemens, Sierra Semiconductor, Silicon Systems, Smith Micro, Texas Instruments ("TI"), Unisys, US Robotics, VDOnet and VLSI Technology. In addition, the Company has ported its TrueSpeech algorithms to certain DSP platforms offered by Analog Devices, Lucent, Motorola and TI, four leading merchant vendors of programmable DSPs. To date, the Company's royalties from TrueSpeech licenses have not been significant.

SALES, MARKETING AND DISTRIBUTION

The Company markets and distributes its products through a direct sales and marketing organization, consisting of 22 employees, as well as through a network of distributors and independent manufacturers' representatives. A marketing and sales team located in the Company's headquarters in Santa Clara, California and in Israel pursues business with the Company's customers in North America, closely monitor new markets, trends and customer needs to shape the Company's strategic decisions. In Japan, the Company operates from a marketing and support office in Tokyo and through Tomen Electronics, a local distributor. In the rest of Asia, the Company operates through DSP Solutions Ltd., a distributor and sales representative in Hong Kong, and through manufacturers' representatives in Singapore, South Korea and Taiwan. To handle sales and distribution in Europe, the Company operates a marketing and support office located in France and has manufacturers' representatives in Denmark, Germany, Spain and Sweden. The Company's distributors are not subject to minimum purchase requirements and can cease marketing the Company's products at any time. The loss of one or more representatives or the failure of such parties to renew agreements with the Company upon expiration could have an adverse effect on the Company's business, financial condition and results of operations.

In 1997, 1996 and 1995 sales to Tomen Electronics comprised 33%, 17% and 25% of total revenues respectively. In 1996, sales to Samsung comprised 11% of total revenues.

Export sales accounted for 92%, 91% and 81% of total revenue in 1997, 1996 and 1995, respectively. Due to its export sales, the Company is subject to the risks of conducting business internationally, including unexpected changes in regulatory requirements, fluctuations in exchange rates that could increase the price of the Company's 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 the Company's export sales are denominated in United States dollars. See Note 3 of the Notes to Consolidated Financial Statements of the Company's Annual Report to Stockholders for the year ended December 31, 1997, for a summary of the Company's operations within various geographic areas.

Since the Company's products are based on its 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 the Company's manufacturing occurs at independent foundries. The Company contracts fabrication services for speech and telephony processors from Taiwan Semiconductor Manufacturing Company ("TSMC"), Tower Semiconductor ("Tower") and Samsung Semiconductor, Inc. ("Samsung"). Under non-exclusive agreements, these independent foundries normally provide the Company with finished, packaged and tested speech processors at variable prices depending on the volume of units purchased. The Company customarily pays for fully-tested products meeting predetermined specifications. To ensure the integrity of quality assurance procedures, the Company develops detailed test procedures and specifications for each product and requires each foundry to use such procedures and specifications before shipping finished products.

The Company plans to continue to use independent foundries to manufacture digital speech processors and other products for the consumer telephone and computer telephony markets. To obtain an adequate supply of wafers, the Company is considering various alternative production sites. The Company's reliance on independent foundries involves a number of risks such as the foundries' achievement of acceptable manufacturing yields and allocation of capacity to the Company.

In addition to the Company's speech processors, digital TADs include various other components such as ARAMs, codecs and flash memories that are supplied by third party manufacturers. Temporary fluctuations in the pricing and availability of these components could have a material adverse effect on sales of the Company's speech processors for digital TADs and other computer telephony products, which could in turn have a material adverse effect on the Company's business, financial condition and results of operations.

COMPETITION

The markets in which the Company operates are extremely competitive and the Company expects that competition will increase. In each of the Company's business activities it faces current and potential competition from competitors that have significantly greater financial, technical, manufacturing, marketing, sales and distribution resources and management expertise than the Company. The Company's future prospects will be highly dependent upon the successful development and introduction of new products that are responsive to market needs. There can be no assurance that the Company will be able to successfully develop or market any such products.

The principal competitive factors in the digital TAD speech processor market include price, speech quality, compression ratio, value-added features such as variable speed message playback and speakerphone, customer support and the timing of product introductions by the Company and its competitors. The Company believes that it is competitive with respect to each of these factors. Currently, the key competitive challenge for digital TADs is the relative lower cost of analog tape-based machines. The Company believes that the continuing decline in prices of digital speech processors and silicon memory devices will close the cost gap between the analog and digital solution. The Company's principal competitors in the TAD speech processor market include ISD, Lucent Microelectronics, Macronix, TI, Toshiba, Siemens and Zilog.

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. The Company's DSP core designs compete with companies such as Analog Devices, Atmel, Clarkspur Designs, SGS Thompson and Tensleep, which license DSP platforms, and Analog Devices, Lucent Microelectronics, Motorola, and TI, which sell their own complete DSP solutions (general purpose DSPs).

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. The Company's TrueSpeech algorithms compete with ADPCM, and the speech compression technologies used in GSM and VSELP, 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) and Motorola (which developed the original VSELP). Although TrueSpeech has achieved a degree of acceptance in the computer telephony and personal computer markets, ADPCM and the speech compression technologies for GSM and VSELP 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 which offer compression ratios comparable to the TrueSpeech algorithms, including a competing algorithm sponsored by the University of Sherbrooke that the ITU standards committee has adopted as the speech compression standard for DSVD modems. 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 markets for which the Company's products are targeted.

Price competition in the markets in which the Company currently competes and proposes to compete is intense and may increase, which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company has experienced and expects to continue to experience increased competitive pricing pressures for its TAD speech processors. During 1997, the Company was able to completely offset this decrease on an annual basis through manufacturing cost reductions. There can be no assurance that the Company 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.

RESEARCH AND DEVELOPMENT

The Company believes that continued timely development and introduction of new products are essential to maintaining its competitive position. The Company currently conducts most of its product development effort in-house and at December 31, 1997 had a staff of 56 research and development personnel located in Israel. The Company also employs independent contractors to assist with certain product development and testing activities. During the years 1997, 1996 and 1995, the Company spent approximately \$8.4 million, \$8.5 million and \$8.4 million, respectively, on research and development activities.

RELATIONSHIPS WITH AFFILIATED COMPANIES

The Company has a \$1.7 million equity investment in, and has entered into technology arrangements with, AudioCodes Ltd. ("AudioCodes"), an Israeli corporation primarily engaged in DSP-related contract engineering in connection with speech and speech algorithm technologies. The Company currently owns 29% of the capital stock of AudioCodes, a company formed in April 1993 by two former employees of DSP Group. Pursuant to an agreement between the Company and AudioCodes, the Company and AudioCodes have joint ownership of any speech compression technology developed by AudioCodes. The Company has established this relationship to complement its in-house product development efforts.

In July 1996, the Company invested \$2.0 million of cash for approximately 40% of the equity interests in Aptel Ltd. ("Aptel"), an emerging company in its product development stage located in Israel. 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. In 1996, the Company incurred a one-time write-off of acquired in-process technology of \$1.5 million. In October 1997, the Company invested approximately \$176,000 in convertible debentures issued by Aptel. In December 1997, the Company converted its debentures and Aptel's shareholders (including the Company) exchanged their shares in Aptel for shares in Nexus Telecommunications Systems Ltd. ("Nexus"), an Israeli company registered and traded on the Nasdaq SmallCap Market. The Nexus shares received in the transaction are restricted from being traded until December 1998 and are presented in the Company's balance sheet at \$1,226,000, which is the market value of such shares on December 31, 1997.

LICENSES, PATENTS AND TRADEMARKS

The Company has been granted seven United States patents and has one patent pending in the United States. The Company actively pursues foreign patent protection in other countries of interest to the Company. The policy of the Company is to apply for patents or for other appropriate statutory protection when it develops valuable new or improved technology. The status of patents involves complex legal and factual questions and the breadth of claims allowed is

uncertain. Accordingly, there can be no assurance that any patent application filed by the Company will result in patents being issued, or that its patents, and any patents that may be issued in the future, will afford protection against competitors with similar technology; nor can there be any assurance that patents issued to the Company will not be infringed or designed around by others. In addition, the laws of certain countries in which the Company's products are or may be developed, manufactured or sold, including Hong Kong, Japan and Taiwan, may not protect the Company's products and intellectual property rights to the same extent as the laws of the United States.

The Company attempts to protect its trade secrets and other proprietary information through agreements with its customers, suppliers, employees and consultants, and through other security measures. Although the Company intends to protect its rights vigorously, there can be no 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 the Company has not been involved in any material patent or other intellectual property rights litigation to date, there can be no assurance that third parties will not assert claims against the Company with respect to existing or future products or that the Company will not need to assert claims against third parties to protect its proprietary technology. 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 equipment manufacturers license this technology from AT&T. In the event of litigation to determine the validity of any third party claims or to protect its proprietary technology, such litigation could result in significant expense to the Company and could divert the efforts of the Company's technical and management personnel, whether or not such litigation is determined in favor of the Company. In the event of an adverse result in any such litigation, the Company 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. There can be no assurance that the Company would be successful in such development or that any such licenses would be available on commercially reasonable terms.

The Company has been issued registered trademarks for the use of the PineDSPCore-Registered Trademark-, OakDSPCore-Registered Trademark- and TrueSpeech trademarks. In addition the Company applied for trademarks for TeakDSPCore and PalmDSPCore.

While the Company's ability to compete may be affected by its ability to protect its intellectual property, the Company believes that, because of the rapid pace of technological change in the industry, its technical expertise and ability to innovate on a timely basis will be more important in maintaining its competitive position than protection of its intellectual property. The Company believes 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 such as the expanding knowledge, ability and experience of the Company's personnel, new product introductions and frequent product enhancements. Although the Company continues to implement protective measures and intends to defend its intellectual property rights, there can be no assurance that these measures will be successful.

BACKLOG

At December 31, 1997, the Company's backlog was approximately \$16.8 million compared with approximately \$15.1 million at December 31, 1996. The Company includes in its backlog all accepted product purchase orders with respect to which a delivery schedule has been specified for product shipment within one year and fees specified in executed licensing contracts. The Company's business in TAD speech processors is characterized by short-term order and shipment schedules. Product orders in the Company's 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 sales for any future period.

EMPLOYEES

As of December 31, 1997, the Company had 105 employees, including 56 in research and development, 22 in marketing and sales, and 27 in corporate and administration and manufacturing coordination. Competition for personnel in the semiconductor, software and personal computer industries in general is intense. The Company believes that its future prospects will depend, in part, on its 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 the Company's employees is represented by a collective bargaining agreement, nor has the Company ever experienced any work stoppage. The Company believes that its employee relations are good.

FACTORS AFFECTING FUTURE OPERATING RESULTS

THIS FORM 10-K 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 recognition of license fees and the level of per unit royalties. Through 1998, 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 these 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 its OEM licensees in introducing products utilizing the Company's technology and the success of those OEM products in the marketplace. Per unit royalties from TrueSpeech licensees have not been significant to date. Royalties from two DSP Core licensees have started to become meaningful in 1997.

The Company's quarterly operating results may also fluctuate 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; and changes in general economic conditions.

DECLINING AVERAGE SELLING PRICES AND GROSS MARGINS; DEPENDENCE ON DIGITAL TAD MARKET. The Company has experienced a decrease in the average selling prices of its TAD speech processors, but has 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. The Company experienced a significant decline in the gross margin on TADs in the second and third quarters of 1996 due to competitive market pricing pressures and delays in ongoing cost reduction efforts. Although significant cost reductions were achieved in the fourth quarter of 1996 and throughout 1997, there is no guarantee that such on-going efforts will be successful or that they will keep pace with the anticipated, continuing decline in average selling prices. The markets for the Company's products are extremely competitive, and the Company expects that competition will increase. 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 or its other products through the continuing and frequent introduction of new products or reductions of manufacturing costs, or any significant delays by the Company in developing, manufacturing or shipping new or enhanced products would have a material adverse effect on the Company's business, financial condition and results of operations. 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.

REVENUES FROM ASIA. In 1997, the Company generated approximately \$19.9 million, or 39% of its total product sales, from sales to customers located in South Korea, Taiwan, Singapore and Hong Kong. While economic activity in some of these countries, most notably Korea, has been adversely affected by recent developments in local currency and banking markets, the Company believes that the effect of these developments on the Company's business is somewhat mitigated by the financial condition of many of the Company's customers in these markets, such as Daewoo, L.G. Electronics and Maxon. Many of these customers are leaders in their respective industries and conduct their business on a multinational basis. In addition, management estimates that approximately 70% of the Company's product sales generated from the Asian region in 1997 were used in end-products subsequently exported to non-Asian markets such as the United States and Europe, which represent an important source of foreign currency for these customers. The Company does not believe that economic conditions in Asia had a material effect on its 1997 revenue. The Company continues to believe that the geographic diversity of its customers and the diverse end-markets for its customers' products will continue to benefit the Company. However, in the first quarter of 1998, the Company has been experiencing a decline in the flows of orders from Southeast Asia, specifically South Korea mainly due to the general economic atmosphere in that region. If this trend continues, it may result in a decrease of the Company's backlog at the end of the first quarter of 1998. There can be no assurance that continued negative developments in the Asian region will not have an adverse effect on the Company's future operating performance.

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 increasing business, the Company is and will continue to be dependent upon these foundries to achieve acceptable manufacturing yields and quality levels, 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 added additional independent foundries to manufacture its TAD speech 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 or low yield rates.

RELIANCE ON INTERNATIONAL OPERATIONS; RISK OF OPERATIONS IN ISRAEL. The Company is subject to the risks of doing business internationally, including unexpected changes in regulatory requirements; fluctuations in the exchange rate for the United States dollar; imposition of tariffs and other barriers and restrictions; and the burdens of complying with a variety of foreign laws. The Company is also subject to general geopolitical risks, such as political and economic instability and changes in diplomatic and trade relationships, in connection with its international operations. In particular, the Company's principal research and development facilities are located in the State of Israel and, as a result, at December 31, 1997, 76 of the Company's 105 employees were located in Israel, including all 56 research and development personnel. In addition, although the Company is incorporated in Delaware, the majority of the Company's directors and executive officers are non-residents of the United States. Therefore, the Company is directly affected by the political, economic and military conditions to which that country is subject. In addition, many of the Company's expenses in Israel are paid in Israeli currency, thereby also subjecting the Company to foreign currency fluctuations and to economic pressures resulting from Israel's generally high rate of inflation. The rate of inflation in Israel for 1996 and 1997 was 10.6% and 7.0%, respectively. While substantially all of the Company's sales and expenses are denominated in United States dollars, a portion of the Company's expenses are denominated in Israeli shekels. The Company's primary expenses paid in Israeli currency are employee salaries and lease payments on the Israeli facility. 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. There can be no assurance that currency fluctuations, changes in the rate of inflation in Israel or any of the other aforementioned factors will not have a material adverse effect on the Company's business, financial condition and results of operations.

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. Supply disruptions, shortages or termination could have an adverse effect on the Company's business and results of operations due to its customers delay or discontinuance of orders for the Company's products until such components are available.

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 telephony and personal computer markets. The development of industry standards utilizing 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. 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.

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, Lucent Microelectronics, NTT and VoiceCraft have recently asserted that G.723.1, which is primarily composed of a TrueSpeech algorithm, includes certain elements covered by patents held by these entities and have requested that video conferencing equipment manufacturers license such technology from them. 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. The Company believes that the ultimate resolution of these matters will not have a material adverse effect on the Company's business, financial position or results of operations.

YEAR 2000 COMPLIANCE. The Company is aware of the issues associated with the programming code in existing computer systems as the year 2000 approaches. The "Year 2000" problem is concerned whether computer systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. The year 2000 problem is pervasive and complex as virtually every company's computer operation will be affected in some way. The Company is utilizing both internal and external resources to identify, correct or reprogram, and test the systems for Year 2000 compliance. It is anticipated that all reprogramming efforts will be completed by December 31, 1998, allowing adequate time for testing. To date, confirmations have been received from the Company's primary processing vendors that plans are being developed to address processing of transactions in the year 2000. Management believes that Year 2000 compliance expenses will not have an adverse effect on the Company's earnings. However, there can be no assurance that Year 2000 problems will not occur with respect to the Company's computer systems. The Year 2000 problem may impact other entities with which the Company transacts business, and the Company cannot predict the effect of the Year 2000 problem on such entities.

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 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. On March 7, 1997, the Court issued an order dismissing with prejudice all claims based on statements issued by the Company. The Court allowed plaintiffs to proceed with their claims regarding statements the Company allegedly made to securities analysts, and also permitted plaintiffs to amend their complaint as to their claim that the Company is responsible for the statements contained in analysts' reports. Plaintiffs chose not to amend their complaint after the March 7, 1997 order. On November 5, 1997, the parties reached an agreement in principle to settle this litigation. The proposed settlement requires that the Company fund approximately \$50,000 of the settlement amount to fulfill the retention amounts under the Company's insurance policy. The proposed settlement is subject to the execution of a stipulation of settlement and court approval.

POSSIBLE VOLATILITY OF STOCK PRICE. 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.

ITEM 2. PROPERTIES.

The Company's operations in the United States are located in an approximately 15,700 square foot leased facility in Santa Clara, California. This facility houses the Company's marketing and support, North American sales, operations, manufacturing coordination and administrative personnel. This facility is leased through December 1999. In August 1997, the Company's subsidiary, DSP Semiconductors (Israel), Ltd. moved to a facility in Herzlia Pituach, Israel with approximately 27,000 square feet pursuant to a lease ending in May 2002. In August 1997, DSP Semiconductors (Israel), Ltd. signed an additional lease agreement for office space in Omer (located in the south of Israel), for 840 square feet through September 1999.

ITEM 3. LEGAL PROCEEDINGS.

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. On March 7, 1997, the Court issued an order dismissing with prejudice all claims based on statements issued by the Company. The Court permitted plaintiffs to proceed with their claims regarding statements the Company allegedly made to securities analysts, and also permitted plaintiffs to amend their complaint as to their claim that the Company was responsible for the statements contained in analysts' reports. Plaintiffs chose not to amend their complaint after the March 7, 1997 order. On November 5, 1997, the parties reached an agreement in principle to settle this litigation. The proposed settlement requires that the Company fund approximately \$50,000 of the settlement amount to fulfill the retention amounts under the Company's insurance policy. The proposed settlement is subject to the execution of a stipulation of settlement and court approval.

On February 12, 1997, BEKA Electronic GmbH ("BEKA") commenced an action in the United States District Court for the Northern District of California against the Company. The action alleges breach of contract, breach of implied covenant of good faith and fair dealing and requests an accounting by the Company in connection with the Company's termination of the Sales Representative Agreement between BEKA and the Company. The complaint seeks an unspecified amount of damages. The Company filed an answer to the complaint on April 14, 1997, denying all causes of action. The Company believes the lawsuit to be without merit and intends to defend itself vigorously.

In February 1997, a lawsuit between the Company and Elk Industries, Inc. ("Elk") was settled. The litigation had been pending since April 1996 in the United States District Court for the Southern District of Florida. Elk had alleged 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.

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 section labeled "Price Range of Common Stock" appearing on page 18 of the Registrant's Annual Report to Stockholders for the year ended December 31, 1997 is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA.

The section labeled "Selected Consolidated Financial Data" appearing on page 17 of the Registrant's Annual Report to Stockholders for the year ended December 31, 1997 is incorporated herein by reference.

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

The section labeled "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing on pages 19 through 24 of the Registrant's Annual Report to Stockholders for the year ended December 31, 1997 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 25 through 46 of the Registrant's Annual Report to Stockholders for the year ended December 31, 1997 are incorporated herein by reference.

The section labeled "Quarterly Data" appearing on page 17 of the Registrant's Annual Report to Stockholders for the years ended December 31, 1996 and 1997 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 the Registrant's definitive Proxy Statement to be filed shortly hereafter for the annual meeting of stockholders to be held on May 19, 1998 is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The section labeled "Executive Compensation and Other Information" of the Registrant's definitive Proxy Statement to be filed shortly hereafter for the annual meeting of stockholders to be held on May 19, 1998 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 the Registrant's definitive Proxy Statement to be filed shortly hereafter for the annual meeting of stockholders to be held on May 19, 1998 is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The section labeled "Certain Relationships and Related Transactions" of the Registrant's definitive Proxy Statement to be filed shortly hereafter for the annual meeting of stockholders to be held on May 19, 1998 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 financial statements and related notes and auditor's report are included in the Registrant's Annual Report to Stockholders for the year ended December 31, 1997 and are incorporated herein by reference pursuant to Item 8.

DESCRIPTION	PAGE IN 1997 ANNUAL REPORT TO STOCKHOLDERS
Consolidated Balance Sheets as of December 31, 1997 and 1996.....	26-27
Consolidated Statements of Income for the years ended December 31, 1997, 1996 and 1995.....	25
Consolidated Statements of Stockholders' Equity for the years ended December 31, 1997, 1996 and 1995.....	28-29
Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995.....	30-31
Notes to Consolidated Financial Statements.....	32-46
Report of Ernst & Young LLP, Independent Auditors.....	47

2. INDEX TO FINANCIAL STATEMENT SCHEDULES.

The following financial statement schedules and related auditor(1)s report are filed as part of this Annual Report on Form 10-K:

DESCRIPTION	PAGE IN THIS ANNUAL REPORT ON FORM 10-K
Schedule II: Valuation and Qualifying Accounts.....	(included at page 32)
Consent of Ernst & Young LLP, Independent Auditors.....	Exhibit 23.1 (included at page 30)
Consent of Almagor & Co., Independent Auditors.....	Exhibit 23.2 (included at page 31)

All other schedules are omitted because they are not applicable or not required or because the required information is included in the Consolidated Financial Statements or the Notes thereto.

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	Bylaws (filed as Exhibit 3.2B 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).
3.3	Amendment to Registrant's Bylaws, dated March 30, 1995 (filed as Exhibit 3.2.c to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).
3.4	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).
3.5	Rights Agreement, dated as of June 5, 1997, between the Registrant and Norwest Bank Minnesota, N.A., as Rights Agent (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on June 6, 1997).
3.6	Specimen Rights Certificate (filed as Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed on June 6, 1997).
3.7	Amendment to Registrant's Bylaws, dated November 3, 1997.
10.1	1991 Employee and Consultant Stock Plan and forms of option agreements thereunder (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).
10.2	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).
10.3	1993 Directors Stock Option Plan (filed as Exhibit 10.4 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).
10.4	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).
10.5	Registration Rights Agreement, dated August 30, 1993, by and among the Registrant and certain shareholders of the Registrant (filed as Exhibit 10.9 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

- 10.6 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 Severance and Consulting Agreement, dated as of May 6, 1996, by and between the Registrant and Eli Porat (filed as Exhibit 10.36 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, and incorporated herein by reference).
- 10.11 Severance Agreement, dated June 8, 1996, by and between the Registrant and Karin Pitcock (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, and incorporated herein by reference).
- 10.12 Share Purchase and Shareholders Agreement, dated July 4, 1996, by and among Aptel Ltd., the shareholders named therein, and DSP Semiconductors Ltd. (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, and incorporated herein by reference).
- 10.13 Employment Agreement, dated April 22, 1996, by and between the Registrant and Eli 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).
- 10.14 Severance and Consulting Agreement, dated as of October 25, 1996, by and between the Registrant and John Goldsberry (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, and incorporated herein by reference).
- 10.15 Employment Severance and Consulting Agreement, dated as of December 2, 1996, by and between the Registrant and Mike Hoberg (filed as Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference).
- 10.16 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).

EXHIBIT
NUMBER

DESCRIPTION

- 10.17 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).
- 10.18 Employment Agreement, dated February 24, 1997, by and between the Registrant and Avi Basher (filed as Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference).
- 10.19 Employment Agreement, dated June 1, 1996, by and between the Registrant and Moshe Shahaf (filed as Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference).
- 10.20 Rescission Agreement, dated as of August 15, 1996, by and between the Registrant and Igal Kohavi (filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference).
- 10.21 Service Agreement, dated as of August 15, 1996, by and between DSP Semiconductors, Ltd. and Niko Consulting and Management (1995) Ltd. (filed as Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference).
- 10.22 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).
- 10.23 Agreement, dated August 18, 1997, by and between DSP Semiconductors Ltd. and Aptel Ltd (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and incorporated herein by reference).
- 10.24 Employment Agreement with Igal Kohavi, dated as of June 1, 1997.
- 10.25 CompactRISC Technology License Agreement, dated as of September 29, 1997, by and between DSP Semiconductors Ltd. and National Semiconductor Corporation.
- 10.26 Amendment to Employment Agreement with Eliyahu Ayalon, dated as of November 3, 1997.
- 10.27 Amendment to Employment Agreement with Igal Kohavi, dated as of November 3, 1997.
- 10.28 Amendment to 1993 Directors Stock Option Plan, as adopted November 3, 1997.
- 11 Statements regarding computation of per share earnings (included at page 28).
- 13 Portions of the Annual Report to Stockholders for the year ended December 31, 1997.
- 21 Subsidiaries of the Registrant (included at page 29).
- 23.1 Consent of Ernst & Young LLP, Independent Auditors (included at page 30).

EXHIBIT
NUMBER

DESCRIPTION

23.2	Consent of Almagor & Co., Independent Auditors (included at page 31).
27.1	Financial Data Schedule for the fiscal year ended December 31, 1997.
27.2	Restated Financial Data Schedule for the quarter ended September 30, 1997.
27.3	Restated Financial Data Schedule for the quarter ended June 30, 1997.
27.4	Restated Financial Data Schedule for the quarter ended March 31, 1997.
27.5	Restated Financial Data Schedule for the fiscal year ended December 31, 1996.
27.6	Restated Financial Data Schedule for the quarter ended September 30, 1996.
27.7	Restated Financial Data Schedule for the quarter ended June 30, 1996.
27.8	Restated Financial Data Schedule for the quarter ended March 31, 1996.
27.9	Restated Financial Data Schedule for the fiscal year ended December 31, 1995.
99.1	Auditor's Report of Almagor & Co., Certified Public Accountants (Israel)

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K dated June 5, 1997, relating to the adoption of the Stockholder's Rights Agreement, pursuant to which one preferred share purchase right was distributed for each outstanding share of Common Stock of the Company.

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
 PRESIDENT AND CHIEF EXECUTIVE OFFICER
 (PRINCIPAL EXECUTIVE OFFICER)

Date: March 31, 1998

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/ IGAL KOHAVI ----- Igal Kohavi	Chairman of the Board	March 31, 1998
/s/ ELIYAHU AYALON ----- Eliyahu Ayalon	President, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 1998
/s/ AVI BASHER ----- Avi Basher	Vice President of Finance, Chief Financial Officer and Secretary (Principal Financial Officer and Principal Accounting Officer)	March 31, 1998
/s/ SAMUEL L. KAPLAN ----- Samuel L. Kaplan	Director	March 31, 1998
/s/ MILLARD PHELPS ----- Millard Phelps	Director	March 31, 1998
/s/ YAIR SHAMIR ----- Yair Shamir	Director	March 31, 1998

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995

Numerator:			
Net income	\$11,034	\$5,979	\$7,211
	-----	-----	-----
Denominator:			
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	9,736	9,510	9,352
Incremental shares attributable to exercise of outstanding options (assuming proceeds would be used to purchase treasury stock) . .	467	71	306
	-----	-----	-----
Weighted average number of shares of common stock used to compute diluted earnings per share	10,203	9,581	9,658
	-----	-----	-----
Net income per share -- basic	\$1.13	\$0.63	\$0.77
	-----	-----	-----
Net income per share -- diluted	\$1.08	\$0.62	\$0.75
	-----	-----	-----

LIST OF SUBSIDIARIES

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
1. Nihon DSP K.K.	Japan
2. DSP Semiconductors Ltd.	Israel
3. DSP Group Europe SARL	France

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of DSP Group, Inc. of our report dated January 23, 1998 (except for Note 9, as to which the date is January 27, 1998), included in the 1997 Annual Report to Stockholders of DSP Group, Inc.

Our audits also included the consolidated financial statement schedule of DSP Group, Inc. listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the consolidated financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-83456 and 33-87390) pertaining to the 1991 Employee and Consultant Stock Plan, the 1991 DSP Group, Inc. Israeli Stock Option Plan, the 1993 Director Stock Option Plan, and the 1993 Employee Stock Purchase Plan of our report dated January 23, 1998 (except for Note 9, as to which the date is January 27, 1998), with respect to the consolidated financial statements and schedules incorporated herein by reference or included in this Annual Report (Form 10-K) for the year ended December 31, 1997.

/s/ ERNST & YOUNG LLP

San Jose, California
March 27, 1998

CONSENT OF ALMAGOR & CO. CPA (ISR), INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of DSP Group, Inc., of our report dated January 22, 1998 on the financial statements of DSP Semiconductors, Ltd. as of December 31, 1997 and for the year then ended, not included in the 1997 Annual Report to Stockholders of DSP Group, Inc.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 33-83456 and 33-87390) pertaining to the 1991 Employee and Consultant Stock Plan, the 1991 DSP Group, Inc. and Israeli Stock Option Plan, the 1993 Directors Stock Option Plan, and the 1993 Employee Stock Purchase Plan of our report dated January 22, 1998 on the financial statements of DSP Semiconductors Ltd. as of December 31, 1997 and for the year ended, not included in the 1997m Annual Report and Stockholders of DSP Group, Inc.

/s/ ALMAGOR & CO.
Certified Public Accountants (Israel)

Tel Aviv, Israel
March 27, 1998

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, 1995:				
Allowance for doubtful accounts.....	\$ 150	\$ 15	\$ 3	\$ 162
Sales returns reserve.....	254	296	269	281
Year ended December 31, 1996:				
Allowance for doubtful accounts.....	162	60	151	71
Sales returns reserve.....	281	245	149	377
Year ended December 31, 1997:				
Allowance for doubtful accounts.....	71	60	61	70
Sales returns reserve.....	377	345	600	122

DSP GROUP, INC.

RESOLUTIONS FROM THE REGULAR MEETING
OF
THE BOARD OF DIRECTORS

November 3, 1997

AMENDMENT OF BYLAWS AND APPOINTMENT OF DIRECTOR

On motion duly made and seconded, the following resolution was
unanimously adopted:

RESOLVED, that Section 3.2 of the Bylaws of the corporation be and it is
hereby amended to fix the exact number of directors at five (5) until changed
pursuant to such section.

EMPLOYMENT AGREEMENT

THIS AGREEMENT, made and entered into this 1st day of June, 1997 by and between DSP Semiconductors, Ltd., of Givat Shmuel, a company existing under the laws of the State of Israel (hereinafter the "Company"), and Igal Kohavi of 7 Simtat Hagderot, Savyon, Israel (hereinafter "Kohavi"), effective as of the 1st day of June, 1997, (the "Effective Date").

RECITAL

The Company agreed to employ Kohavi as Chairman of the Board, in the framework of which Kohavi shall serve as Chairman of the Board of its US parent company, DSP Group, Inc. and Kohavi agrees to such employment, on the terms and subject to the conditions set forth herein.

AGREEMENT

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

1. EMPLOYMENT DUTIES

1.1. KOHAVI DUTIES

- 1.1.1. Kohavi shall perform the responsibilities of the Chairman of the Board of the Company, as well as those as Chairman of the Board of its US parent company, DSP Group, Inc., and any responsibilities incidental thereto, all such, as stated, to be commensurate with his background, education, experience and professional standing. It is acknowledged that Kohavi will continue to have some certain outside activities, but those activities should not consume more than 10% of his traditional working time.
- 1.1.2. Kohavi acknowledges that his employment with the Company will require frequent travel spanning extended periods outside Israel. Furthermore, Kohavi agrees to extensive world-wide travel under his employment with the Company.
- 1.1.3. Kohavi understands and acknowledges that as his position is a senior managerial position in substance, as defined in the Work and Rest Hours Law, 1951, and requires a high level of trust, the provisions of said law shall not apply to Kohavi and Kohavi agrees that he may be required to work beyond the regular working hours of the Company, for no additional compensation other than as specified in this Agreement.
- 1.1.4. Kohavi agrees and undertakes throughout the Employment Term not to receive any payment, compensation or any other benefit from any third party directly or indirectly related to his employment hereunder or to the Company or its parent company, DSP Group, Inc.
- 1.1.5. Kohavi agrees and undertakes not to perform any act or to omit to perform any act which may breach his fiduciary duty to the Company or its parent

company, DSP Group, Inc. or which may place him in a position of conflict of interest with the objectives of the Company or its parent company, as the case may be. In addition, Kohavi agrees and undertakes to promptly inform the Company and its parent company, DSP Group, Inc., of any such matter which may place him in such a situation of potential conflict of interest.

2. TERM

This Employment Agreement commenced as of the Effective Date and shall continue indefinitely, unless sooner terminated under the terms of this Agreement. As used herein, the term "Employment Term" refers to the entire period of employment of Kohavi under this Agreement, beginning June 1, 1997.

3. COMPENSATION

Kohavi shall be compensated as follows:

3.1. FIXED SALARY

3.1.1. Kohavi shall receive a fixed monthly Gross Salary of NIS 69,295 (the "Gross Salary"), payable on a monthly basis. The Gross Salary shall be adjusted monthly to the Consumer Price Index (the "Index"). The Gross Salary shall be adjusted to the monthly increase of the last published Index, in comparison to the last published Index Known at the time of execution of this Agreement.

3.1.2. It is hereby agreed by the parties that the Gross Salary adjustments according to the Index, shall be deemed to include any adjustments for Cost of Living Increase ("Tosefet Yoker") that apply to Kohavi as an employee, unless such adjustment to the Cost of Living Increase shall be higher than the adjustment to the last published Index in any given month, in which case the Index adjustments shall be in respect of the Tosefet Yoker alone.

3.2. BONUS

During the Employment Term, Kohavi shall be entitled to receive an annual bonus, at the sole discretion of the Board of Directors.

3.3. VACATION

Kohavi shall accrued paid vacation at the rate of 26 business days for each twelve (12) months of employment. Kohavi may not accumulate his vacation days for more than thirty-six (36) months of employment.

3.4. SICK LEAVE

Kohavi shall accrue sick leave at the rate of up to 30 days for each twelve (12) months of employment and subject to Kohavi producing medical certificates as shall be required by the Company. Such sick days may be accumulated to up to 180 days, but Kohavi shall not be entitled to receive any remuneration in respect of any such days that are not actually used. Any payment received by Kohavi from the Manager's Insurance under disability payments shall be set off from the Gross Salary, and Kohavi hereby irrevocably waive any claim or demand in relation to such deduction including any claim or demand or suit that such deduction has worsened in any way his terms of employment.

3.5. BENEFITS

3.5.1. During the term of Kohavi employment, Kohavi shall be entitled to Manager's Insurance (Bituach Minhalim) in an amount equal to 15.83% of the Gross Salary, which shall be paid monthly to said Manager's Insurance Plan directly by the Company. The insurance shall be allocated as follows:

(i) 8.33% in respect of severance compensation, (ii) 5% in respect of pension and (iii) 2.5% of the Gross Salary in respect of disability. An additional 5% of the Gross Salary shall be deducted by the Company from the monthly payment of Kohavi Salary as Kohavi contribution to said Manager's Insurance.

3.5.2. The Manager's Insurance policy provided for Kohavi benefit of shall be registered in Company's name. The contributions to the Manager's Insurance Policy shall be paid by the Company in lieu of any other legal obligation to make payments or account of severance or pension in respect of Kohavi employment during the Employment Term. Should the provisions made for severance pay not cover the amount owed by the Company to Kohavi by law, then the Company shall pay Kohavi the difference, all in accordance with Israeli law. Kohavi agreement to the last two sentences shall exempt the Company from the requirement to apply to the Minister of Labor and Welfare for an approval under Section 14 of the Severance Pay Law; however, should such application be deemed necessary, Kohavi signature hereupon shall be deemed his consent to the Company's application in Kohavi name in such matter.

3.5.3. The sums accumulated in the Manager's Insurance policy shall be transferred to Kohavi upon termination of his employment hereunder, unless Kohavi has committed an act in breach of Kohavi's fiduciary duty towards the Company or its parent company, DSP Group, Inc.

3.5.4. The Company shall provide and pay Kohavi Recreation Funds (Dmai Havra'ah) at the rate required by law and regulations.

- 3.5.5. The Company shall contribute to a Continuing Education Fund Chosen by it for the benefit of Kohavi in an amount equal to 7.5% of his Gross Salary per month subject to Kohavi's contribution of an additional 2.5% of his Gross Salary per month.
- 3.5.6. The Company shall provide Kohavi with a car similar to which he is driving today for use in connection with his employment and for personal reasonable use. The Company shall bear all expenses due to use and maintenance of the car, in the same fashion as is customary with the Company.
- 3.5.7. The Company shall provide Kohavi with a telephone in his private residence solely for use in connection with his employment with the Company, and shall bear the expense of the telephone bills, subject to timely presentation of such bill by Kohavi to the Company.

4. EXPENSES

The Company shall reimburse Kohavi for his normal and reasonable expenses incurred for travel, entertainment and similar items in promoting and carrying out the business of the Company in accordance with the Company's general policy, in effect from time to time. As a condition of reimbursement, Kohavi agrees to provide the Company with copies of all available invoices and receipts, and otherwise account to the Company in sufficient detail to allow the Company to claim and income tax deduction for such paid item, if item is deductible. Reimbursement shall be made on a monthly, or more frequent, basis.

5. COVENANT NOT TO COMPETE

Kohavi agrees that during the Employment Term as Chairman of the Board of the Company, he is and shall be in a position of special trust and confidence and will have access to confidential and proprietary information about the Company's business plan. Kohavi agrees that he will not directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any similar individual or representative capacity, engage or participate in any business and any future Company's business during the term of employment, including projects under consideration by the Company at the time of termination during the term of his employment, or in the event of a termination of employment for any reason whatsoever for a period of two (2) years thereafter.

For the purposes of this section 5, the term "Company" shall also mean any subsidiaries, any other affiliates or its parent company.

6. CONFIDENTIALITY AND TRADE SECRETS

6.1. KNOW-HOW AND INTELLECTUAL PROPERTY

It is understood that the Company has developed or acquired and will continue to develop or acquire certain products, technology, unique or special methods, manufacturing and assembly processes and techniques, trade secrets, written marketing plans and customer arrangements, and other proprietary rights and confidential information which are not in the public domain, and shall during the Employment Term continue to develop, compile and acquire said items (all hereinafter collectively referred to as the "Company's Property"). It is expected that Kohavi will gain knowledge of and utilize the Company's Property during the course and scope of his employment with the Company, and will be in a position of trust with respect to the Company's Property.

6.2. COMPANY'S PROPERTY

It is hereby stipulated and agreed that the Company's Property shall remain the Company's sole property. It is further stipulated and agreed by the parties, as a material inducement for the Company having entered into this Agreement and remaining a party hereto (subject to any early termination hereof by the Company), that Kohavi shall be bound by the Confidential Disclosure and Non-Use Agreement appended hereto as APPENDIX A.

In the event that Kohavi's employment is terminated, for whatever reason, Kohavi agrees not to copy, make known, disclosure or use, any of the Company's Property. Without derogating from the Company's rights under the law of torts, Kohavi further agrees not to endeavor or attempt in any way to interfere with or induce a breach of any prior contractual relationship that the Company may have with any employee, customer, contractor, supplier, representative, or distributor for a period of two (2) years from the date of any termination of Kohavi's employment with the Company for any reason whatsoever. Kohavi agrees, upon termination of employment, to deliver to the Company all confidential papers, documents, records, lists and notes (whether prepared by Kohavi or others) comprising or containing the Company's Property, without retaining any copies thereof, and any other property of the Company.

It is hereby agreed that a breach of sections 5 and 6 including Appendix A hereto shall be considered as a material breach of this Agreement

For the purposes of this section 6, the term "Company" shall also mean any subsidiaries, any other affiliates or its parent company.

7. TERMINATION

7.1. GENERAL

Either party may terminate this agreement, without cause, upon six (6) months' advance written notice to the other party.

7.2. TERMINATION FOR CAUSE

The Company may immediately terminate Kohavi's employment at any time for Cause. Termination for Cause shall be effective from the receipt of written notice thereof to Kohavi. "Cause" shall be deemed to include: (i) material neglect of his duties or a material violation of any of the provisions of this Agreement, which continues after written notice and a reasonable opportunity (not to exceed seven (7) days) in which to cure; (ii) conviction of any felonious offense; (iii) intentionally imparting confidential information relating to the Company or its business to third parties, other than in the course of carrying out his duties hereunder. The Company's exercise of its rights to terminate with Cause shall be without prejudice to any other remedy it may be entitled at law, in equity, or under this Agreement.

8. CORPORATE OPPORTUNITIES

In the event that during the Employment Term, any business opportunity related to the Company's business shall come to Kohavi's knowledge, Kohavi shall promptly notify the Company's Board of Directors of such opportunity. Kohavi shall not appropriate for himself or for any other person other than the Company, any such opportunity, except the express written consent of the Board of Directors, in advance. Kohavi's duty to notify the Company and to refrain from appropriating all such opportunities shall neither be limited by, nor shall such duty limit, the application of the general law of Israel relating to the fiduciary duties of an agent or employee.

9. MISCELLANEOUS

9.1. ENTIRE AGREEMENT

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.

9.2. NO IMPLIED WAIVERS

The failure of either party at any time to require performance by the other party of any provision hereof shall not affect in any way the right to require such performance at any time thereafter, nor shall the waiver by either party of a

breach of any provision hereof be taken to be a waiver of any subsequent breach of the same provision or any other provision.

9.3. PERSONAL SERVICES

It is understood that the services to be performed by Kohavi hereunder are personal in nature and the obligations to perform such services and the conditions and covenants of this Agreement cannot be assigned by Kohavi. Subject to the foregoing, and except as otherwise provided herein, this Agreement shall inure to the benefit of and bind the successors and assigns of the Company.

9.4. SEVERABILITY

If for any reason any provision of this Agreement shall be determined to be invalid or inoperative, the validity and effect of the other provisions hereof shall not be affected thereby, provided that no such severability shall be effective if it causes a material detriment to any party.

9.5. APPLICABLE LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of Israel.

9.6. NOTICES

All notices, requests, demands, instructions, or other communications required or permitted to be given under this Agreement or related to it shall be in writing and shall be deemed to have been duly given upon delivery, if delivered personally, or if given by prepaid telegram, or mailed first-class postage prepaid, registered or certified mail, return receipt requested, shall be deemed to have been given three (3) days after such delivery, if addressed to the other party at the addresses as set forth on the signature page below. Either party hereto may change the address to which such communications are to be directed by giving written notice to the other party hereto of such change in the manner above provided.

9.7. MERGER, TRANSFER OF ASSETS, OR DISSOLUTION OF THE COMPANY

This Agreement shall not be terminated by any dissolution of the Company resulting from either merger or consolidation in which the Company is not the consolidated or surviving Company or a transfer of all or substantially all of the assets of the Company. In such event, the rights, benefits and obligations herein shall automatically be assigned to the surviving or resulting company or to the transferee of the assets.

9.8. NO CONFLICTING AGREEMENTS

Kohavi declares that he is not bound by any agreement, understanding or arrangement according to which the execution of and compliance with this Agreement may constitute a breach or default.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

DSP Semiconductors Ltd.

By: _____	_____
/s/ ELI AYALON	/s/ IGAL KOHAVI
-----	-----
Eli Ayalon	Igal Kohavi
Title: President and CEO	Israeli I.D. No. 06195705

CompactRISC Technology License Agreement

This CompactRISC Technology License Agreement ("Agreement") is made and is effective as of September 29, 1997 ("Effective Date") by and between, as one party, National Semiconductor Corporation, a Delaware corporation with a place of business at 2900 Semiconductor Drive, Santa Clara, CA 95051 ("National") and as the other party, DSP Group, Inc., a Delaware corporation with a place of business at 3120 Scott Boulevard, Santa Clara, CA 95054 and DSP Semiconductors Ltd., an Israeli corporation having a principal place of business at 5 Shenkar Street, Herzelia pituach 46120, Israel (collectively "DSP"). Either National or DSP may be referred to herein as a Party of the Parties, as the case may require.

RECITALS

WHEREAS, National has developed and owns certain rights, title and interest in and to, or has the legal right to license, the Licensed Technology as that term is defined below; and

WHEREAS, DSP has established considerable technical expertise in the licensing of core technologies;

WHEREAS, DSP desires and intends to develop the technologies and development tools for DSP's own cores and integrate such technologies and development tools with the Licensed Technology;

WHEREAS, National desires to provide DSP and DSP's desires to acquire from National a license permitting DSP to license third parties to use such Licensed Technology solely in the design, manufacture and sale of silicon chip devices;

WHEREAS, National desires to grant, and DSP desires to receive, an option to obtain a license permitting DSP to use such Licensed Technology in the design, manufacture and sale of its own silicon chip devices; and

NOW THEREFORE, in consideration of the mutual covenants set forth hereinbelow and other good and valuable consideration, the Parties hereto agree as follows:

1.0 DEFINITIONS

For all purposes under and in furtherance of this Agreement, the following terms shall have the meanings set forth adjacent to them:

1.1. Average Sales Price or "ASP" shall mean the gross sales amount in U.S. dollars invoiced or otherwise charged on an arm's length basis, by DSP Sublicensees during a DSP fiscal quarter, or by National Sublicensees during a National fiscal quarter, as applicable, for all Compliant Products containing the same CompactRISC Core, [*].

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

[*]The prototypes referenced in Section 4.1B shall not be included in the calculation of the ASP. For the purpose of calculating the Average Sales Price, Sales of Compliant Products in other currencies shall be converted to United States dollars according to the official rate of exchange for that currency, as published in the Wall Street Journal (Western Edition) on the last day of the fiscal quarter in which the Royalty accrued (or, if not published on that day, the last publication day for the Wall Street Journal (Western Edition) during that month).

- 1.2. Base Megacell Modules: The support modules which interface with the CompactRISC Core, provided in synthesizable Verilog - XL HDL, which are described in the Base Megacell Modules Specifications for the applicable CompactRISC Core identified in Exhibit A attached hereto. Additional Base Megacell Modules may be included hereunder as part of the Licensed Technology under this Agreement by adding supplemental Exhibits numbered A-1, A-2, A-3, etc. which have been signed and dated by the parties and attached hereto.
- 1.3. CompactRISC (or "CR"): A National proprietary processor technology which is based on Reduced Instruction Set Computer (RISC) architecture and has the compact code generation of Complex Instruction Set Computer (CISC) and [*].
- 1.4. CompactRISC Core: Each core described in the applicable architecture specification identified in the attached Exhibit A and any supplements thereto, synthesized from the Licensed Technology and provided in synthesizable Verilog - XL HDL. As of the Effective Date, the CompactRISC core designated by National as the CR16B is the only CompactRISC Core licensed hereunder. [*] Additional CompactRISC Cores developed or offered by National for general licensing purposes shall be included hereunder as part of the Licensed Technology under this Agreement upon their completion. For each such additional core, the Parties shall negotiate in good faith and attach to this Agreement supplemental sequential Exhibits for Exhibit A, as well as supplemental sequential Exhibits for Exhibits C, D, F, M (if applicable) and Q which shall contain reasonable terms and shall be signed and dated by the Parties. The Parties agree that for any supplemental Exhibits D and F, the numbers and percentages relating to DSP's payments to National and the numbers and percentages relating to National's payments to DSP shall be in the same [*] ratio currently reflected in Exhibit D and Exhibit F attached hereto.

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

- 1.5. Compliant Core: An implementation of a CompactRISC Core, which:
- A. executes each and every instruction contained in the Instruction Set for the applicable CompactRISC Core and no other additional instructions;
 - B. implements the programmer's model as identified in the Programmer's Reference Manual for the applicable CompactRISC Core;
 - C. is cycle by cycle compatible with the applicable supplied Verilog XL model;
 - D. passes the Verification Program for the applicable CompactRISC Core; and
 - E. has been verified in accordance with the provisions of Section 10.0.
- 1.6. Compliant Product: Any single silicon chip which contains one or more Compliant Cores.
- 1.7. "Confidential Information" shall mean any information designated in writing by either Party, by appropriate legend, as confidential and any oral information disclosed by one Party to another under this Agreement, provided that such information is designated as confidential at the time of disclosure and is thereafter reduced to writing for confirmation and sent to the other Party within thirty (30) days after its oral disclosure and designated, by appropriate legend, as confidential. Notwithstanding any failure to so identify it, however, (i) the Licensed Technology; (ii) the Test Boards; and (iii) the terms and conditions of this Agreement shall be deemed Confidential Information.
- 1.8. DSP Sublicensee: Any third party to whom DSP has granted a license to the Licensed Technology to design, manufacture and Sell Compliant Products pursuant to this Agreement.
- 1.9. "End User License" shall mean a license agreement substantially conforming to that agreement set forth in Exhibit N.
- 1.10. "Error" shall mean a problem with the Licensed Technology reported by DSP to National or otherwise learned by National which causes the Licensed Technology to malfunction or otherwise fail to perform in accordance with the applicable Licensed Technology's documentation and which can be demonstrated or duplicated by or for National.
- 1.11. "Fees" shall mean Sublicense Fees, Support Fees, Royalties and license fees for Tools under Section 5.1B collectively.
- 1.12. Instruction Set: The instruction set for the applicable CompactRISC Core defined in the Programmer's Reference Manual.

- 1.13. License Charges: All fees (gross) payable to the licensing Party by its Sublicensee for each license to the Licensed Technology per licensed CompactRISC Core (with a one-seat Tools license), but excluding fees for maintenance, support and royalties.
- 1.14. Licensed Technology: The CompactRISC Core(s), Base Megacell Module(s), and Software, collectively, set forth in the attached Exhibit A and any supplements thereto. The Parties may mutually agree to include additional Licensed Technology under this Agreement by adding appropriate signed and dated supplemental Exhibits (e.g. A-1, C-1, D-1, F-1, etc.) which shall be attached hereto and incorporated herein by reference.
- 1.15. National Intellectual Property Rights: Those patents, patent applications, and copyrights identified in Exhibit M which will be supplemented from time to time by National as needed as determined by National.
- 1.16. National Sublicensee: Any third party to whom National has granted a license to the Licensed Technology to design, manufacture and Sell Compliant Products, but excluding (a) any third party who is licensed under a broad cross-licensing agreement with National; and (b) those parties set forth on Exhibit L attached hereto.
- 1.17. Port: A non-proprietary layout of a Compliant Core design created by or for a Party, a DSP Sublicensee or a National Sublicensee and targeted for a specific manufacturing process.
- 1.18. Programmer's Reference Manual: The document referenced in Exhibit A or any supplements thereto for the applicable CompactRISC Core.
- 1.19. Sell: To sell, lease or otherwise transfer or dispose of the Compliant Product, or to commence internal productive use thereof. ("Sold", "Sale" and other forms of "Sell" shall have the same meaning.)
- 1.20. Software: The Tools and Test Suite collectively.
- 1.21. Sublicensee: A DSP Sublicensee or National Sublicensee, as applicable.
- 1.22. Subsidiary: A corporation or other entity of which more than fifty percent (50%) of the stock or other equity interests entitled to vote for election of directors or equivalent governing body is owned by a party during the term of this Agreement, but such corporation or other entity shall be deemed to be a Subsidiary only so long as such ownership exists.
- 1.23. Support Charges: All fees (gross) payable to the licensing Party by its Sublicensee for support and maintenance for each licensed CompactRISC Core.

- 1.24. Test Board: The hardware identified in Exhibit B and any supplements thereto.
- 1.25. Test Chip: A device which complies with the Test Chip Specification for the applicable CompactRISC Core identified in Exhibit B.
- 1.26. Test Program: The source code of the program and documentation for the applicable CompactRISC Core identified in the attached Exhibit A and any supplements thereto.
- 1.27. Test Suite: The Test Program and the Verification Program for the applicable CompactRISC Core identified in the attached Exhibit A and any supplements thereto. Additional Test Suites may be included hereunder as part of the Licensed Technology under this Agreement by adding supplemental Exhibits numbered A-1, A-2, A-3, etc. which have been signed and dated by the parties and attached hereto.
- 1.28. Tools: The binary code of the programs and documentation for the applicable CompactRISC Core identified in the attached Exhibit A and any supplements thereto. To the extent that DSP is authorized to distribute Tools, such Tools may be distributed as integrated, in part or in whole, with DSP's own software tools. Additional Tools may be included hereunder as part of the Licensed Technology under this Agreement by adding supplemental Exhibits numbered A-1, A-2, A-3, etc. which have been signed and dated by the parties and attached hereto.
- 1.29. Trademarks: The trademarks, service marks and logos set forth in Exhibit O, as amended by National from time to time.
- 1.30. Translation: A direct translation of the Licensed Technology into an alternate hardware description language made by or on behalf of a Party, a DSP Sublicensee or a National Sublicensee [*]
- 1.31. Verification Program: The source code of the program and documentation for the applicable CompactRISC Core identified in the attached Exhibit A and any supplements thereto.

2.0 APPOINTMENT OF LICENSING REPRESENTATIVE

- 2.1. National hereby appoints DSP as its worldwide representative during the term of this Agreement for the purpose of licensing the Licensed Technology in accordance with the terms and conditions of this Agreement. DSP hereby accepts the appointment by National as its licensing representative of the Licensed Technology and agrees that it will use commercially reasonable

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

efforts to license the Licensed Technology to DSP Sublicensees in accordance with the terms and conditions of this Agreement.

2.2. DSP's appointment set forth in Section 2.1 above shall be exclusive, provided that it shall not restrict in any way the right of National and its Subsidiaries to use the Licensed Technology, including but not limited to the rights to design, manufacture and Sell Compliant Products, or to license the Licensed Technology to third parties.

2.3. DSP agrees and acknowledges that [*]

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

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2.4. DSP agrees that it will license the Licensed Technology to a DSP Sublicensee in a written agreement consistent with the terms and conditions set forth in this Agreement. DSP agrees that all licenses granted to DSP Sublicensees to the Licensed Technology will include a CompactRISC Core at a minimum, and except for granting additional licenses to the Tools to such DSP Sublicensees, DSP will not license a Base Megacell Module without a CompactRISC Core. Except as expressly provided in Section 5.0, DSP itself, shall have no rights to use the Licensed Technology or to make, use or Sell Compliant Products.

3.0 LICENSE TO DSP SUBLICENSEES

3.1. CompactRISC Core License.

A. Subject to the terms and conditions of this Agreement, National hereby grants to DSP the right and license to grant to DSP Sublicensees, under the National Intellectual Property Rights, a worldwide, non-exclusive, nontransferable license, without right of sublicense, to use the Test Boards, Development Boards, to use and copy the Licensed Technology, to modify the Base Megacell Modules and to use and develop (or have developed subject to Section 3.1B) Translations and Ports to design, have designed (subject to the Section 3.1B below), make, have made (subject to Section 3.1B and except as provided in Section 3.1C below) use, import, offer to Sell and Sell Compliant Products. DSP's license grant to a DSP Sublicensee shall also include the right to translate, reproduce and distribute, subject to the confidentiality obligations set forth in Section 17.0, the architecture specifications for the applicable CompactRISC Core(s) and modify same in accordance with the guidelines set forth in Exhibit A.

B. A DSP Sublicensee may exercise its right to have developed Translations and Ports and to have designed and/or have made Compliant Products provided that:

- the DSP Sublicensee notifies DSP of the identity of each subcontracted designer or manufacturer within thirty (30) days of appointment of such designer or manufacturer;
- the DSP Sublicensee shall provide each subcontracted manufacturer with mask sets or data bases and only in hard macro format (GDSII format or comparable);
- the DSP Sublicensee may provide each subcontracted manufacturer with a Development Board provided to such DSP Sublicensee by DSP; and

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

- the DSP Sublicensee shall ensure that any subcontracted designer or manufacturer agree in writing (i) to be bound by obligations of confidentiality no less restrictive than those contained in Section 17; (ii) to use the materials provided by the DSP Sublicensee for the sole purpose of providing the subcontract services and supplying Compliant Products solely to the DSP Sublicensee. The DSP Sublicensee shall remain responsible for any misuse by the subcontracted designer or manufacturer of such materials.

C. Notwithstanding anything to the contrary contained herein, any DSP Sublicensee which is a foundry or provides foundry services shall not have any right to have Compliant Products manufactured by any third party unless approved in advance by National. As of the Effective Date, National has approved those companies set forth in Exhibit V to have Compliant Products manufactured by a third party should they become DSP Sublicensees. Upon DSP's written request and National's approval, additional DSP Sublicensees which are foundries or provide foundry services shall be added to the approved list in Exhibit V by adding supplemental sequential Exhibits V-1, V-2, etc. which shall be signed and dated by the parties.

3.2. TOOLS LICENSE. National hereby grants to DSP the right and license to grant DSP Sublicensees, under the National Intellectual Property Rights, a non-exclusive, nontransferable license to:

- copy and use the Tools internally; As provided in Sections 3.2 and 3.3, "use" shall mean copying the Tools onto a number of computers no greater than the number of seats licensed by such DSP Sublicensee, and processing the instructions or statements contained therein, but excluding disassembly, reverse assembly, or reverse compiling except to the extent necessary to achieve inter-operability of an independently created program with other programs. Disassembly, reverse assembly, or reverse compiling of the Tools for the purpose of Error correction is specifically prohibited;

- copy and distribute, and sublicense (provided that the end user agrees to be bound by terms and conditions substantially similar to those of the End User License) the use of the binary code of the programs identified in Exhibit A;

- modify, copy, distribute, and sublicense (provided that the end user agrees to be bound by the terms and conditions substantially similar to those of the End User License) the use, modification and compiling of, the source code of the programs identified in Exhibit A;

- modify the documentation identified in Exhibit A in accordance with the guidelines attached hereto as Exhibit O and translate, reproduce, use and distribute the documentation including any modifications made thereto in accordance with this Section.

- 3.3. TEST SUITE LICENSE. National hereby grants to DSP the right and license to grant to DSP Sublicensees, under the National Intellectual Property Rights, a non-exclusive, nontransferable license, without right of sublicense, to reproduce and use internally only, the Test Suite and applicable Test Suite documentation.
- 3.4. TRADEMARK LICENSE. National hereby grants to DSP the right and license to grant to DSP Sublicensees, under the Trademarks, a non-exclusive, nontransferable, royalty-free, paid-up, worldwide license, without right of sublicense, to mark with the Trademarks all data sheets and other collateral materials for Compliant Products in accordance with the guidelines set forth in Exhibit O or such other guidelines as National may issue to DSP from time to time. DSP shall have no right or license to grant any DSP Sublicensee a right or license to mark Compliant Products or the die packaging thereof with the Trademarks. DSP is granted no other right, title or license to the Trademarks or any other National trademark.

4.0 ADDITIONAL AGREEMENT OF PARTIES

- 4.1. DSP shall include the following provisions in each license agreement with a DSP Sublicensee:
- A. National has developed and owns certain right, title and interest in and to the Licensed Technology. As between National, DSP and the DSP Sublicensee, the Licensed Technology will at all time be the property of National and National is an intended third party beneficiary of such agreement.
- B. A DSP Sublicensee may not distribute any Compliant Product prior to verification in accordance with Section 10.0 of this Agreement. DSP shall reserve the right to immediately terminate each license agreement with a DSP Sublicensee for a breach of this provision by a DSP Sublicensee, and shall terminate such agreement upon National's written request if, within seven (7) days of receiving written notice from DSP regarding such breach, such DSP Sublicensee does not cease distribution of the non-Compliant Product and perform verification in accordance with Section 10.0 of this Agreement. Notwithstanding the foregoing, a DSP Sublicensee may distribute a maximum of [*] prototype or non-verified units of such device in connection with the verification process of such device provided that (i) the DSP Sublicensee and the recipient of such prototype have agreed in writing that the prototype shall be used for internal evaluation purposes only and that the recipient shall keep the recipient's use of the prototype device as confidential; and (ii) the DSP Sublicensee has provided DSP with a copy of the above-referenced agreement.
- C. Any questions from a DSP Sublicensee with respect to the Licensed Technology shall be directed to DSP.

[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

- D. Each DSP Sublicensee must notify DSP in writing in the event that any subcontracted designer or manufacturer breaches the provisions referenced in Section 3.1(B). If such breach is not capable of cure, or remains uncured within thirty (30) days, DSP shall have the right to terminate the right of such designer or manufacturer to design or manufacture Compliant Products as applicable and shall so terminate such designer or manufacturer upon National's written request.
- E. DSP shall require each DSP Sublicensee to notify DSP in writing of the number of copies of the Tools made by such DSP Sublicensee during each DSP fiscal quarter in excess of a one (1) workgroup seat license.
- F. On the data sheets or other collateral materials for each Compliant Product, each DSP Sublicensee must duplicate and apply National's patent and other proprietary notices which National shall provide to DSP from time to time in accordance with Exhibits O and U. On any data sheets, collateral materials or sales and support documentation, DSP and DSP Sublicensees may substitute references to National with reference to themselves and may otherwise delete references to National in accordance with the guidelines set forth in Exhibit U. The Parties shall reasonably agree to amend such guidelines as necessary or desirable to protect the rights of National and its licensors in and to the CompactRISC technology, the National Intellectual Property Rights and the Trademarks.
- G. Each DSP Sublicensee must reproduce and agree not to remove or obscure any notice incorporated in the Software or related documentation provided to DSP by National to protect the National Intellectual Property Rights or to acknowledge the copyright and/or contribution of any third party developer. Each DSP Sublicensee must incorporate corresponding notices and/or such other markings and notifications as National may reasonably require on all copies of Software and related documentation used or distributed by each DSP Sublicensee.
- H. Each DSP Sublicensee must provide to DSP from time to time and in any event, within thirty (30) days from the date of National's written request to DSP, (i) samples of data sheets and other collateral materials of the DSP Sublicensee bearing the Trademarks; (ii) copies of the Software and related documentation and (iii) copies of the Tools documentation modified by the DSP Sublicensee in order to verify compliance with the terms of this Agreement. DSP shall provide such samples and copies to National promptly after its receipt of same from the DSP Sublicensee. In the event that such materials fail to comply with the terms set forth in this Agreement, DSP shall so notify the DSP Sublicensee who shall be required to cease use any such non-compliant materials within thirty (30) days of the date that such materials were determined by National or DSP, as applicable, to be non-compliant, provided that if such materials were determined by National to be non-compliant, National promptly informs DSP of such determination.

- I. DSP shall have the right to provide National with a copy of the following information, documents and/or samples sent by DSP or a DSP Sublicensee: all documents regarding or in connection with an event of default, the verification process referenced under Section 10.0, Translations, Ports, and upon National's written request, lists of all subcontracted designers and manufacturers, Log Results (as defined below) and Test Chip Samples.
 - J. DSP shall have the right to immediately terminate any license granted to a DSP Sublicensee, and will terminate any such license upon National's written request, in the event such DSP Sublicensee (i) challenges National's rights in the Trademarks, or attempts to register the Trademarks or any other name or mark owned by National or substantially similar thereto; or (ii) brings any action against National or a National Sublicensee claiming that the Licensed Technology as distributed by National infringes a patent of such DSP Sublicensee, or that an implementation of the Licensed Technology by National or a National Sublicensee infringes a patent of such DSP Sublicensee; provided that such license will not be terminated if such DSP Sublicensee ceases such challenge or action within fifteen (15) days of DSP's notice of its intent to terminate such license.
 - K. With respect to the Licensed Technology and any direct product thereof, each DSP Sublicensee shall comply with i) any and all export regulations and rules now in effect or as may be issued from time to time by the Bureau of Export Administration of the United States Department of Commerce or any other federal governmental authority which has jurisdiction relating to the export of technology from the United States of America; and ii) any and all classification and export/reexport requirements of the U.S. Export Administration Regulations. The obligations under this Section 4.1K shall survive any expiration or termination of each license agreement with a DSP Sublicensee.
- 4.2. Within forty-five (45) days after the end of each Party's fiscal quarter, each Party shall provide the other Party with a list of the license agreements entered into during the previous fiscal quarter by such Party, setting forth the information in the form attached hereto as Exhibit I.
- 4.3. Each licensing Party shall include a provision in its license agreements with its Sublicensees which permits the licensing Party to audit the books and records of its Sublicensees containing information bearing upon the amount of fees payable to the licensing Party under such agreement, under terms and conditions substantially similar to those set forth in Section 16.4, and each licensing Party shall have the right to disclose such information to the other Party.
- 4.4. Each licensing Party shall include a provision in its license agreements with its Sublicensees which (i) provides the Licensing Party with a copy of any Translations created by or on behalf of each such Sublicensee; and (ii) grants

to the licensing Party a worldwide, non-exclusive, unrestricted license with right of sublicense to such Translations. However, if the licensing Party reasonably deems the obligations of this Section 4.4 to be a material obstacle to entering into such license agreement, upon written request from the licensing Party, the other Party may waive the requirements herein by submitting a written waiver to the licensing Party.

4.5. DSP shall be required to provide [*]. DSP acknowledges, and National agrees however, that [*] shall have the right to receive [*]. National shall provide DSP with [*]. DSP shall provide support and maintenance services to National Sublicensees in accordance with the terms set forth in Exhibit T. National has no obligation to provide [*]. National may, at National's sole discretion, from time to time, agree to provide [*].

4.6. Sale of Licensed Technology.

A. [*]

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

[*]

B. [*]

[*]

4.7. [*]

4.8. DSP may contract with National for National to perform the testing and verification of Test Chips at National's then current rates pursuant to a separate written agreement executed by the Parties. National's current rates are set forth in Exhibit P

4.9. National shall not directly enforce its rights as a third party beneficiary for any breach under a license agreement between DSP and a DSP Sublicensee without first providing DSP an opportunity to do so within a reasonable period of time, such period to be determined at National's reasonable discretion in light of the seriousness and nature of the particular breach. In the event that the licensing Party does not pursue collection of fees owed to it by its own Sublicensee, the licensing Party shall cooperate with the other Party and take all action required, including without limitation, executing and delivering any documents, to assign to the other Party its rights to collect from such Sublicensee the amount of fees that the other Party would be entitled to receive hereunder had same been collected by the licensing Party.

4.10. Each Party agrees that it will not knowingly solicit any party as a potential Sublicensee which it knows to be substantially engaged in negotiations with the other Party for a license to the Licensed Technology.

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

5.0 LICENSE TO DSP

- 5.1. Until such time as DSP has been granted a license to the Licensed Technology pursuant to Section 5.2 or Section 5.3, DSP shall have no rights to use the Licensed Technology for its own behalf except as provided below:
- A. DSP may itself install, use and copy the Test Suite and documentation solely for the purpose of providing support to DSP Sublicensees and National Sublicensees; and
 - B. DSP may itself exercise the license rights DSP may grant to DSP Sublicensees under Section 3.2 and may use the Test Board and Development Boards for the purpose of providing support to DSP Sublicensees and National Sublicensees. Such license rights under Section 3.2 are provided free of charge to DSP for a one (1) workgroup seat license (which provides the right to make, install and use five (5) separate copies of the Tools). DSP shall notify National in writing of (i) each Tools license granted by DSP to a DSP Sublicensee which provides such DSP Sublicensee with more than a one (1) workgroup seat per license (which provide each DSP Sublicensee with the right to make, install and use five separate copies of the Tools); and (ii) the number of copies of Tools made by DSP and each DSP Sublicensee in excess of a one (1) workgroup seat license. DSP agrees to pay to National, within forty-five (45) days after the end of DSP's fiscal quarter, a license fee equal to National's then current fees charged by National for such Tools, multiplied by the number of copies of Tools made by DSP and DSP Sublicensees in excess of the one(1) workgroup seat license allowance set forth above. National's current fees are set forth in Exhibit Q.
- 5.2. National grants to DSP, under the National Intellectual Property Rights, a worldwide, non-exclusive, nontransferable license, without right of sublicense (except as permitted under Section 5.5 or as permitted of DSP Sublicensees under Section 3.2), to those rights and licenses which DSP is entitled to license or otherwise grant to DSP Sublicensees under this Agreement with respect to each CompactRISC Core selected in writing by DSP and to be set forth in the attached Exhibit R on or after one of the following has occurred:
- (i) National's receipt of DSP's payment to National in the amount of the [*] sublicense fee set forth in Section I.A of Exhibit D for applicable CompactRISC Core;
 - (ii) DSP's remittance of the [*] Sublicense Fee set forth in Section I of Exhibit D for the applicable CompactRISC Core; or
 - (iii) in the event DSP has remitted to National less than [*] Sublicense Fees set forth in Section I of Exhibit C for the applicable CompactRISC Core, upon DSP's payment in the amount of the [*] sublicense fee set forth in Section I.A of Exhibit D for the applicable CompactRISC Core,

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less [*] percent ([*]%) for each such Sublicense Fee for the applicable CompactRISC Core previously remitted.

5.3. [*] such that each Party shall be required to pay the applicable percentage of Sublicense Fees, Support Fees and Royalties otherwise due as set forth in the table below:

Date	Sublicense Fees & Support Fees	Royalties
Trigger Date plus 12 months	[*]%	[*]%
First Anniversary of Trigger Date	[*]%	[*]%
Second Anniversary of Trigger Date	[*]%	[*]%
Third Anniversary of Trigger Date	[*]%	[*]%
Fourth Anniversary of Trigger Date	[*]%	[*]%
Fifth Anniversary of Trigger Date	[*]%	[*]%
Sixth Anniversary of Trigger Date	[*]%	[*]%
Seventh Anniversary of Trigger Date	[*]%	[*]%
Eighth Anniversary of Trigger Date	[*]%	[*]%
Ninth Anniversary of Trigger Date	[*]%	[*]%

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Tenth Anniversary of Trigger Date [*]%
Eleventh Anniversary of Trigger Date [*]%

5.4. As of such effective date of the licenses set forth in Sections 5.2 or 5.3, DSP accepts all of the rights and assumes all of the obligations and duties of a DSP Sublicensee as set forth under this Agreement. DSP shall not be deemed a DSP Sublicensee for the purposes of calculating (i) the Sublicense Fee and Support Fee due to National pursuant to Section 13.2 and 14.2 below; (ii) the Sublicense Fee and Support Fee due to DSP pursuant to Section 13.3 and 14.3 below; or (iii) the number of license agreements pursuant to Section 2.3 above. DSP shall pay Royalties on Compliant Products Sold by DSP in accordance with Section 15.2.

5.5. Except as otherwise specified, DSP shall have the right to grant sublicenses of the rights and licenses granted in Section 5.2 and 5.3 above only to Subsidiaries of DSP; provided, that (i) DSP shall cause each Subsidiary to accept all of the rights and assume all of the obligations and duties of a DSP Sublicensee provided under this Agreement; and (ii) such sublicense will terminate upon the termination of this Agreement for any reason. DSP shall itself pay Royalties accrued by sublicensed DSP Subsidiaries (at the rate set forth for DSP in Section 15.2). National's audit rights pursuant to Section 16.3 shall apply to all DSP sublicensed Subsidiaries. DSP shall be responsible for the performance by each such sublicensed Subsidiary of all obligations contained herein.

6.0 PORTS LICENSE

6.1. Each Party hereby grants to the other Party an irrevocable, royalty free, paid-up, non-exclusive, worldwide license, with right of sublicense, to use, modify, have modified, make, have made, license, sell or otherwise distribute Ports. Each Party agrees to provide to the other Party Ports owned by such Party or licensed to such party with the right to grant sublicense without the payment of royalties within thirty (30) days following the verification of a Test Chip made using such Port pursuant to Section 10.4.

7.0 TRANSLATIONS LICENSE

7.1. Each Party hereby grants to the other Party a royalty free, paid-up, non-exclusive, worldwide license, with right of sublicense, to use, modify, have modified, make, have made, license, sell or otherwise distribute Translations. Each Party shall be required to provide to the other Party any Translations owned by such Party or licensed to such Party with the right to grant sublicenses without the payment of royalties within thirty (30) days of each Party's receipt of same.

[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

8.0 INTELLECTUAL PROPERTY RIGHTS

- 8.1. No license or other right is granted, by implication, estoppel or otherwise, to DSP or any DSP Sublicensee under any patents, Confidential Information, National Intellectual Property Rights, Trademarks or other intellectual property rights now or hereafter owned or controlled by National except for the licenses and rights expressly granted in this Agreement. Except as expressly provided above, DSP Sublicensees shall have no right to sell, supply, license or otherwise distribute the Tools or the Test Suite.
- 8.2. Except as provided in this Agreement, all right, title and interest in and to the Licensed Technology and Trademarks shall remain vested in National.

9.0 DELIVERY OF LICENSED TECHNOLOGY; SALE OF TEST BOARDS AND DEVELOPMENT BOARDS

- 9.1. National shall deliver to DSP the Licensed Technology in accordance with the schedule set forth in Exhibit C attached hereto. The Licensed Technology deliverables are the deliverables to be provided by National, in the aggregate, for DSP, DSP's Subsidiaries and DSP Sublicensees. In the event that National fails to meet any deliverable date set forth in Exhibit C by more than ninety (90) days, then thereafter the periods referenced under Section 2.3 shall be extended on a day for day basis until National delivers such deliverable.
- 9.2. National shall provide to DSP all revisions to the architecture specification for each CompactRISC Core licensed hereunder as well as architecture change notes ("ACN") to such specifications as they are generally released by National.
- 9.3. National shall deliver to DSP five (5) Test Boards and DSP shall deliver to National five (5) development boards in accordance with the schedule set forth in Exhibit C attached hereto. Thereafter, upon a Party's request, National shall sell Test Boards to DSP and DSP shall sell development boards to National at each selling Party's then current prices which shall be invoiced to the purchasing Party with thirty (30) day payment terms. National shall also provide DSP with the name of the manufacturer(s) for such Test Boards to enable DSP to directly purchase the Test Boards under such terms and conditions as may be negotiated between DSP and such manufacturer(s). National shall also deliver to DSP in accordance with the schedule set forth in Exhibit C one development board for DSP's evaluation purposes which shall be returned to National.
- 9.4. Unless otherwise agreed in writing, National shall deliver the deliverables referenced in Section 9.1, 9.2 and 9.3 to DSP at the following address:

DSP Semiconductors
5 Shenkar Street

- 9.5. Neither Party shall be responsible for any costs incurred by the other Party or the Sublicensees of the other Party in the design translation, processing, or manufacture of masks or prototypes, manufacture or production of silicon.
- 10.0 VERIFICATION OF COMPLIANT CORES
- 10.1. Each Compliant Core derived from the Licensed Technology on each process to be used for volume manufacture must be verified prior to incorporation of such Compliant Core in the manufacture, sale or distribution of any Compliant Product. Compliant Cores shall be verified by running a Test Chip through the applicable Verification Program in accordance with the procedures set forth in this Section 10.0.
- 10.2. A DSP Sublicensee shall be required to develop and manufacture a Test Chip for each Compliant Core derived from the Licensed Technology on each process to be used for volume manufacture. A DSP Sublicensee shall run each Test Chip through the applicable Verification Program and deliver to DSP a copy of the log ("Log Results") and a minimum of ten (10) samples of the Test Chip for verification.
- 10.3. DSP shall have the right to run each Test Chip through the applicable Verification Program. National shall also have the right to run each Test Chip through the applicable Verification Program, and upon National's written request, DSP shall deliver the Log Results and Test Chip samples to National for verification. Within fifteen (15) days of DSP's receipt of the Log Results and Test Chip samples (i) from the DSP Sublicensee; or (ii) generated by DSP or National, DSP shall review the Log Results and Test Chip Samples and notify the DSP Sublicensee in writing whether the Compliant Core has been verified. The Compliant Core shall be verified upon DSP's approval or National's approval, as applicable, of the Log Results. The Log Results will be approved only when they indicate that no errors have been detected or where any errors detected have been waived pursuant to a writing signed by National.
- 10.4. In the event that the Test Chip fails the verification process, DSP shall provide the DSP Sublicensee with written notice that the Compliant Core has not been verified and shall provide the DSP Sublicensee with details of the failure. The DSP Sublicensee shall use reasonable efforts to correct the errors. DSP and the DSP Sublicensee shall repeat the above process until (i) the Compliant Core has been verified; or (ii) the DSP Sublicensee withdraws the Test Chip from the verification process.
- 10.5. Provided that the Test Chip has been verified in accordance with Section 10.3, the DSP Sublicensee may distribute Compliant Products containing such

Compliant Core without further verification. DSP shall provide National with [*] ([*]) Test Chip samples for each such Compliant Core which has been verified in accordance with the above procedure.

11.0 TRAINING

- 11.1. National shall provide to DSP, free of charge, a one-time standard training program at National's facilities in Israel to a maximum of [*] ([*]) of DSP's personnel. The training program shall include [*] ([*]) hours of training to be provided over a [*] ([*]) day period on a schedule mutually agreeable by the Parties and shall cover software and applications training, system design, design verification and testing.
- 11.2. DSP may, subject to availability of resources, contract with National for addition training at National's standard rates then in effect pursuant to a separate written agreement executed by the Parties. A schedule of National's standard rates as of the Effective Date is set forth in Exhibit J.

12.0 SUPPORT AND MAINTENANCE SERVICES

- 12.1. Subject to the limitations set forth below and DSP maintaining its status as National's exclusive licensing representative of the Licensed Technology pursuant to Section 2.0, during the term of this Agreement, National shall provide [*] up to a maximum of [*] hours annually of the support and maintenance services described in Sections 12.3 -12.8 to [*]([*]) individuals designated by DSP (who may be substituted by DSP pursuant to DSP's prior written notice to National). National shall not be obligated to respond to inquiries from anyone other than the four designated individuals. National shall have no obligation to provide any support or maintenance services to DSP Sublicensees.
- 12.2. If DSP requests services not covered by this Agreement (including but not limited to support and maintenance exceeding the limitations set forth in Section 12.1 above, DSP-requested onsite services, or custom programming services), the requested services shall be provided upon the prior written agreement of the Parties, at National's standard rates then in effect. A schedule of National's standard rates as of the Effective Date is set forth in Exhibit K.
- 12.3. National shall provide reasonable telephone and electronic mail support regarding the operation, design and other technical aspects of the Licensed Technology. Telephone support will be available Monday through Fridays (excluding National holidays) from 9:00 am to 5:00 pm Pacific time.
- 12.4. National shall promptly notify DSP via electronic mail of the existence of any positively identified Errors in the form of the report set forth in Exhibit S ("Error Report). National shall provide DSP with any Error corrections to the

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

Licensed Technology at such time as they are generally made available to National Sublicensees.

- 12.5. National shall provide DSP with all modifications, enhancements and updates to the Licensed Technology created by National which are generally made available to National Sublicensees or that do not result in the creation of a new product, core or tool as determined by National in its reasonable discretion. Such modifications shall be provided by National to DSP at such time as they are generally made available to National Sublicensees. For example, and not by way of limitation, the Parties agree that the following examples constitute the creation of new cores and tools: i) the change of a CompactRISC Core pipeline length; ii) the making of a synthesizable CompactRISC Core; iii) the execution of additional instructions to those contained in the Instruction Set for the applicable CompactRISC Core; and iv) the addition of C++ to the Tools. Error corrections and Translations are examples of modifications or enhancements which do not constitute a new product.
- 12.6. National shall correct Errors, to the extent reasonably possible, in the Licensed Technology. DSP shall provide National with such samples, technical information and assistance as National may reasonably require to enable National to provide support and maintenance services. If National reasonably determines that such Errors are caused by mistakes or errors contained in the applicable Licensed Technology documentation, National shall promptly issue corrections to such documentation and shall not be required to correct the Licensed Technology.
- 12.7. National shall use commercially reasonable efforts to provide a resolution to any Error. DSP shall notify National via electronic mail of any Errors in the Error Report form. Errors will be preliminarily designated by DSP as follows:
- "Critical". The Licensed Technology is not usable. Data corruption or system crashes are almost certain. No procedural work-around exists.
- "Severe". The Licensed Technology is usable with severe limitation. Data corruption or system crashes are possible. No effective procedural work-around exists.
- "Moderate". The Licensed Technology is usable with moderate limitation because minor features are affected. There is no data corruption, system crashes or loss of production. A procedural work-around exists.
- "Minor". The Licensed Technology is usable, but has some (cosmetic) problems. There is no data corruption, system crashes or loss of production. A procedural work-around exists.
- 12.8. Upon National's receipt of an Error Report and test case from DSP's designated technical contact via e-mail, National will take corrective action so as to respond and resolve the reported Error as set forth in this Section 12.8

based upon the Error classification as determined by the mutual agreement of the Parties. National's Error responses and resolutions shall be classified as set forth below. For the purposes of this section, a day refers to a working day as opposed to calendar day:

"First Level". Acknowledgement or receipt of Error Report and verbal communication of initial plan of action to resolve problem.

"Second Level". Patch or work-around, temporary fix, or update or major release, including applicable document changes.

"Final Level". Official Fix, update or major release, including applicable document changes.

	FIRST LEVEL	SECOND LEVEL	FINAL LEVEL
Critical.....	[*]	[*]	[*]
Severe.....	[*]	[*]	[*]
Moderate.....	[*]	[*]	[*]
Minor.....	[*]	[*]	[*]

12.9. National shall be obligated to provide maintenance and support to the extent the Licensed Technology remains unmodified, or modified only by National, and properly maintained at the revision levels supported by National, which shall include, at a minimum, the most recent revision level and the revision level immediately preceding the most recent revision level. National shall not be responsible for providing an Error correction for a prior revision level if the Error is corrected in the most recent revision level. If it is reasonably determined by National that any apparent Error with the Licensed Technology is due to alterations of the Licensed Technology by DSP or any third party, the use of an unsupported version of the Licensed Technology, or failure to comply with the terms and conditions of this Agreement, National shall notify DSP, and if DSP still wishes to receive Error corrections, the time and expenses associated with such support effort will be billed by National at its standard rates then in effect.

13.0 SUBLICENSE FEES

13.1. SUBLICENSE FEES PAYABLE GENERALLY. Subject to the terms and conditions set forth below and the provisions of Sections 2.3 and 5.3, if applicable, in the event that either DSP or National grants a license to the Licensed Technology to a DSP Sublicensee or a National Sublicensee, respectively, the licensing Party shall pay to the other Party a Sublicense Fee for each licensed CompactRISC Core as described below in accordance with the payment provisions set forth in Section 16.0. In the event that the licensing Party grants a license to the Licensed Technology containing two or more CompactRISC Cores under one license agreement, the licensing Party shall be

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required to pay to the other Party a separate Sublicense Fee for each licensed CompactRISC Core. For each licensed CompactRISC Core, the Sublicense Fee shall be equal to the greater of the applicable:

- A. minimum sublicense fee for the applicable CompactRISC Core specified in Exhibit D; or
- B. percentage of the License Charges payable to the licensing Party for the applicable CompactRISC Core specified in Exhibit D.

Each Sublicense Fee shall be paid a) within forty-five (45) days of the end of the licensing Party's fiscal quarter in which the applicable CompactRISC Core was licensed; or b) if, pursuant to the terms of the license agreement for the applicable CompactRISC Core, License Charges are paid in installments, then the licensing Party shall pay the applicable Sublicense Fee in installments proportional to the License Charges paid by the DSP Sublicensee or National Sublicensee, within forty-five (45) days following the end of the licensing Party's fiscal quarter in which the License Charges were paid, provided however, that the total Sublicense Fee must be paid in full by the licensing Party no later than twelve (12) months following the date that the applicable CompactRISC Core was licensed. Each licensing Party, prior to entering into a license agreement with a Sublicensee, may submit to the other Party for its prior written approval a request in writing to extend such twelve (12) month period.

13.2. SUBLICENSE FEES PAYABLE BY DSP TO NATIONAL. For each license to a CompactRISC Core granted by DSP to a DSP Sublicensee, DSP shall pay to National the Sublicense Fees for the applicable CompactRISC Core set forth in Exhibit D.

13.3. SUBLICENSE FEES PAYABLE BY NATIONAL TO DSP. [*]

14.0 SUPPORT FEES

14.1. SUPPORT FEES PAYABLE GENERALLY. Subject to the terms and conditions set forth below and the provisions of Sections 2.3 and 5.3, if applicable, in the event that either DSP or National grants a license to the Licensed Technology to a DSP Sublicensee or a National Sublicensee, respectively, the licensing Party shall pay to the other Party an annual Support Fee for [*] for each licensed CompactRISC Core as described below in accordance with the payment provisions set forth in Section 16.0. In the event that the licensing Party grants a license to the Licensed Technology containing two or more CompactRISC Cores under one license agreement, the licensing Party shall be required to pay to the other Party a separate annual Support Fee for

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each licensed CompactRISC Core. For each licensed CompactRISC Core licensed to a DSP Sublicensee or a National Sublicensee, the licensing Party shall be required to pay an annual Support Fee for [*] which shall be equal to the greater of the applicable:

- A. minimum annual support fee specified in Exhibit E; or
- B. percentage of the annual Support Charges payable to the licensing Party specified in Exhibit E.

[*]. In such event, each licensing Party shall be required to pay the applicable percentage of the annual Support Charges payable to the licensing Party as specified in Exhibit E. Each annual Support Fee shall be paid a) within forty-five (45) days of the end of the licensing Party's fiscal quarter in which the applicable CompactRISC Core was licensed; or b) if, pursuant to the terms of the license agreement for the applicable CompactRISC Core, Support Charges are paid in installments, then the licensing Party shall pay the applicable Support Fee in installments proportional to the Support Charges paid by the DSP Sublicensee or National Sublicensee, within forty-five (45) days following the end of the licensing Party's fiscal quarter in which the Support Charges were paid, provided however, that the first annual Support Fee must be paid in full by the licensing Party no later than twelve (12) months following the date that the applicable CompactRISC Core was licensed; and each subsequent annual Support Fee must be paid in full by the licensing Party no later than the end of each subsequent 12 month period. Each licensing Party, prior to entering into a license agreement with a Sublicensee, may submit to the other Party for its prior written approval a request in writing to extend such twelve (12) month period.

14.2. SUPPORT FEES PAYABLE BY DSP TO NATIONAL. For each license to a CompactRISC Core granted by DSP to a DSP Sublicensee, DSP shall pay to National the annual Support Fee for [*] as set forth in Exhibit E.

14.3. SUPPORT FEES PAYABLE BY NATIONAL TO DSP. [*]

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

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15.0 ROYALTIES

15.1. ROYALTIES GENERALLY. Subject to the terms and conditions set forth below and the provisions of Sections 2.3 and 5.3, if applicable, in the event either DSP or National grants a license to the Licensed Technology to a DSP Sublicensee or a National Sublicensee, respectively, the licensing Party shall pay to the other Party Royalties for each licensed CompactRISC Core as described below in accordance with the payment provisions set forth in Section 16.0. In the event that the licensing Party grants a license to the Licensed Technology containing two or more CompactRISC Cores under one license agreement, the licensing Party shall be required to pay to the other Party separate Royalties for each licensed CompactRISC Core. For each licensed CompactRISC Core, the Royalty shall be equal to [*] the amounts calculated under subparagraphs A, B and C below:

- A. the applicable percentage of the actual royalty payable to the licensing Party pursuant to such license for the applicable licensed CompactRISC Core specified in Exhibit F;
- B. the [*] of the applicable [*] royalty for the applicable licensed CompactRISC Core specified in Exhibit F:
 - i. based upon the applicable [*] for the cumulative volume of Compliant Products Sold containing the applicable licensed CompactRISC Core, multiplied by the number of Compliant Cores within Compliant Products Sold during the subject fiscal quarter; or
 - ii. based upon the applicable [*] Dollar Cap per Compliant Core for the cumulative volume of Compliant Products Sold containing the applicable licensed CompactRISC Core, multiplied by the number of Compliant Cores for the applicable licensed CompactRISC Core within Compliant Products Sold during the subject fiscal quarter;

[*]

- C. the applicable [*] royalty for the applicable licensed CompactRISC Core specified in Exhibit F based upon the applicable [*] Dollar Amount per Compliant Core for the cumulative volume of Compliant Products Sold containing the applicable licensed CompactRISC Core, multiplied by the number of Compliant Cores within Compliant Products Sold during the subject fiscal quarter.

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Royalty payments shall be made quarterly, within forty-five (45) days of the end of the licensing Party's fiscal quarter, and shall be paid with respect to Compliant Products Sold in the immediately preceding fiscal quarter.

- 15.2. ROYALTIES PAYABLE BY DSP TO NATIONAL. For each license to a CompactRISC Core granted by DSP to a DSP Sublicensee, DSP shall pay to National the Royalties for the applicable CompactRISC Core set forth in Exhibit F. For each CompactRISC Core to which DSP obtains the licenses set forth in Sections 5.2 or 5.3, DSP shall pay to National a royalty equal to the amount set forth in under the "[*] Dollar Amount" column in Exhibit F, Section I.B per Compliant Core for the highest cumulative volume of Compliant Products Sold containing the applicable licensed CompactRISC Core, multiplied by the number of Compliant Cores within Compliant Products Sold during the subject fiscal quarter (e.g. for CR16B, \$[*] per Compliant CR16B Core multiplied by the number of Compliant CR16B Cores within Compliant Products Sold during the subject fiscal quarter).
- 15.3. ROYALTIES PAYABLE BY NATIONAL TO DSP. [*]
- 15.4. NON-MARKET DISPOSITIONS. [*]
- 15.5. FINISHED PRODUCTS. [*]

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

16.0 PAYMENTS AND ACCOUNTING

- 16.1. Within forty-five (45) days after the end of each Party's fiscal quarter, each Party shall furnish to the other Party a Payment Report, in the form attached hereto as Exhibit H, showing all Fees payable by each Party for such fiscal quarter. If no Fees are due and payable by each Party for such fiscal quarter, that fact shall be shown on the applicable report.
- 16.2. Within such forty (45) day period, each licensing Party shall pay to the other Party the Fees payable hereunder for such fiscal quarter. All payments hereunder shall be in United States dollars. In the event a licensing Party does not submit the required amount of Fees payable for any quarter and has notified the other Party in writing that its failure to pay specified amounts results from the non-payment by its Sublicensee for a specified license agreement, said licensing Party shall have until the next reporting period to remedy said default by either i) submitting to the other Party the total amount of Fees due with respect to such license agreement for both the previous quarter and the current quarter; or ii) providing the other Party with a copy of the written notice of termination of such license agreement whereupon, subject to the assignment provisions of Section 4.9, the other Party shall waive the Licensing Party's obligation to pay amounts of Fees due attributable to such license agreement. In the event the licensing Party does not remedy the non-payment as set forth above, the other Party may exercise its rights under Section 21.2(A).
- 16.3. In the event that the United States and/or Israel imposes withholding or other taxes on payments to be made hereunder, the Party making such payment may deduct such taxes from the payments. The Party making such payments shall send to the other Party the tax payment forms and/or such other supporting data as may be required by the applicable tax authority to establish that such taxes have been deducted and paid by the Party making payment on behalf of the other Party. Notwithstanding the foregoing, the Parties agree that any payments due hereunder which are calculated on amounts received from each licensing Party's Sublicensees shall be based on gross amounts due to the licensing Party without deduction for any withholding taxes made by such Sublicensees.
- 16.4. With respect to the Fees set forth herein, each licensing Party shall keep complete and accurate records. These records shall be maintained for a period of at least three (3) years from the date of payment, notwithstanding the expiration or other termination of this Agreement. Each Party shall be entitled to have an independent auditor examine and audit not more than once a year unless the preceding audit revealed a discrepancy, all such records and such other records and accounts as may contain, under recognized accounting practices, information bearing upon the amount of Fees payable hereunder. The auditor shall be bound under an appropriate confidential disclosure agreement to keep confidential the details of the business affairs of the Party

being audited and to limit disclosure of the results of any audit only to the sufficiency of the accounts and the amount, if any, of any additional payment or any other payment or adjustment that should be made. Such audit shall be performed during normal business hours at a mutually agreed upon date and, except as set forth below, shall be paid by the Party engaging the auditor. In the event that any errors in payment shall be determined, such errors shall be corrected by appropriate adjustment in payment in the fiscal quarter during which the error is discovered. Should the amount of any such error and/or omission exceed five percent (5%) of the total amount that should have been paid for the audited period, the party making such error shall reimburse the amount of such underpayment and the reasonable charges of the auditor, and interest on the overdue amount calculated using the prime rate published by Bank of America plus two percent (2%) from the date of accrual of such obligation until complete payment of the underpayment plus interest.

- 16.5. Unless otherwise notified in writing of a change of address, each licensing Party shall send the Payment Reports and Fees referenced under this section to the other Party at the following addresses:

REPORTS AND PAYMENT TO NATIONAL
National Semiconductor Corporation
2900 Semiconductor Drive, M/S D3-579
Santa Clara, California 95051
Attn: Intellectual Property Group, Royalties

REPORTS AND PAYMENT TO DSP
DSP Group, Inc.
3120 Scott Boulevard
Santa Clara, California 95054
Attn: Irving Gold

17.0 CONFIDENTIAL INFORMATION

- 17.1. Each Party shall protect against the unauthorized use or disclosure of Confidential Information of the other Party received hereunder with the care and diligence generally exercised by the receiving Party with respect to its own information of like importance but in no event shall such care and diligence be less than a reasonable care and diligence.

- 17.2. Notwithstanding any other provision of this Agreement, no information received by a Party hereunder shall be Confidential Information if said information is:

A. published or otherwise made available to the public other than by a breach of this Agreement by the receiving Party,

- B. received by a Party from an independent third party without any apparent restriction on its dissemination by said third party,
- C. approved for release in writing by the Party designating said information as Confidential Information,
- D. known to or independently developed by the Party receiving Confidential Information hereunder without reference to or use of said Confidential Information, or
- E. disclosed to a third party by the Party transferring said information hereunder without restricting its subsequent disclosure by said third party.

17.3. Disclosure of any Confidential Information by a Party hereunder shall not be precluded if such disclosure is required by law or is in response to a valid order of a court or other government body of the United States or Israel or any political subdivision thereof; provided, however, that the receiving Party shall: (i) immediately notify the other Party of such order and (ii) first make a good faith effort to obtain a protective order requiring that the Confidential Information so disclosed be used only for the purpose for which such order was issued.

17.4. Each Party agrees that, after the announcement referenced in Section 22.3 below, each Party shall be entitled to disclose the general nature of this Agreement, and each Party shall be entitled to generally discuss its contractual obligations under this Agreement, excluding any financial terms, to prospective sublicensees, but that the terms and conditions of this Agreement shall otherwise be treated as Confidential Information and neither Party will disclose the terms and conditions to any third party without the prior written consent of the other Party, provided, however, that each Party may disclose the terms and conditions of this Agreement and Payment Reports received pursuant to Section 16.1, to (i) legal counsel of the Parties, accountants, and other professional advisors; (ii) in confidence to banks, investors and other financing sources and their advisors; (iii) in confidence, in connection with an actual or prospective merger or acquisition or similar transaction; or (iv) as provided in Section 17.3. In addition, National may disclose the total unit sales of Compliant Products.

17.5. DSP acknowledges that the Licensed Technology and Test Boards are extremely sensitive information of National. Accordingly, DSP agrees to restrict access to and use of such materials to only those employees, agents and consultants who require access as part of Licensee's exercise of its rights and fulfillment of its obligations under this Agreement and who do not constitute an unreasonable risk of unauthorized use or disclosure of the CompactRISC technology. DSP and DSP Sublicensees may not use any Confidential Information in the development of any product other than the Compliant Products and DSP shall take, and DSP shall ensure that all DSP

Sublicensees shall take all reasonably necessary steps to ensure that only those persons who are working on the design, development, manufacturing or marketing of Compliant Products or otherwise have a "need to know" in order for such DSP Sublicensee to exercise their rights and fulfill their obligations under their license agreements with DSP have access to or obtain any such Confidential Information. Each Party shall, and DSP shall require all DSP Sublicensees to obtain the execution of confidentiality agreements with its employees, agents and consultants having access to the Confidential Information and shall diligently enforce such agreements.

- 17.6. All "Confidential Information" disclosed by National pursuant to the Confidential Disclosure Agreement executed between National and DSP dated January 22, 1997 shall be deemed Confidential Information pursuant to this Section 17.0.
- 17.7. Except as provided in Section 21.3A below, upon expiration or termination of this Agreement, all Confidential Information and copies thereof shall be immediately returned to the disclosing Party, except for one archival copy which shall be used solely in the event of a dispute concerning this Agreement.
- 18.0 REPRESENTATIONS AND WARRANTIES; DISCLAIMERS
- 18.1. The Parties hereby agree, represent and warrant to each other that they have the full and complete right to make the license grants made under this Agreement without the need to obtain any consents not already obtained, and to make the transfer of information as provided for herein. The Parties further represent and warrant that the provisions of this Agreement and their performance thereunder do not violate their Articles of Incorporation or their By-laws or constitute a breach of any agreement with or contractual obligation owed to another person.
- 18.2. DSP agrees, represents and warrants that [*]
- 18.3. National agrees, represents and warrants that [*]

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

[*]

18.4. National agrees, represents and warrants that [*]

18.5. [*]

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

19.0 INFRINGEMENT

- 19.1. Subject to the limitations set forth in this Section, National will indemnify, defend and hold DSP harmless against any claim, suit or proceeding brought against DSP, and against all damages, losses, liabilities, and costs (including, without limitation, reasonable attorneys' fees) arising out of or resulting from a claim that the exercise of any right or license granted to DSP under this Agreement (including, without limitation, the licensing of the Licensed Technology by DSP under Section 3 and the use of the Licensed Technology by DSP under Section 5) constitutes an infringement of any intellectual property right enforceable in [*]. IN NO EVENT SHALL NATIONAL'S LIABILITY UNDER THIS SECTION 19.1 WITH RESPECT TO THIRD PARTY CLAIMS OF PATENT INFRINGEMENT EXCEED THE TOTAL AMOUNT OF FEES PAID BY DSP TO NATIONAL UNDER THIS AGREEMENT.
- 19.2. Subject to the limitations set forth in this Section, National will defend any claim, suit or proceeding brought against any DSP Sublicensee and pay damages and costs awarded against such DSP Sublicensee, if based on a claim that the exercise of the rights granted to such DSP Sublicensee by DSP pursuant to this Agreement and in accordance with the terms of this Agreement constitutes an infringement of any intellectual property right enforceable in [*]. IN NO EVENT SHALL NATIONAL'S LIABILITY UNDER THIS SECTION 19.2 WITH RESPECT TO THIRD PARTY CLAIMS OF PATENT INFRINGEMENT EXCEED THE TOTAL AMOUNT OF FEES PAID BY A DSP SUBLICENSEE TO DSP AND REMITTED TO NATIONAL PURSUANT TO THIS AGREEMENT. The Parties agree to each DSP Sublicensee shall be an intended third party beneficiary of National's obligations herein. In addition, upon DSP's written request, National agrees to provide confirmation to potential DSP Sublicensees of National's obligations to DSP Sublicensees under this section 19.2.
- 19.3. National's obligations under this Section 19.0 are conditioned upon receiving prompt written notice from DSP and/or the DSP Sublicensee, as applicable, and being given full and complete authority, information and assistance (at National's expense) for defense of same. National will pay damages and costs therein awarded against DSP or the DSP Sublicensee, as applicable, but will not be responsible for any compromise made without its written consent. In providing such defense, or in the event that the use or sale of any Compliant Product incorporating, embodying or based upon the Licensed Technology is held to constitute infringement and the use or sale of such Compliant Product is enjoined, National shall, at its sole discretion, [*]

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

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19.4. National's defense and indemnity obligations herein do not extend to any claim, suit or proceeding based upon an infringement or alleged infringement of an intellectual property right by: (i) a manufacturing process of DSP or a DSP Sublicensee; (ii) any modification of the Licensed Technology not made by National; or (iii) the use of the Licensed Technology or any derivatives arising out of the use of the Licensed Technology, in combination with other equipment, technology or software not purchased or licensed from National, provided that such claims would not have occurred but for such process, combination, modification or enhancement. Section 19.0 states the entire liability of National with respect to intellectual property infringement.

20.0 LIMITATION OF LIABILITY

- 20.1. IN NO EVENT SHALL A PARTY BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING LOSS OF PROFITS, REVENUE, DATA, USE, DAMAGES FOR LOSS OF GOODWILL, WORK STOPPAGE, OR ANY AND ALL OTHER COMMERCIAL DAMAGES OR LOSSES, INCURRED BY THE OTHER OR ANY THIRD PARTY IN CONNECTION WITH THIS AGREEMENT OR THE USE OF THE LICENSED TECHNOLOGY, NO MATTER WHAT THEORY OF LIABILITY, AND EVEN IF EITHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OR PROBABILITY OF SUCH DAMAGES.
- 20.2. Excluding National's liability under Sections 19.1 and 19.2 and excluding any liability resulting from National's breach of Section 17.0, in no event shall National's liability for claims relating to this Agreement exceed the sum of the amount of i) Fees paid by DSP to National hereunder; and ii) Fees due and payable by National to DSP hereunder as of the date of such claim.
- 20.3. Excluding any liability resulting from DSP's breach of Section 17.0, in no event shall DSP's liability for claims relating to this Agreement exceed the sum of the amount of i) Fees paid by DSP to National hereunder; and ii) Fees due and payable by DSP to National hereunder as of the date of such claim.
- 20.4. The Licensed Technology is not designed or licensed for use in the design, development, manufacture or distribution of software used in or in connection with critical components in life support devices or systems. National disclaims any express or implied warranty of fitness for such uses. DSP agrees that it will not use or license the Licensed Technology for such purposes, and that it will ensure that DSP, DSP Sublicensees and their

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[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

respective customers and end users of the Licensed Technology are provided with a copy of the foregoing notice. For the purpose of this Section 20.3, incorporation of a notice in the data sheets for Compliant Products shall be considered adequate notice.

21.0 TERM AND TERMINATION

21.1. TERM. This Agreement shall begin on the Effective Date and shall continue for a period of [*] ([*]) years, or until terminated as provided below.

21.2. TERMINATION. This Agreement may be terminated for cause, in whole or part, at any time by one Party sending a written notice to the other Party of its election to terminate, which notice specifies the reason for the termination. A right to terminate hereunder shall arise upon the happening of any one or more of the following events:

- A. [*] ([*]) days after receipt of written notice from a Party in the event the licensing Party fails to [*];
- B. Upon [*] ([*]) days written notice in the event either Party fails to [*] and such failure is not corrected within the [*] ([*]) day notice period;
- C. Upon written notice upon any action by [*]; or
- D. Upon written notice in the event that [*].

21.3. EFFECT OF EXPIRATION OR TERMINATION.

A. In the event of expiration or termination of this Agreement, DSP shall promptly destroy or deliver to National all materials comprising, incorporating or using any Licensed Technology, Confidential Information, or National Intellectual Property Rights except that DSP may retain one copy of the Licensed Technology solely in order to perform its obligations to provide support and maintenance to DSP Sublicensees and National Sublicensees.

- -----
[*] Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

DSP shall provide National with a written statement certifying that DSP has complied with the foregoing obligations.

B. Except as provided below, all rights and licenses granted by one Party to the other shall terminate upon such expiration or termination, except that (i) if DSP terminates this Agreement pursuant to Section 21.2, any licenses to the Licensed Technology and Test Boards granted to DSP itself shall survive termination; (ii) any licenses granted by a Party to a third party pursuant to Sections 6.0 and 7.0 prior to the effective date or expiration or termination shall survive and continue; and (iii) any licenses granted by DSP to DSP Sublicensees prior to the effective date of expiration or termination and National's rights as a third party beneficiary thereof shall survive and continue provided, however, that DSP shall have no further right to license the Licensed Technology upon termination or expiration. The Parties' rights and obligations under Sections 2.3, 4.2 (for the quarter immediately following termination or expiration), 5.1, 5.2 -5.5 if applicable, 8.0, 10.0 and 17.0 through 22.0 shall survive any expiration or termination. In addition, with respect to Sections 6.0, 7.0, 13.0, 14.0 and 15.0, i) the rights of the Party terminating this Agreement shall survive and its corresponding obligations under said Sections shall terminate; ii) the rights of the non-terminating Party under said Sections shall terminate and its corresponding obligations under said Sections shall survive; and iii) the rights and obligations of both Parties under such Sections shall survive upon natural expiration of this Agreement.

21.4. NO LIABILITY FOR LAWFUL TERMINATION. Neither Party shall have the right to recover damages or to indemnification of any nature, whether by way of lost profits, expenditures for promotion, payment for goodwill or otherwise made in connection with the business contemplated by this Agreement due to the permitted or lawful termination of this Agreement. EACH PARTY WAIVES AND RELEASES THE OTHER FROM ANY CLAIM TO COMPENSATION OR INDEMNITY FOR TERMINATION OF THE BUSINESS RELATIONSHIP UNLESS TERMINATION IS IN MATERIAL BREACH OF THIS AGREEMENT.

21.5. NO WAIVER. The failure of either Party to enforce any provision of this Agreement shall not be deemed a waiver of that provision. The rights of the Parties under this Section 21.0 are in addition to any other rights and remedies permitted by law or under this Agreement.

21.6. IRREPARABLE HARM. The Parties acknowledge and agree that breach of Sections 2.4, 4.1, 17.0, 20.4 and 22.9 may cause irreparable harm and continuing damage to National, for which there will be no adequate remedy at law. Accordingly, they agree that each Party will be entitled to seek injunctive relief and/or a decree of specific performance, and such other relief as may be proper.

22.0 MISCELLANEOUS

22.1. NOTICES. All notices required or permitted to be given hereunder shall be in writing and shall be valid and sufficient if dispatched by registered or certified mail, postage prepaid, in any post office of the country where mailed, addressed as follows. Either Party may change its address by a notice given to the other Party in the manner set forth above. Notices given as herein provided shall be considered to have been given and delivered upon receipt.

If to DSP:

DSP Group, Inc.
3120 Scott Boulevard
Santa Clara, California 95054
Attn: Irving Gold

cc: DSP Semiconductors, Ltd.
5 Shenkar Street
Herzeliya pituach 46120
ISRAEL
Attn: Zeev Bikowsky

If to National:

NATIONAL SEMICONDUCTOR CORPORATION
2900 Semiconductor Drive
M/S 16-135
Santa Clara, CA 95052-8090
Attn: General Counsel

cc: NATIONAL SEMICONDUCTOR CORPORATION
2900 Semiconductor Drive, M/S D-3 985
Santa Clara, CA 95052
Attn: Cores Technology Unit

22.2. ASSIGNMENT. Neither this Agreement nor any right or obligation hereunder is assignable or delegable in whole or in part, whether by operation of law or otherwise, by either Party without the express written consent of other Party except that DSP acknowledges that National may assign this Agreement to any entity which controls, is controlled by, or is under common control with National, or to any entity resulting from the merger or consolidation with or reorganization of National provided that National remains the guarantor of its obligations under this Agreement. Furthermore, subject to DSP's right of first refusal as set forth in Section 4.5 above, National may assign this Agreement to any third which acquires from National all or substantially all of the Licensed Technology without DSP's written consent. This Agreement shall

inure to the benefit of, and shall be binding upon, the Parties and their respective permitted successors and assigns.

- 22.3. PUBLICITY. The Parties shall announce the existence of their relationship and this Agreement at a time to be mutually determined, but in any event within sixty (60) days of the Effective Date. Neither Party shall unreasonably withhold its consent to a proposed announcement time. The Parties further agree that after such announcement, each Party may list DSP as a licensor of the Licensed Technology. Any publicity regarding the subject matter of this Agreement shall be jointly planned and coordinated by the Parties. Except as provided in Section 17.4 or as otherwise expressly provided in this Agreement, neither Party shall publicize or otherwise disclose the terms of this Agreement without the prior written approval of the other Party.
- 22.4. EMPLOYEES. It is understood and agreed that in no event shall an employee of one Party be considered for any purpose an employee of the other Party. To the extent this Agreement involves work by one Party on the premises of the other Party, the visiting Party shall take all necessary precautions to prevent the occurrence of any injury to persons or property during the progress of such work and, except to the extent that any injury is caused by negligence of the host Party, said visiting Party shall indemnify the host Party against all losses which are caused by any negligent act or omission of the visiting Party, its agents, employees or subcontractors, and the visiting Party shall maintain such public liability, property damage and employer's liability compensation insurance as will protect the host Party from risks and from claims under any applicable worker's compensation or occupational disease acts. Each Party shall instruct and require their respective visiting employees to observe and obey all rules, policies and procedures in effect at the facilities of the other Party.
- 22.5. DISCLAIMER OF AGENCY. DSP is not authorized to make any representation or warranty on behalf of National to any third party. The relationship created hereby is that of licensor and licensee and the Parties hereby acknowledge and agree that nothing herein shall be deemed to constitute DSP as a franchisee of National. DSP hereby waives the benefit of any state or federal statutes dealing with the establishment and regulation of franchisees.
- 22.6. SEVERABILITY. If any provision of this Agreement is for any reason found to be ineffective, unenforceable or illegal, such condition shall not affect the validity or enforceability of any of the remaining portions hereof; provided, further, that the Parties shall negotiate in good faith to replace any ineffective, unenforceable or illegal provision with an effective replacement as soon as is practical.
- 22.7. FORCE MAJEURE. Neither Party shall be liable in damages or have the right to cancel for any delay or default in performing hereunder if such delay or default is caused by conditions beyond the control of the delaying or

defaulting Party, including but not limited to acts of God, government restrictions, continuing domestic or international problems such as wars or insurrections, strikes, fires, floods, work stoppages and embargoes; provided, however, that either Party shall have the right to terminate this Agreement upon thirty (30) days prior written notice if the delay or default of the other Party due to any of the above-mentioned causes continues for a period of six (6) months.

- 22.8. COUNTERPART ORIGINALS. This Agreement is being executed simultaneously in two (2) counterparts, each of which shall be deemed an original but both of which together constitute one and the same instrument.
- 22.9. EXPORT CONTROL. The Parties shall comply with any and all export regulations and rules now in effect or as may be issued from time to time by the Bureau of Export Administration of the United States Department of Commerce or any other federal governmental authority which has jurisdiction relating to the export of technology from the United States of America in connection with this Agreement. National shall provide DSP with reasonable assistance in complying with such regulations and rules. Without limiting the generality of the foregoing, National agrees to use reasonable efforts to file an application with the Bureau of Export Administration for the classification of the Licensed Technology. National shall provide DSP with a copy of any information received from the Office of Export Administration regarding such application however such information is provided solely for DSP's reference and shall not be deemed in any respect as counsel or advice by National to DSP of any export requirements or as a waiver of DSP's obligations under this Agreement. It is a requirement of DSP to comply with any classification and export/reexport requirements with respect to the Licensed Technology and any direct product thereof. The obligations under this Section 22.9 shall survive any expiration or termination of this Agreement.
- 22.10. GOVERNING LAW. This Agreement and the performance of the Parties hereunder shall be construed in accordance with and governed by the laws of the State of California without giving effect to its choice of law provisions. The Parties agree that California shall have non-exclusive jurisdiction to determine the validity, construction and performance of this Agreement and the legal relations between the Parties.
- 22.11. EFFECT OF HEADINGS. The headings and sub-headings contained herein are for information purposes only and shall have no effect upon the intended purpose or interpretation of the provisions of this Agreement.
- 22.12. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement and understanding between the Parties and integrates all prior discussions and proposals (whether oral or written) between them related to the subject matter hereof. No modification of any of the terms of this Agreement shall be valid unless in writing and signed by a duly authorized officer of each Party.

IN WITNESS WHEREOF, the Parties have had this Agreement executed by their respective authorized officers on the date written below.

By and on behalf of:

NATIONAL SEMICONDUCTOR CORPORATION

BY: /s/ MIKE BEREZIUK

ITS: Senior VP & General Manager,
Personal Systems Group

DATE: 10/3/97

By and on behalf of:

DSP GROUP, INC.

BY: /s/ ELI AYALON

ITS: President & CEO

DATE: 10/30/97

DSP SEMICONDUCTORS, LTD.

BY /s/ IGAL KOHAVI

ITS: Chairman of the Board

DATE 10/30/97

EXHIBIT A
LICENSED TECHNOLOGY

The codes in the following tables shall have the meaning set forth below:

"S" Synthesizable or source item that DSP may provide to a DSP Sublicensee in original format

"B" Binary or object only "NA" Not available

"T" Transferable by DSP to a DSP Sublicensee

"NT" Not transferable by DSP to a DSP Sublicensee

"C" Confidential

"NC" Non-confidential

CR 16B CORE

ITEM	CODES			DESCRIPTION
[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]

For the CR16B Core, the model will be available in SYNTHESIZEABLE VERILOG-XL HDL on Sun/SPARC. [*] The HDL model shall include the full functionality of the CompactRISC technology and have been validated on test patterns prior to release.

Since cell libraries are manufacturing process specific, the verilog models and synopsis scripts of the Licensed Technology are provided without the cell libraries that were used to create the models. Modification is required by customers/users for their individual processes and cell libraries.

- - - - -
[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

CR 16B BASE MEGACELL MODULES

ITEM	CODES			DESCRIPTION
[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]

CR16B TEST SUITE

ITEM	CODES			DESCRIPTION
[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]

CR16B TOOLS

ITEM	CODES			DESCRIPTION
CR16-SWW-XXX	NC	T	B	Workgroup License (5 seats) for Tools.

The Tools are provided on CD-ROM, with a complete set of instruction manuals in PDF format. The only manuals printed on paper are the Introduction and Programmer's Reference Manual. All other manuals can be printed from the CD-ROM. The Licensee is authorized to print as many copies of the manuals as required for internal use only.

- -----
 [*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT B
TEST CHIP AND TEST BOARD

The codes in the following tables shall have the meaning set forth below:

"S" Synthesizable or source item that DSP may provide to a DSP Sublicensee in original format.

"B" Binary or object only

"T" Transferable by DSP to a DSP Sublicensee

"NT" Not transferable by DSP to a DSP Sublicensee

"C" Confidential Material

"NC" NON-Confidential Material

ITEM	CODES			DESCRIPTION
TEST CHIP	C	NT	B	CompactRISC chip that runs the Core Verification Programs
TEST CHIP SPECIFICATION	C	T	S	Defines the features and functions required for testing compatibility of the CompactRISC core architecture providing examples of basic verification environment.
TEST BOARD	C	T	S	Compliance testing board for use in testing the accuracy of a port of CompactRISC Technology to a specific process. Includes test scripts to be downloaded to the Test Chip verified.

EXHIBIT C
DELIVERY SCHEDULE

The codes in the following tables shall have the meaning set forth below:

"S" Synthesizable or source item that DSP may provide to a DSP Sublicensee in original format.

"B" Binary or object only

"NA" Not available

"T" Transferable by DSP to a DSP Sublicensee

"NT" Not transferable by DSP to a DSP Sublicensee

"LT" Shown previously in "Licensed Technology" - Exhibit A & B.

"C" Confidential Material.

"NC" NON-Confidential Material.

ITEM	DESCRIPTION	CODES			WHO DELIVERS	WHEN
[*]	[*]	[*]	[*]	[*]	[*]	[*]
	[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]	[*]

[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT D

SUBLICENSE FEES

I. CR16B SUBLICENSE FEES PAYABLE BY DSP TO NATIONAL

Subject to the provisions set forth in Section 5.3, for each license to a CR16B Core granted by DSP to a DSP Sublicensee, DSP shall pay to National a Sublicense Fee, which shall be equal to [*]:

A. the [*] sublicense fee in accordance with the table set forth below:

CUMULATIVE NUMBER OF CR16B CORES LICENSED	[*] SUBLICENSE FEE PER CR16B CORE SUBLICENSE
[*]	\$[*]
[*]	\$[*]
[*]	\$[*]
[*] or more	\$[*]
[*]	

B. [*] percent ([*]%) of the License Charges payable by each DSP Sublicensee to DSP.

II. CR16B SUBLICENSE FEES PAYABLE BY NATIONAL TO DSP

Subject to the provisions set forth in Section 2.3 and 5.3, for each license to a CR16B Core granted by National to a National Sublicensee, National shall pay to DSP a Sublicense Fee which shall be equal to [*]:

A. the [*] sublicense fee in accordance with the table set forth below:

CUMULATIVE NUMBER OF CR16B CORES LICENSED	[*] SUBLICENSE FEE PER CR16B CORE SUBLICENSE
[*]	\$[*]
[*]	\$[*]
[*]	\$[*]
[*] or more	\$[*]
[*]	

B. [*] percent ([*]%) of the License Charges payable by each National Sublicensee to National.

[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT E
SUPPORT FEES

I. SUPPORT FEES PAYABLE BY DSP TO NATIONAL

Subject to the provisions set forth in Section 5.3, for each license to a CompactRISC Core granted by DSP to a DSP Sublicensee, DSP shall pay to National an annual Support Fee for [*] which shall be equal to [*]:

- A. the [*] annual support fee of \$[*] per licensed CompactRISC Core; [*]
- B. [*] percent ([*]%) of the Support Charges payable by each DSP Sublicensee to DSP.

Thereafter, DSP shall be required to pay an annual Support Fee only if DSP is entitled to receive Support Charges from the applicable DSP Sublicensee. In such event, DSP shall be required to pay [*] percent ([*]%) of the Support Charges payable by each DSP Sublicensee to DSP on an annual basis.

II. SUPPORT FEES PAYABLE BY NATIONAL TO DSP

Subject to the provisions set forth in Section 2.3 and 5.3, for each license to a CompactRSIC Core granted by National to a National Sublicensee, National shall pay to DSP an annual Support Fee for [*] which shall be equal to [*]:

- A. the [*] annual support fee of \$[*] per licensed CompactRISC Core; [*]
- B. [*] percent ([*]%) of the Support Charges payable by each National Sublicensee to National.

Thereafter, National shall be required to pay an annual Support Fee only if National is entitled to receive Support Charges from the applicable National Sublicensee. In such event, National shall be required to pay [*] percent ([*]%) of the Support Charges payable by each National Sublicensee to National on an annual basis.

- -----
[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT F

ROYALTIES

I. CR16B ROYALTIES PAYABLE BY DSP TO NATIONAL

Subject to the provisions set forth in Section 5.3, for each license to a CR16B Core granted by DSP to a DSP Sublicensee, DSP shall pay to National Royalties, which shall be equal to [*]:

- A. [*] percent ([*]%) of the actual royalty payable to DSP pursuant to such license; [*]
- B. the [*] of the applicable [*] royalty
 - i) based upon the [*] for the cumulative volume of Compliant Products Sold containing the CR16B Core, multiplied by the number of CR16B Compliant Cores within Compliant Products Sold during the subject fiscal quarter; [*]
 - ii) based upon the [*] Dollar Cap per CR16B Compliant Core for the cumulative volume of Compliant Products Sold containing the CR16B Core, multiplied by the number of CR16B Compliant Cores within Compliant Products Sold during the subject fiscal quarter.

[*]

- C. the applicable [*] royalty based upon the [*] Dollar Amount per CR16B Compliant Core for the cumulative volume of Compliant Products Sold containing the CR16B Core, multiplied by the number of CR16B Compliant Cores within Compliant Products Sold during the subject fiscal quarter.

Cumulative Volume of Compliant Products Sold Containing CR16B	Percentage of ASP	[*] Dollar Cap	[*] Dollar Amount
[*]	[*]%	\$[*]	\$[*]
[*]	[*]%	\$[*]	\$[*]
[*]	[*]%	\$[*]	\$[*]
[*]	[*]%	\$[*]	\$[*]

[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

II. CR16B ROYALTIES PAYABLE BY NATIONAL TO DSP

Subject to the provisions set forth in Section 2.3 and 5.3, for each license to a CR16B Core granted by National to a National Sublicensee, National shall pay to DSP Royalties, which shall be equal to [*]:

- A. [*] percent ([*]%) of the actual royalty payable to National pursuant to such license; [*]
- B. the [*] of the applicable [*] royalty
 - i) based upon the [*] for the cumulative volume of Compliant Products Sold containing the CR16B Core, multiplied by the number of CR16B Compliant Cores within Compliant Products Sold during the subject fiscal quarter; [*]
 - ii) based upon the [*] Dollar Cap per CR16B Compliant Core for the cumulative volume of Compliant Products Sold containing the CR16B Core, multiplied by the number of CR16B Compliant Cores within Compliant Products Sold during the subject fiscal quarter.

[*]

- C. the applicable [*] royalty based upon the [*] Dollar Amount per CR16B Compliant Core for the cumulative volume of Compliant Products Sold containing the CR16B Core, multiplied by the number of CR16B Compliant Cores within Compliant Products Sold during the subject fiscal quarter.

CUMULATIVE VOLUME OF COMPLIANT PRODUCTS SOLD CONTAINING CR16B	PERCENTAGE OF ASP	[*] DOLLAR CAP	[*] DOLLAR AMOUNT
[*]	[*]%	\$[*]	\$[*]
[*]	[*]%	\$[*]	\$[*]
[*]	[*]%	\$[*]	\$[*]
[*]	[*]%	\$[*]	\$[*]

 [*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT G
ADDITIONAL TERMS FOR LICENSING [*] CORE

SUBLICENSE FEES

I [*] SUBLICENSE FEES PAYABLE BY DSP TO NATIONAL

Subject to the provisions set forth in Section 5.3, for each license to a [*] Core granted by DSP to a DSP Sublicensee, DSP shall pay to National a Sublicense Fee, which shall be equal to [*]:

A. the [*] sublicense fee in accordance with the table set forth below:

CUMULATIVE NUMBER OF [*] CORES LICENSED	[*] SUBLICENSE FEE PER [*] CORE SUBLICENSE
--	---

[*]	\$[*]
[*]	\$[*]
[*]	\$[*]
[*] or more	\$[*]

[*]

B. [*] percent ([*]%) of the License Charges payable by each DSP Sublicensee to DSP.

II. [*]SUBLICENSE FEES PAYABLE BY NATIONAL TO DSP

Subject to the provisions set forth in Section 2.3 and 5.3, for each license to a [*] Core granted by National to a National Sublicensee, National shall pay to DSP a Sublicense Fee which shall be equal to [*]:

A. the [*] sublicense fee in accordance with the table set forth below:

CUMULATIVE NUMBER OF [*] CORES LICENSED	[*] SUBLICENSE FEE PER [*] CORE SUBLICENSE
--	---

[*]	\$[*]
[*]	\$[*]
[*]	\$[*]
[*] or more \$[*]	\$[*]

[*]

B. [*] percent ([*]%) of the License Charges payable by each National Sublicensee to National.

[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

ROYALTIES

I. [*] ROYALTIES PAYABLE BY DSP TO NATIONAL

Subject to the provisions set forth in Section 5.3, for each license to a [*] Core granted by DSP to a DSP Sublicensee, DSP shall pay to National Royalties, which shall be equal to [*]:

- A. [*] percent ([*]%) of the actual royalty payable to DSP pursuant to such license; [*]
- B. the [*] of the applicable [*] royalty
 - i) based upon the [*] for the cumulative volume of Compliant Products Sold containing the [*] Core, multiplied by the number of [*] Compliant Cores within Compliant Products Sold during the subject fiscal quarter; [*]
 - ii) based upon the [*] Dollar Cap per [*] Compliant Core for the cumulative volume of Compliant Products Sold containing the [*] Core, multiplied by the number of [*] Compliant Cores within Compliant Products Sold during the subject fiscal quarter.

[*]

- C. the applicable [*] royalty based upon the [*] Dollar Amount per [*] Compliant Core for the cumulative volume of Compliant Products Sold containing the [*] Core, multiplied by the number of [*] Compliant Cores within Compliant Products Sold during the subject fiscal quarter.

CUMULATIVE VOLUME OF COMPLIANT PRODUCTS SOLD CONTAINING [*]	PERCENTAGE OF ASP	[*] DOLLAR CAP	[*] DOLLAR AMOUNT
[*]	[*]%	[\$[*]]	[\$[*]]
[*]	[*]%	[\$[*]]	[\$[*]]
[*]	[*]%	[\$[*]]	[\$[*]]
[*]	[*]%	[\$[*]]	[\$[*]]

[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

II. [*] ROYALTIES PAYABLE BY NATIONAL TO DSP

Subject to the provisions set forth in Section 2.3 and 5.3, for each license to a [*] Core granted by National to a National Sublicensee, National shall pay to DSP Royalties, which shall be equal to [*]:

- A. [*] percent ([*]%) of the actual royalty payable to National pursuant to such license; [*]
- B. the [*] of the applicable [*] royalty
 - i) based upon the [*] for the cumulative volume of Compliant Products Sold containing the [*] Core, multiplied by the number of [*] Compliant Cores within Compliant Products Sold during the subject fiscal quarter; [*]
 - ii) based upon the [*] Dollar Cap per [*] Compliant Core for the Cumulative volume of Compliant Products Sold containing the [*] Core, multiplied by the number of [*] Compliant Cores within Compliant Products Sold during the subject fiscal quarter.

[*]

- C. the applicable [*] royalty based upon the [*] Dollar Amount per [*] Compliant Core for the cumulative volume of Compliant Products Sold containing the [*] Core, multiplied by the number of [*] Compliant Cores within Compliant Products Sold during the subject fiscal quarter.

CUMULATIVE VOLUME OF COMPLIANT PRODUCTS SOLD CONTAINING [*]	PERCENTAGE OF ASP	[*] DOLLAR CAP	[*] DOLLAR AMOUNT
[*]	[*]%	\$[*]	\$[*]
[*]	[*]%	\$[*]	\$[*]
[*]	[*]%	\$[*]	\$[*]
[*]	[*]%	\$[*]	\$[*]

 [*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT H

PAYMENT REPORT FORM

QUARTERLY REPORT FOR QUARTER ENDING **/**

Name	Desc.	Sales Revenue (\$)	Units Shipped (units)	ASP (\$/units) or Fee	Method of Fee Calculation	Payment to: _____:	Per Unit Charge (\$u)	Payment (u*\$u)
----	-----	-----	-----	-----	-----	-----	-----	-----
	License CR16B							
Customer A	Sublicense Fee							
	Support Fee							
	Royalties							
Total	Tools							
	License CR32B							
Customer A	Sublicense Fees							
	Support Fees							
	Royalties							
Total	Tools							
TOTAL								\$

EXHIBIT H

SAMPLE PAYMENT REPORT
(DSP REPORTING TO NATIONAL)

Quarterly Report for Quarter Ending */**

Name	Desc.	Sales Revenue (\$)	Units Shipped (units)	ASP (\$/units) of Fee	Method of Fee Calculation	Payment to: National:	Per Unit Charge (\$u)	Payment (u*\$u)
	License	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Customer A	CR16B Royalty	[*]	[*]	[*]	[*]	[*]	[*]	[*]
	[*] Royalty	[*]	[*]	[*]	[*]	[*]	[*]	[*]
	Support Quarterly	[*]	[*]	[*]	[*]	[*]	[*]	[*]
	Tools	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Total A								[*]
	License	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Customer B	CR16B Royalty	[*]	[*]	[*]	[*]	[*]	[*]	[*]
	Support Yearly	[*]	[*]	[*]	[*]	[*]	[*]	[*]
	Tools	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Total B								[*]
New C	[*] License	[*]	[*]	[*]	[*]	[*]	[*]	[*]
	Royalties	[*]	[*]	[*]	[*]	[*]	[*]	[*]
	Support	[*]	[*]	[*]	[*]	[*]	[*]	[*]
	Tools	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Total C								[*]
Total to NCS								[*]

[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT I
NEW LICENSEE NOTIFICATION

Name	Core Licensed	License Charges	Support Charges	Prepaid Royalties	Cumulative Volume	% of ASP	Cap	Minimum
------	---------------	-----------------	-----------------	-------------------	-------------------	----------	-----	---------

Customer
Name

Payment Terms and Conditions: (For example: License Fee to be paid in a lump sum; Sublicensee paid 2 years of support in lump sum; No prepaid royalties)

EXHIBIT J

ADDITIONAL TRAINING RATES

Scheduled Training in Santa Clara, California

There are pre-scheduled training sessions every [*]. The training is given at the National's Santa Clara, California, facilities.

[\$*] per person maximum of [*] persons per session of a 2-3 days. If number of participant is less then 6 persons session will be canceled.

Specially Scheduled Training Sessions

These are individual or emergency training sessions for specific business units and customers. Cost is \$[*] for 1 to [*] people. Travel expenses if done outside the Santa Clara, California, facilities are done at cost. An extra \$[*] will be added for sessions to be handled outside the US.

National reserves the right to change the above rates without prior written notice.

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[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT K
ADDITIONAL SUPPORT AND MAINTENANCE RATES

The following are National's standard rates for support and maintenance services in effect as of the Effective Date. The rates are subject to change without notice.

Engineering/Support

All rates are based on man/hour rates, both on-site and during travel. All travel, accommodations and other expenses will be billed at a reasonable rate.

1. Applications Engineer \$[*]
2. Senior Engineer/Manager \$[*]

Note: There is a minimum of 8 hours of billable time per each service/support request.

[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT L
EXCLUDED NATIONAL SUBLICENSEES

[*]

[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT M
NATIONAL INTELLECTUAL PROPERTY RIGHTS

PATENTS

5,566,308 Processor Core Which Provides a Linear Extension of an Addressable Memory Space

INVENTIONS

[*]

COPYRIGHTS

Copyright on all Licensed Technology listed in Exhibit A, whether delivered as any form of software code or in printed form owned by National and/or its licensors.

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[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT N
END USER LICENSE

NAME OF DSP SUBLICENSEE ("LICENSOR") IS WILLING TO LICENSE THE SOFTWARE INCORPORATED IN THIS PRODUCT TO YOU ("LICENSEE") ONLY UPON THE CONDITION THAT YOU ACCEPT ALL OF THE TERMS CONTAINED IN THIS LICENSE AGREEMENT. READ THE TERMS AND CONDITIONS OF THIS AGREEMENT CAREFULLY BEFORE OPENING AND USING THE PRODUCT. BY OPENING AND/OR USING THE PRODUCT, YOU AGREE TO THE TERMS AND CONDITIONS OF THIS AGREEMENT. IF YOU ARE NOT WILLING TO BE BOUND BY THIS AGREEMENT, RETURN THE PRODUCT UNUSED WITHIN FIFTEEN (15) DAYS OF RECEIPT. UPON SUCH RETURN, YOU WILL RECEIVE A REFUND OF THE LICENSE FEE PAID, IF ANY.

1. LICENSE GRANT

Licensee is granted a nontransferable, nonexclusive, license to use the software identified on Exhibit A ("Software") at the location(s) identified on Exhibit A under the following terms and conditions. Licensee may use the Software on any one computer at one time except that the Software may be executed from a common disc shared by multiple CPUs provided that one authorized copy of the Software has been licensed from Licensor for each CPU executing the Software. Licensee may make one (1) copy of the Software for back-up and archival purposes only. Licensee may modify and compile the source code of the Software solely for the purpose of integrating the Software into the Licensee's software development tools suite. Except as provided above, Licensee shall have no right to (i) modify the Software; (ii) sell, supply or otherwise distribute the Software in any form; or (iii) reverse engineer, de-compile or disassemble the Software, in whole or in part.

The Software is not designed or licensed for use in the design, development, manufacture or distribution of software used in or in connection with critical components in life support devices or systems.

The Software is the property of Licensor and/or its licensors. Other than the limited license rights granted in this Agreement, Licensee acquires no right, title or interest in or to the Software.

2. COPYRIGHTS AND TRADEMARKS

Licensee shall reproduce and apply any copyright or other proprietary rights notices included on or embedded in the Software to any copies of the Software in whole or in part, in any form. Licensee shall have no right to use any of the trademarks or trade names appearing within the Software absent a separate written agreement between Licensee, Licensor and Licensor's licensors if applicable.

3. TERM AND TERMINATION

This Agreement is effective from the date Licensee breaks the seal preventing access to the Software and will remain in force until terminated. Licensee may terminate this Agreement at any time by returning the Software, including any documentation, to Licensor. This Agreement will terminate immediately without notice from Licensor if Licensee fails to comply with any provisions of this Agreement. Upon termination of this Agreement, use of all Software by Licensee shall be immediately discontinued, the Agreement and all rights granted hereunder shall cease, and Licensee shall return or certify the destruction of all copies of the Software including any documentation to Licensor.

4. LIMITED WARRANTY

Licensor warrants that the disks containing the Software shall be free from defects in materials and workmanship under normal use for a period of ninety (90) days from the date of delivery. Any written or oral information or advice given by Licensor, its distributors, agents or employees will in no way increase the scope of this warranty. Licensor's entire liability and the Licensee's exclusive remedy will be, at Licensor's sole option, to replace the disk or refund to Licensee the amounts paid by Licensee for the Software, if any. Any replacement disks will be warranted for the remainder of the original warranty period or thirty (30) days, whichever is the longer. Licensee agrees that the supply of the Software does not include updates and upgrades, which may be available from Licensor under a separate support agreement.

THE ABOVE WARRANTIES ARE EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES, WHETHER EXPRESS OR IMPLIED INCLUDING WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT. THE SOFTWARE DOES NOT CONSTITUTE "CONSUMER GOODS" FOR THE PURPOSES OF THE LAWS OR REGULATIONS OF ANY GOVERNMENTAL, REGULATORY OR SIMILAR AUTHORITY.

5. LIMITATION OF LIABILITY

IN NO EVENT WILL LICENSOR BE LIABLE FOR ANY INDIRECT, INCIDENTAL, PUNITIVE, SPECIAL, OR CONSEQUENTIAL DAMAGES, INCLUDING LOST REVENUES, DATA, OR PROFITS RELATING TO THIS LICENSE, INCLUDING BUT NOT LIMITED TO ANY DAMAGES RESULTING FROM ITS PERFORMANCE, FAILURE TO PERFORM, OR THE FURNISHING, PERFORMANCE OR USE OF THE SOFTWARE, WHETHER DUE TO BREACH OF CONTRACT, BREACH OF WARRANTY, OR NEGLIGENCE EVEN IF LICENSOR HAS BEEN ADVISED OF THE POSSIBILITY OR PROBABILITY OF SUCH DAMAGES. THE MAXIMUM LIABILITY OF LICENSOR SHALL BE LIMITED TO REFUNDING LICENSEE THE FEE PAID BY LICENSEE FOR THE SOFTWARE, IF ANY. THE FOREGOING LIMITATIONS SHALL APPLY EVEN IF THE ABOVE STATED WARRANTY FAILS OF ITS ESSENTIAL PURPOSE.

6. CONFIDENTIAL INFORMATION

The Software and any related documentation provided hereunder is the confidential information of Licensor or its licensors ("Confidential Information"). Licensee shall not disclose Confidential Information to any third party and shall use it only for purposes specifically authorized by this License. This License will not affect any other confidential disclosure agreement between the parties.

7. EXPORT

Licensee agrees to comply strictly with all applicable laws and regulations relating to the use and distribution of the Software and acknowledges that, to the extent that it is authorized by this License to export, re-export or import Software, it has the responsibility to obtain all licenses required to export, re-export or import Software.

8. U.S. GOVERNMENT RESTRICTED RIGHTS

The Software is provided with RESTRICTED RIGHTS. Use, duplication, or disclosure by the Government is subject to the restrictions as set forth in subparagraph (c) (1) (ii) of the Rights in Technical Data and Computer Software Clause as DFARS 252.227-7013 and FAR 52.227-19, as applicable. Manufacturer is National Semiconductor Corporation, 2900 Semiconductor Drive, Santa Clara, California 95052.

9. ASSIGNMENT

Neither this Agreement (including any licenses and rights granted hereunder), nor the Software may be sold, leased, assigned, disseminated, disclosed, sublicensed or otherwise transferred, in whole or in part, by Licensee to any third party without the prior written consent of Licensor. Transfer to a U.S. government department or agency or to a prime or lower tier contractor in connection with a U.S. government contract shall be made only upon the prior written agreement to terms agreed by Licensor.

10. GOVERNING LAW

Any action related to this License will be governed by California law, excluding its choice of law provisions. If any of the above provisions are held to be in violation of applicable law, void, or unenforceable in any jurisdiction, then such provisions are hereby waived to the extent necessary for the Agreement to be otherwise enforceable in such jurisdiction. However, if in Licensor's opinion deletion of any provisions of the Agreement by operation of this paragraph unreasonably compromises the rights or liabilities of Licensor or its licensors, Licensor reserves the right to terminate the Agreement and refund the fee paid by Licensee, if any, as Licensee's sole and exclusive remedy.

11. INTEGRATION

This Agreement is the entire agreement between Licensee and Licensor relating to the Software and: (i) supersedes all prior or contemporaneous oral or written communications, proposals and representations with respect to its subject matter; and (ii) prevails over any conflicting or additional terms of any quote, order, acknowledgement or similar communication between the parties during the term of this Agreement. No modification to this Agreement will be binding unless in writing and signed by a duly authorized representative of each party.

EXHIBIT O

TRADEMARK GUIDELINES

1. DSP and its Sublicensees must use the TM symbol as a superscript or subscript after the first prominent use (e. g. titles, headlines, taglines, paragraph headings, etc.) of the CompactRISC trademark and at its first use in the text or body copy.
2. DSP and its Sublicensees must provide notice in each document in which the CompactRISC trademark is used that it is a trademark of National Semiconductor Corporation, a reference example is shown below.
3. DSP and its Sublicensees shall not use the CompactRISC Trademark as a noun, but only as a proper adjective modifying a noun (example of acceptable usage: CompactRISC technology).
4. DSP and its Sublicensees shall not use the CompactRISC trademark, or any derivation of it, on any product, in any form.
5. DSP and its Sublicensees are required to mark with the CompactRISC trademark all data sheets and other collateral materials for those Compliant Products which are sold in a form where the architecture or instruction set is open or accessible for reprogramming. If the Compliant Product has a closed architecture and the end users do not need to know the instruction set, DSP and its Sublicensees may mark such data sheets and other collateral materials with the CompactRISC trademark but are not required to do so.

EXAMPLE OF CORRECT REFERENCE TO OWNERSHIP:

CompactRISC-TM- is a Trademark of National Semiconductor Corporation

USAGE EXAMPLE: CORRECT USE

The CompactRISC-TM- Instruction Set beats all the competition. CompactRISC Architecture is the best RISC core on the market today.

USAGE EXAMPLE: INCORRECT USE

CompactRISC beats all the competition. ABC Co. uses CompactRISC-TM- in it's XYZ product.

EXHIBIT P
TEST CHIP VERIFICATION RATES

Item	NRE fee	Comments
Verification of each Compliant Core	[\$*]	Design and layout of a test chip on target process, Preparing patterns for the test chip, improvement in existing patterns if necessary, and design and build of a tester load-board (~10 man-months+board costs).

National reserves the right to change its rates for test chip verification at any time without notice.

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[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT Q
TOOLS FEES

Tools	Estimated VAR Cost Per Additional Seat	Description
CR16-SWA-1xx	\$[*]	Additional Individual (1 seat) license for tools.

All tools can be purchased from National at the then currently published rates. National reserves the right to change its rates for tools at any time without notice.

[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

EXHIBIT R
COMPACTRISC CORES LICENSED FOR DSP'S OWN USE

Core Licensed to DSP

Effective Date of License

EXHIBIT S
ERROR REPORT

NAME: _____ PHONE ___ - _____

COMPANY/UNIT NAME: _____ FAX: ___ - _____

DATE OF REPORT: _____ E-MAIL: ___ - _____

ISSUE NUMBER: _____ (ASSIGNED BY CTU)

Short Description: _____

Severity: HIGH Critical Severe Moderate Minor Low
TYPE: S/W H/W CORE SPEC MANUALS

REVISION NUMBER: _____

MODULE
SUSPECTED: _____

Found By: _____

INSTRUCTIONS TO REPRODUCE:

FOR NSC USE ONLY

DATE: _____ HANDLED BY: _____

SEVERITY: q Critical q Severe q Moderate q Minor
TYPE: ASAP q 1month q 3 months q 6 months q Next Release

COMMENTS: _____

EXHIBIT T
SUPPORT AND MAINTENANCE TO BE PROVIDED BY DSP

- 0.0 "Supported Sublicensee" shall mean any National Sublicensee for which DSP directly provides support and maintenance services.
- 1.1 During the term of this Agreement, DSP shall, if required, provide a reasonable level of the support and maintenance services described in Sections 1.2 1.7 to each Supported Sublicensee. National shall have no obligation to provide any support or maintenance services to a Supported Sublicensee receiving support directly from DSP.
- 1.2 DSP shall provide reasonable telephone and electronic mail support regarding the operation, design and other technical aspects of the Licensed Technology. Such support will be available during DSP's normal business hours, Monday through Friday (excluding DSP holidays).
- 1.3 DSP shall promptly notify Supported Sublicensees via electronic mail of the existence of any positively identified Errors in the form of the report set forth in Exhibit S ("Error Report"). DSP shall provide Supported Sublicensees with any Error corrections to the Licensed Technology at such time as they are generally made available to DSP.
- 1.4 DSP shall provide Supported Sublicensees with all modifications, enhancements and updates to the Licensed Technology which are generally made available to DSP at such time as they are generally made available to DSP Sublicensees.
- 1.5 If DSP reasonably determines that Errors are caused by mistakes or errors contained in the applicable Licensed Technology documentation, DSP shall request that National promptly issue corrections to such documentation.
- 1.6 Upon DSP's receipt of an Error Report and test case from the Supported Sublicensee, DSP will within [*] ([*]) days verify that it is a valid Error and that the Error was not previously reported by DSP. For verified and previously unreported Errors, DSP will promptly provide such materials to National. Supported Sublicensee shall provide DSP, and DSP will forward to National, such samples, technical information and assistance as National may reasonably require to enable National to provide support and maintenance services.

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[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

1.7 DSP shall be obligated to provide maintenance and support to the extent the Licensed Technology remains unmodified and properly maintained at revision levels supported by DSP, which shall include, at a minimum, the most recent revision level and the revision level immediately preceding the most recent revision level. If it is reasonably determined by DSP or National that any apparent Error with the Licensed Technology is due to alterations of the Licensed Technology by the Supported Sublicensee or any third party, the use of an unsupported version of the Licensed Technology, or failure to comply with the terms and conditions of the appropriate license and support agreement(s) between National and the Supported Sublicensee, DSP shall notify the Supported Sublicensee, and if the Supported Sublicensee still wishes to receive Error corrections, the time and expenses associated with such support effort will be billed by National at its standard rates then in effect.

EXHIBIT U
MANUFACTURER NAME SUBSTITUTION GUIDELINES

DSP and DSP Sublicensees may replace references to the name of National Semiconductor Corporation in the sales and support literature with their own individual corporate names to identify themselves as manufacturers of the Compliant Products described in the literature. In no case however shall the substitution change or confuse the fact that National Semiconductor Corporation or its licensors has developed and owns certain rights title and interest to the CompactRISC processing technology, the associated intellectual property rights and the CompactRISC trademark.

DSP and its Sublicensees shall not use the National Semiconductor Corporation trademark in any form or for any purpose. No license or grant is given to DSP or DSP Sublicensees for use of this trademark.

EXHIBIT V

POTENTIAL SUBLICENSEES WITH RIGHTS TO HAVE
COMPLIANT PRODUCTS MADE BY THIRD PARTIES

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[*] = Omitted pursuant to a confidential treatment request. The material has been filed separately with the Securities and Exchange Commission.

AMENDMENT TO EMPLOYMENT AGREEMENT

Between DSP Group Inc., DSP Semiconductors Ltd. and Eli Ayalon, hereby referred to as "The Executive." Effective date November 3, 1997.

1. In the event the Executive terminates the agreement without Good Reason or the Corporation terminates the agreement for Cause, no further payments shall be made and the Executive shall be subject to a one year prohibition against competition in addition to the customary prohibitions against disclosure of trade secretes.
2. The base compensation of the Executive shall be fixed at the commencement of each year, but shall not be subject to reduction during the term of the agreement.
3. Upon a change in control of the Corporation or if the agreement is terminated by the Executive for Good Reason or by the Corporation without Cause, all rights of the Executive under the contract would continue for two years and all options held by the Executive would accelerate and immediately vest and be exercisable in whole or in part at any time during the remaining two-year term of the agreement.
4. In the event of death or permanent disability of the Executive all options shall accelerate and immediately vest.
5. For purposes of these agreements, "Cause" would be defined as willful failure to perform the Executive's duties after notice and a reasonable opportunity to cure the breach or conviction of a felony.

/s/ IGAL KOHAVI

/s/ ELI AYALON

DSP Group Inc.

Eli AYALON

/s/ IGAL KOHAVI

DSP Semiconductors Ltd.

AMENDMENT TO EMPLOYMENT AGREEMENT

Between DSP Group Inc., DSP Semiconductors Ltd. and Igal Kohavi, hereby referred to as "The Executive." Effective date November 3, 1997.

1. In the event the Executive terminates the agreement without Good Reason or the Corporation terminates the agreement for Cause, no further payments shall be made and the Executive shall be subject to a one year prohibition against competition in addition to the customary prohibitions against disclosure of trade secretes.
2. The base compensation of the Executive shall be fixed at the commencement of each year, but shall not be subject to reduction during the term of the agreement.
3. Upon a change in control of the Corporation or if the agreement is terminated by the Executive for Good Reason or by the Corporation without Cause, all rights of the Executive under the contract would continue for two years and all options held by the Executive would accelerate and immediately vest and be exercisable in whole or in part at any time during the remaining two-year term of the agreement.
4. In the event of death or permanent disability of the Executive all options shall accelerate and immediately vest.
5. For purposes of these agreements, "Cause" would be defined as willful failure to perform the Executive's duties after notice and a reasonable opportunity to cure the breach or conviction of a felony.

/s/ ELI AYALON

/s/ IGAL KOHAVI

DSP Group Inc.

Igal KOHAVI

/s/ ELI AYALON

DSP Semiconductors Ltd.

DSP GROUP, INC.

1993 DIRECTOR STOCK OPTION PLAN
(As Amended November 3, 1997)

1. PURPOSES OF THE PLAN. The purposes of this Director Stock Option Plan are to attract and retain the best available personnel for service as Directors of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors, and to encourage their continued service on the Board.

All options granted hereunder shall be "nonstatutory stock options."

2. DEFINITIONS. As used herein, the following definitions shall apply:

- a. "BOARD" shall mean the Board of Directors of the Company.
- b. "CODE" shall mean the Internal Revenue Code of 1986, as amended.
- c. "COMMON STOCK" shall mean the Common Stock of the Company.
- d. "COMPANY" shall mean DSP Group, Inc., a Delaware corporation.
- e. "CONTINUOUS STATUS AS A DIRECTOR" shall mean the absence of any interruption or termination of service as a Director.
- f. "DIRECTOR" shall mean a member of the Board.
- g. "EFFECTIVE DATE" shall have the meaning as set forth in Section 6 below.
- h. "EMPLOYEE" shall mean any person, including officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee by the Company shall not be sufficient in and of itself to constitute "employment" by the Company.
- i. "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.
- j. "FIRST OPTION" shall have the meaning as set forth in Section 4.b.ii. below.
- k. "OPTION" shall mean a stock option granted pursuant to the Plan.
- l. "OPTIONED STOCK" shall mean the Common Stock subject to an Option.
- m. "OPTIONEE" shall mean an Outside Director who receives an Option.
- n. "OUTSIDE DIRECTOR" shall mean a Director who is not an Employee.
- o. "PARENT" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.
- p. "PLAN" shall mean this 1993 Director Stock Option Plan.
- q. "SHARE" shall mean a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.
- r. "SUBSEQUENT OPTION" shall have the meaning as set forth in Section 4.b.iii. below.
- s. "SUBSIDIARY" shall mean a "Subsidiary Corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.
- t. "AFFILIATE" and "ASSOCIATE" shall have the respective meanings ascribed to such terms in Rule 126-2 promulgated under the Exchange Act.
- u. "CHANGE IN CONTROL" means a change in ownership or control of the Company effected through either of the following transactions:
 - (i) the direct or indirect acquisition by any person or related group of persons (other than an acquisition from or by the Company or by a Company-sponsored employee benefit

plan or by a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders which a majority of the Continuing Directors who are not Affiliates or Associates of the offeror do not recommend such stockholders accept, or

(ii) a change in the composition of the Board over a period of thirty-six (36) months or less such that a majority of the Board members (rounded up to the next whole number) ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who are Continuing Directors.

v. "CONTINUING DIRECTORS" means members of the Board who either (i) have been Board members continuously for a period of at least thirty-six (36) months or (ii) have been Board members for less than thirty-six (36) months and were elected or nominated for election as Board members by at least a majority of the Board members described in clause (i) who were still in office at the time such election or nomination was approved by the Board.

w. "CORPORATE TRANSACTION" means any of the following stockholder-approved transactions to which the Company is a party:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company (including the capital stock of the Company's subsidiary corporations) in connection with the complete liquidation or dissolution of the Company; or

(iii) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger.

3. STOCK SUBJECT TO THE PLAN. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is 175,000 Shares (the "Pool") of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan. If Shares which were acquired upon exercise of an Option are subsequently repurchased by the Company, such Shares shall not in any event be returned to the Plan and shall not become available for future grant under the Plan.

4. ADMINISTRATION OF AND GRANTS OF OPTIONS UNDER THE PLAN.

a. ADMINISTRATOR. Except as otherwise required herein, the Plan shall be administered by the Board.

b. PROCEDURE FOR GRANTS. All grants of Options hereunder shall be automatic and nondiscretionary and shall be made strictly in accordance with the following provisions:

i) No person shall have any discretion to select which Outside Directors shall be granted Options or to determine the number of Shares to be covered by Options granted to Outside Directors.

ii) Each person who is an Outside Director on the Effective Date of this Plan and each Outside Director who subsequently becomes a member of the Board of Directors shall be automatically granted an Option to purchase 15,000 Shares (the "First Option") on the date on which the later of the following events occurs: (A) the Effective Date of this Plan, as determined in accordance with Section 6

hereof; or (B) the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board of Directors to fill a vacancy.

iii) Additionally, beginning on January 1, 1997, each Outside Director shall be automatically granted (i) an Option to purchase 5,000 Shares (a "Subsequent Option"), on January 1 of each year, if on such date, he or she shall have served on the Board for at least six (6) months and (ii) an Option to purchase 5,000 Shares (a "Committee Option"), on January 1 of each year, for each committee of the Board on which he or she shall have served as the chairperson for at least six (6) months on such date.

iv) Notwithstanding the provisions of subsections (ii) and (iii) hereof, in the event that a grant would cause the number of Shares subject to outstanding Options, plus the number of shares previously purchased upon exercise of Options to exceed the Pool, then each such automatic grant shall be for that number of Shares determined by dividing the total number of Shares remaining available for grant by the number of grants to be made on the automatic grant date. Any further grants shall then be deferred until such time, if any, as additional Shares become available for grant under the Plan through action of the stockholders to increase the number of Shares which may be issued under the Plan or through cancellation or expiration of Options previously granted hereunder.

v) Notwithstanding the provisions of subsections ii) and iii) hereof, any grant of an Option made before the Company has obtained stockholder approval of the Plan in accordance with Section 17 hereof shall have their exercisability conditioned upon obtaining such stockholder approval of the Plan in accordance with Section 17 hereof.

vi) The terms of any Option granted hereunder shall be as follows:

a) The First Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Section 9 hereof.

b) The exercise price per Share shall be 100% of the fair market value (as defined in Section 8.b. hereunder) per Share on the date of grant of the First Option.

c) The First Option shall vest and become exercisable as to one-third of the Shares subject to the First Option on the first anniversary of the date of grant of the First Option, and shall vest and become exercisable as to one-third of the Shares subject to the First Option at the end of each twelve-month period thereafter, subject to the provisions set forth in Section 9, below.

c. POWERS OF THE BOARD. Subject to the provisions and restrictions of the Plan, the Board shall have the authority, in its discretion: (i) to determine, upon review of relevant information and in accordance with Section 8.b. of the Plan, the fair market value of the Common Stock; (ii) to determine the exercise price per share of Options to be granted, which exercise price shall be determined in accordance with Section 8.a. of the Plan; (iii) to interpret the Plan; (iv) to prescribe, amend and rescind rules and regulations relating to the Plan; (v) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option previously granted hereunder; and (vi) to make all other determinations deemed necessary or advisable for the administration of the Plan.

d. EFFECT OF BOARD'S DECISION. All decisions, determinations and interpretations of the Board shall be final and binding on all Optionees and any other holders of any Options granted under the Plan.

5. ELIGIBILITY. Options may be granted only to Outside Directors. All Options shall be automatically granted in accordance with the terms set forth in Section 4.b. hereof. An Outside Director who has been granted an Option may, if he or she is otherwise eligible, be granted an additional Option or Options in accordance with such provisions.

The Plan shall not confer upon an Optionee any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which the Director or the Company may have to terminate his or her directorship at any time.

6. TERM OF PLAN; EFFECTIVE DATE. The Plan shall become effective on the date on which the Company's registration statement on Form S-1 (or any successor form thereof) is declared effective by the Securities and Exchange Commission (the "Effective Date"). It shall continue in effect for a term of ten (10) years, unless sooner terminated under Section 13 of the Plan, subject to the limitations set forth in this Plan.

7. TERM OF OPTION. The term of each Option shall be ten (10) years from the date of grant thereof.

8. EXERCISE PRICE AND CONSIDERATION.

a. EXERCISE PRICE. The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be 100% of the fair market value per Share on the date of grant of the Option.

b. FAIR MARKET VALUE. The fair market value per Share shall be the mean of the bid and asked prices of the Common Stock in the over-the-counter market on the date of grant, as reported in THE WALL STREET JOURNAL (or, if not so reported, as otherwise reported by the National Association of Securities Dealers Automated Quotation ("NASDAQ") System) or, in the event that the Common Stock is traded on the NASDAQ National Market System or listed on a stock exchange, the fair market value per Share shall be the closing price on such system or exchange on the date of grant of the Option, as reported in THE WALL STREET JOURNAL; provided, however, that if such market or exchange is closed on the date of the grant of the Option then the fair market value per Share shall be based on the most recent date on which such trading occurred immediately prior to the date of the grant of the Option; provided, further, that for purposes of First Options granted on the Effective Date, the fair market value per share shall be the initial public offering price as set forth in the final prospectus filed with the Securities and Exchange Commission pursuant to Rule 424 under the Securities Act of 1933, as amended.

c. FORM OF CONSIDERATION. The consideration to be paid for the Share to be issued upon exercise of an Option shall consist entirely of cash, check, other Shares having a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised (which, if acquired from the Company, shall have been held for at least six months), delivery of a properly executed exercise notice, together with such other documentation as the Company and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price, or any combination of such methods of payment and/or any other consideration or method of payment as shall be permitted under applicable corporate law.

9. EXERCISE OF OPTION.

a. PROCEDURE FOR EXERCISE: RIGHTS AS A STOCKHOLDER. An Option granted hereunder shall be exercisable at such times as are set forth in Section 4.b. hereof; provided, however, that no Options shall be exercisable until stockholder approval of the Plan in accordance with Section 17 hereof has been obtained.

An option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may consist of any consideration and method of payment allowable under Section 8.c. of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. A share certificate for the number of Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

b. TERMINATION OF STATUS AS A DIRECTOR. If an Outside Director ceases to serve as a Director, he or she may, but only within three (3) months after the date he or she ceases to be a Director of the Company, exercise his or her Option to the extent that he or she was entitled to exercise it at the date of such termination. Notwithstanding the foregoing, in no event may the Option be exercised after its term set forth in Section 7 has expired. To the extent that such Outside Director was not entitled to exercise an Option at the date of such termination, or does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

c. **DISABILITY OF OPTIONEE.** Notwithstanding the provisions of Section 9.b. above, in the event a Director is unable to continue his or her service as a Director with the Company as a result of his or her total and permanent disability (as defined in Section 22.3 of the Internal Revenue Code), he or she may, but only within six (6) months from the date of such termination, exercise his or her Option to the extent he or she was entitled to exercise it at the date of such termination. Notwithstanding the foregoing, in no event may the Option be exercised after its term set forth in Section 7 has expired. To the extent that he or she was not entitled to exercise the Option at the date of termination, or if he or she does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

d. **DEATH OF OPTIONEE.** In the event of the death of an Optionee:

i) during the term of the Option who is, at the time of his or her death, a Director of the Company and who shall have been in Continuous Status as a Director since the date of grant of the Option, the Option may be exercised, at any time within twelve (12) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status as Director for six (6) months after the date of death. Notwithstanding the foregoing, in no event may the Option be exercised after its term set forth in Section 7 has expired.

ii) within three (3) months after the termination of Continuous Status as a Director, the Option may be exercised, at any time within twelve (12) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination. Notwithstanding the foregoing, in no event may the option be exercised after its term set forth in Section 7 has expired.

10. **NONTRANSFERABILITY OF OPTIONS.** The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution. The designation of a beneficiary by an Optionee does not constitute a transfer. An Option may be exercised during the lifetime of an Optionee only by the Optionee or a transferee permitted under this Section.

11. **ADJUSTMENTS UPON CHANGES IN CAPITALIZATION, DISSOLUTION, MERGER OR ASSET SALE.**

a. **CHANGES IN CAPITALIZATION.** Subject to any required action by the stockholders of the Company, the number of Shares covered by each outstanding Option and the number of Shares which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per Share covered by each such outstanding Option, shall be proportionately adjusted for an increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or prices of Shares subject to an Option.

b. **DISSOLUTION OR LIQUIDATION.** In the event of the proposed dissolution or liquidation of the Company, to the extent that an Option has not been previously exercised, it will terminate immediately prior to the consummation of such proposed action. The Board may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise his or her Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable.

c. **MERGER OR ASSET SALE.** In the event of a Corporate Transaction, each Option which is at the time outstanding under the Plan automatically shall become fully vested and exercisable and be released from any restrictions on transfer and repurchase or forfeiture rights, immediately prior to the specified effective date of such Corporate Transaction, for all of the Shares at the time represented by such Option. Effective upon the consummation of the Corporate Transaction, all outstanding Options under the Plan shall terminate unless assumed by the successor company or its Parent. In the event of a Change in Control (other than a Change in Control which also is a Corporate Transaction), each Option which is at the time outstanding under the Plan

automatically shall become fully vested and exercisable and be released from any restrictions on transfer and repurchase or forfeiture rights, immediately prior to the specified effective date of such Change in Control, for all of the Shares at the time represented by such Options. Each such Option shall remain exercisable until the expiration or sooner termination of the applicable Option term.

12. TIME OF GRANTING OPTIONS. The date of grant of an Option shall, for all purposes, be the date determined in accordance with Section 4.b. hereof. Notice of the determination shall be given to each Outside Director to whom an Option is so granted within a reasonable time after the date of such grant.

13. AMENDMENT AND TERMINATION OF THE PLAN.

a. AMENDMENT AND TERMINATION. The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable; provided that, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act (or any other applicable law or regulation), the Company shall obtain approval of the stockholders of the Company to Plan amendments to the extent and in the manner required by such law or regulation. Notwithstanding the foregoing, the provisions set forth in Section 4 of this Plan (and any other Sections of this Plan that affect the formula award terms required to be specified in this Plan by Rule 16b-3) shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

b. EFFECT OF AMENDMENT OR TERMINATION. Any such amendment or termination of the Plan that would impair the rights of any Optionee shall not affect Options already granted to such Optionee and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

14. CONDITIONS UPON ISSUANCE OF SHARES. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

15. RESERVATION OF SHARES. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

16. OPTION AGREEMENT. Options shall be evidenced by written option agreements in such form as the Board shall approve.

17. STOCKHOLDER APPROVAL.

a. Continuance of the Plan shall be subject to approval by the stockholders of the Company at or prior to the first annual meeting of stockholders held subsequent to the granting of an Option hereunder. If such stockholder approval is obtained at a duly held stockholders' meeting, it may be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the Company present or represented and entitled to vote thereon. If such stockholder approval is obtained by written consent, it may be obtained by the written consent of the holders of a majority of the outstanding shares of the Company.

Any required approval of the stockholders of the Company shall be solicited substantially in accordance with Section 14.a. of the Exchange Act and the rules and regulations promulgated thereunder.

DSP Group Inc.

Selected Consolidated Financial Data

	YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
STATEMENTS OF OPERATIONS DATA:					
Revenues	\$61,959	\$52,910	\$50,347	\$28,604	\$12,447
Income (loss) from continuing operations	\$11,034	\$ 5,979	\$ 7,211	\$ 4,032	\$ (467)
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	9,736	9,510	9,352	8,111	2,125
Weighted average number of common shares outstanding during the period used to compute diluted earnings per share	10,203	9,581	9,658	9,135	2,125
Net income (loss) per share - Basic	\$ 1.13	\$.63	\$.77	\$.50	\$ (.22)
Net income (loss) per share - Diluted	\$ 1.08	\$.62	\$.75	\$.44	\$ (.22)
BALANCE SHEET DATA:					
Cash, cash equivalents and marketable securities	\$65,944	\$42,934	\$33,828	\$26,376	\$ 2,019
Working capital	\$66,947	\$47,851	\$39,304	\$29,824	\$ 1,797
Total assets	\$85,168	\$59,207	\$54,854	\$43,563	\$ 8,070
Long-term obligations, less current portion	\$ -	\$ -	\$ -	\$ -	\$ 1,211
Total stockholders' equity	\$74,170	\$54,449	\$47,541	\$36,801	\$ 2,517

FISCAL YEARS BY QUARTER

	1997				1996			
	4TH	3RD	2ND	1ST	4TH	3RD	2ND	1ST
	(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)							
QUARTERLY DATA:								
Revenues	\$16,581	\$16,558	\$14,642	\$14,178	\$15,081	\$13,611	\$13,021	\$11,197
Gross profit	\$8,697	\$8,050	\$6,595	\$6,305	\$6,660	\$5,015	\$4,940	\$5,767
Net income (loss) (1)	\$3,445	\$3,348	\$2,225	\$2,016	\$5,400	\$ (263)	\$268	\$574
Net income (loss) per share - Basic	\$.34	\$.34	\$.23	\$.21	\$.57	\$ (.03)	\$.03	\$.06
Net income (loss) per share - Diluted	\$.33	\$.32	\$.23	\$.21	\$.56	\$ (.03)	\$.03	\$.06

(1) See Notes 1 and 8 of Notes to Consolidated Financial Statements for explanation of charge for acquired in-process research and development in third quarter of 1996, and gain on settlement of a lawsuit in the fourth quarter of 1996.

DSP Group Inc.

Price Range of Common Stock

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

	HIGH	LOW
	-----	-----
1997		
First Quarter	\$13.00	\$ 8.50
Second Quarter	\$15.50	\$ 8.50
Third Quarter	\$40.38	\$15.06
Fourth Quarter	\$42.25	\$17.94
1996		
First Quarter	\$ 13.75	\$ 8.25
Second Quarter	\$ 15.00	\$ 8.75
Third Quarter	\$ 10.50	\$ 6.75
Fourth Quarter	\$ 11.25	\$ 7.38

As of December 31, 1997, there were approximately 90 holders of record of the Company's Common Stock, which the Company believes represents approximately 6,400 beneficial holders. The Company has not paid cash dividends on its Common Stock and presently intends to follow a policy of retaining any earnings for reinvestments in its business.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITIONS AND RESULTS OF OPERATION

RESULTS OF OPERATIONS. 1997 has been a successful year for DSP Group, following the completion of the Company's turnaround in 1996. Results of operations for 1997 show record level revenues, improved product gross margins, over all decreased operating expenses due to close monitoring.

The Company's liquidity and working capital continually improved throughout 1997 and by year end reached record highs in both cash and marketable securities and working capital.

TOTAL REVENUES. Total revenues were \$62.0 million in 1997, \$52.9 million in 1996 and \$50.4 million in 1995, representing an increase over the prior year of 17% for 1997 compared with a 5% increase for 1996 over 1995. The increase in 1997 is due primarily to increased sales of the Company's TAD speech processors and royalties received from licensees.

Through 1997 the Company maintained its role as a leading supplier of technologically advanced, cost effective speech processors. The Company's future operating results will be dependent upon a variety of factors - see also "Factors Affecting Operating Results" in this report and in the Company's Form 10-K for the year ended December 31, 1997.

Export sales, primarily consisting of TAD speech processors shipped to manufacturers in Europe and Asia, represented 92%, 91% and 81% of total revenues for the Company in 1997, 1996 and 1995 respectively. All export sales are denominated in U.S. dollars.

SIGNIFICANT CUSTOMERS. Revenues from a distributor, Tomen Electronics, accounted for 33% of total revenues in 1997 compared to 17% in 1996 and 25% in 1995.

Revenues from the Samsung group accounted were for 6% in 1997 compared to 11% in 1996. The loss of one or more major distributors or major customers could have an adverse effect on the Company's business, financial condition and results of operations.

GROSS PROFIT. Gross profit as a percentage of total revenues was 48% in 1997, 42% in 1996 and 48% in 1995. The increase in gross profit in 1997 compared to 1996 was due primarily to the increase in product gross profit. This gross profit was achieved even though the Company continues to experience price pressure for its TAD products. In 1997, management succeeded in reducing the high costs of manufacturing to create a higher gross profit.

Product gross profit as a percentage of product sales increased to 39% in 1997 from 29% in 1996. The decrease in product costs was achieved as a result of improvements in technology and better manufacturing prices obtained from foundries. In 1995 the product gross profit as a percentage of product sales was 40% mainly due to higher selling prices in 1995 as compared with selling prices in 1996.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses slightly decreased in 1997 to \$8.4 million from \$8.5 million in 1996. Research and development expenses in 1995 were \$8.4 million. This slight decrease in research and development expense in 1997 occurred as the Company finalized the consolidation of its research and development activities in Israel, which resulted in a closely managed, leaner and better focused research team. The slightly higher level of research and development expenses in 1996 compared to 1995 was primarily due to additional cost required to eliminate redundancies in the Company's research and development activities. Research and development expenses as a percentage of total revenues decreased to 14% in 1997 from 16% in 1996 and from 17% in 1995.

SALES AND MARKETING EXPENSES. Sales and marketing expenses increased in 1997 to \$4.9 million from \$4.4 million in 1996. This increase in expenses, primarily in the second half of 1997, is due to the Company's establishment of a new worldwide marketing group and extensive participation in trade shows and professional conferences.

Sales and marketing expenses decreased to \$4.4 million in 1996 from \$5.1 million in 1995, due primarily to the elimination of redundant managerial layers and strict monitoring of expenses. This decrease was partially offset by higher marketing expenses in the European office which had started to operate at the end of 1995. Sales and marketing expenses as a percentage of total revenues remained at 8% in both 1997 and 1996. In 1995 sales and marketing expenses as a percentage of total revenues was 10%.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses decreased significantly to \$4.5 million in 1997 from \$5.7 million in 1996 and from \$5.6 million in 1995. General and administrative expenses decreased mainly due to a decrease in salary and fringe benefits expense, legal expenses and closer monitoring of other expenses, such as facilities rent and maintenance and insurance expenses. General and administrative expenses in 1996 contain one time charges associated with the departure of senior management in the Santa Clara office.

General and administrative expenses as a percentage of total revenues decreased to 7% in 1997 from 11% in 1996 and 1995.

UNUSUAL ITEMS. In July 1996, the Company made an initial cash investment of \$2.0 million for approximately 40% of the equity interests in Aptel Ltd. ("Aptel"), which is located in Netanya, Israel. Aptel was an emerging company in its product development stage. In connection with the acquisition, the Company incurred a one-time write-off of acquired in-process technology of \$1.5 million based on an independent estimate of value.

In the second quarter of 1995, the Company decided to sell its 89% equity interest in its subsidiary Nogatech Inc. Accordingly, the Company incurred a charge of \$500,000 to write down Nogatech Inc., to its estimated fair value less costs to sell. In addition, in April 1995, the former Chairman of the Board of the Company resigned to pursue other business interests and as a result the Company incurred \$413,000 of severance expense.

OTHER INCOME (EXPENSE). Interest and other income increased to \$2.9 million in 1997 from \$1.6 million in 1996 and from \$1.4 million in 1995. The increase in 1997 is a result of higher levels of cash equivalents and marketable securities in 1997 as compared with 1996 and 1995, as well as higher interest yields.

Equity in loss of equity method investees were \$706,000, \$457,000 and \$212,000 in 1997, 1996 and 1995, respectively. The increase was due to higher equity losses of both Aptel and AudioCodes Ltd. Equity in loss of equity method investees also included amortization of the excess of purchase price over net assets acquired for an equity investment in AudioCodes, Ltd., made in the second quarter of 1994.

GAIN ON SETTLEMENT OF LITIGATION. In October 1996, the Company entered into a settlement agreement with Rockwell International Corporation. As part of the litigation settlement a one time gain of \$3.8 million, net of legal expenses, was reported.

GAIN ON SALE OF STOCK IN AFFILIATE. The Company sold its remaining equity interest in DSP Communications, Inc. ("DSPC"), in DSPC's initial public offering in 1995. 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 \$1.9 million of cash, including amounts to related parties of \$1.4 million.

PROVISION FOR INCOME TAXES. The effective tax rate for the years ended December 31, 1997, 1996 and 1995 was 20%, 15% and 0.7%, respectively. The tax rate for 1997 is higher than 1996 due to decreased percentage benefits from the utilization of net operating loss carry forwards, offset slightly by increased percentage foreign tax holiday benefits and the recognition of previously unbenefited deferred tax assets. In 1995, the Company benefited, for federal, state, and Israeli tax purposes, from the utilization of its net operating loss carry forwards as well as the recognition of certain other deferred tax assets.

DSP Semiconductors Ltd. in Israel has been granted "Approved Enterprise" status by the Israel government according to two investment plans. The Approved Enterprise status allows a tax holiday for a period of 2 - 4 years and a corporate tax rate of 10% for an additional 6 - 8 years on the respective investment plans' proportionate share of taxable income. The tax benefits under these investment plans are scheduled to expire in 2005.

Management has assessed the need for a valuation allowance against deferred tax assets and has concluded that it is likely that \$1.3 million will not be realized. Management believes that the remaining deferred tax asset of approximately \$3.5 million will be realized based on current levels of future taxable income and potentially refundable taxes. Approximately, \$828,000 of the valuation allowance relates to deferred tax assets attributable to stock option deductions, the benefit of which will be credited to equity when realized.

LIQUIDITY AND CAPITAL RESOURCES

During 1997, the Company generated \$18.6 million of cash and cash equivalents from its operating activities as compared to \$11.3 million during 1996 and \$4.1 million in 1995. The increase in 1997 from 1996 was primarily due to the increase in net income from operations and the increase in deferred revenue. For 1996 as compared with 1995, cash flow from operations increased despite the decline in net income primarily because of a net reduction in operation assets and liabilities as compared with an increase in 1995, the non-operating cash flow effects of acquired research and development in 1996 as compared with the non-operating cash flow from gain on sale of stock in affiliated company in 1995, and a decrease in deferred taxes in 1996 as compared with an increase in 1995.

The Company invests excess cash in short and long term investments, depending on its projected cash needs for operations, capital expenditures and other business purposes. In 1997, 1996 and 1995, the Company purchased \$77.1 million, \$32.2 million and \$28.3 million, respectively, and sold \$49.3 million, \$20.6 million and \$18.2 million, respectively, of investments classified as marketable securities. In 1997, the Company extended the average maturity of its investments to a maximum of 18 months. As a result, as of December 31, 1997 a larger portion of the Company's investments were held for a period greater than one year as compared to the Company's investments at December 31, 1996.

Capital equipment purchases in 1997, 1996 and 1995 were \$2.2 million, \$836,000 and \$3.1 million, respectively, for computer hardware and software used in engineering development, engineering test equipment, leasehold improvements, vehicles, and furniture and fixtures. The 1997 acquisitions of capital equipment were primarily leasehold improvements in the new facility in Israel.

In 1996, the Company made an initial cash investment of \$2.0 million for approximately 40% of the equity interests in Aptel Ltd. ("Aptel"). In 1997, the Company invested an additional \$176,000 in convertible debentures in Aptel. Subsequently, Aptel's shareholders, including the Company, exchanged their shares in Aptel for shares in Nexus Telecommunications Systems Ltd. ("Nexus"), an Israeli company, whose shares are registered and traded on the Nasdaq SmallCap Market. In 1995, the Company sold all its shares of DSP Communications Inc. and Nogatech, Inc. for aggregated amount of \$3.4 million.

Cash provided by financing activities in 1997, totaled \$6.6 million compared to \$495,000 and \$1.9 million in 1996 and 1995, respectively, received upon the exercise of employee stock options and the issuance of Common Stock under the Company's employee stock purchase plan. Repayment of stockholders' notes receivable provided cash of \$434,000 and \$706,000 in 1996 and 1995, respectively.

At December 31, 1997, the Company's principal source of liquidity consisted of cash and cash equivalents totaling \$7.3 million and marketable securities of \$58.6 million. The Company's working capital at December 31, 1997 was \$67.0 million, an increase from \$47.9 million at December 31, 1996.

The Company believes that its current cash, cash equivalent and marketable securities will be sufficient to meet its cash requirements through at least the next twelve months. In January 1998, the Company announced a stock repurchase program pursuant to which up to 1,000,000 shares of its Common Stock may be acquired in the open market or in privately negotiated transactions. Accordingly, the Company will use part of its available cash for this purpose. As part of its business strategy, the Company occasionally evaluates potential acquisitions of business, products and technologies. Accordingly, a portion of its available cash may be used for the acquisition of complementary products or business. Such potential transactions may require substantial capital resources, which may require the Company to seek additional debt or equity financing.

FACTORS AFFECTING OPERATING RESULTS. The stockholders' letter and discussion in this annual report concerning the Company's future products, expenses, revenue, liquidity and cash needs as well as the Company's plans and strategies contain forward-looking statements concerning the Company's future operations and financial results. These forward-looking statements are based on current expectations and the Company assumes 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.

The Company's revenues are derived predominantly 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 1998, the Company expects that revenues from its DSP core designs and TrueSpeech will be derived primarily from license fees rather than by 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 are dependent upon the success of its original equipment manufacturer ("OEM") licensees in introducing products utilizing the Company's technology and the success of those OEM products in the marketplace. Royalties from two DSP Core licensees have started to become meaningful in 1997.

The Company's quarterly operating results may fluctuate significantly as demand for TADs varies during the year due to seasonal customer buying patterns, and other factors, including the mix of products sold; fluctuations in the level of sales by OEMs and other vendors of products incorporating the Company's products; changes in general economic conditions, including the changing economic conditions in Southeast Asia and other factors, including those documented elsewhere in this report.

RECENT DEVELOPMENTS - REVENUES FROM ASIA. In 1997, the Company generated approximately \$19.9 million, or 39% of its total product sales, from sales to customers located in South Korea, Taiwan, Singapore and Hong Kong. While economic activity in some of these countries, most notably South Korea, has been adversely affected by recent developments in local currency and banking markets, the Company believes that the effect of these developments on the Company's business is somewhat mitigated by the financial condition of many of the Company's customers in these markets, such as Maxon, Daewoo and L.G. Electronics. Many of these customers are

leaders in their respective industries and conduct their business on a multinational basis. In addition, management estimates that approximately 70% of the Company's product sales generated from the Asian region in 1997 were used in end-products subsequently exported to non-Asian markets such as the United States and Europe, which represent an important source of foreign currency for these customers. The Company does not believe that economic conditions in Asia had a material effect on its 1997 revenue. The Company continues to believe that the geographic diversity of its customers and the diverse end-markets for its customers' products will continue to benefit the Company. In the first quarter of 1998 the Company has been experiencing a decline in the flow of orders from Southeast Asia, specially from South Korea mainly due to the general economic atmosphere in that region. If the trend continues, it may result in a decrease of the Company's backlog at the end of the first quarter. There can be no assurance that continued negative developments in the Asian region will not have an adverse effect on the Company's future operating performance.

PRICE COMPETITION. The Company has experienced and is experiencing a continued decrease in the average selling prices of its TAD speech processors. During 1997 the Company was able to offset this decrease on an annual basis through manufacturing cost reductions. However, any inability of the Company to respond to increased price competition for these and 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. The markets for the Company's products are extremely competitive and the Company expects this competition will increase. 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, selling and distribution resources and management expertise than the Company. Sales of TAD products comprise a substantial part 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.

DEPENDENTS ON 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 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 a sufficient portion of foundry capacity to meet the Company's needs in a timely manner. The Company believes that it now has sufficient foundry capacity through 1998. Revenues could be materially and adversely affected, however, should any of these foundries fail to meet the Company's request for products due to a shortage of production capacity, process difficulties or low yield rates.

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. Supply disruptions, shortages or termination of certain of these sources of supply could have an adverse effect on the Company's business and results of operations due to customers delay or discontinuance of orders for the Company's products until such components are available.

YEAR 2000 COMPLIANCE. The Company is aware of the issues associated with the programming code in existing computer systems as the year 2000 approaches. The "Year 2000" problem is concerned with whether computer systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. The Year 2000 problem is pervasive and complex as virtually every Company's computer operation will be affected in some way.

The Company is utilizing both internal and external resources to identify, correct or reprogram, and test the Company's systems for Year 2000 compliance. It is anticipated that all reprogramming efforts will be completed by December 31, 1998, allowing adequate time for testing. To date, confirmations have been received from the Company's primary processing vendors that plans are being developed to address processing of transactions in the year 2000. Management believes that Year 2000 compliance expenses will not have an adverse effect on the Company's earnings. However, there can be no assurances that Year 2000 problems will not occur with respect to the Company's computer systems. The Year 2000 problem may impact other entities with which the Company transacts business, and the Company cannot predict the effect of the Year 2000 problem on such entities.

INTELLECTUAL PROPERTY. As is typical in the semiconductor industry, 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.723.1, 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 such technology from AT&T. Other organizations including Lucent, NTT and VoiceCraft recently raised public claims that they have patents related to the G.723.1 technology. 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 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. However, the Company in its licensing activities represents only the four co-developers' patents and intellectual property rights as they relate to the G.723.1 technology. The Company believes that the ultimate resolution of these matters will not have material adverse effect on the Company's financial position and results of operations, or cash flows.

STOCKHOLDERS' 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 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. On March 7, 1997, the Court issued an order dismissing with prejudice all claims based on statements issued by the Company. The Court allowed plaintiffs to proceed with their claims regarding statements the Company allegedly made to securities analysts. The Court also dismissed with leave to amend plaintiffs' claim that the Company is responsible for the statements contained in analysts' reports, but the plaintiffs have chosen not to amend this claim. On November 5, 1997, the parties reached an agreement in principle to settle this litigation. The proposed settlement requires that the Company fund approximately \$50,000 of the settlement amount to fulfill the retention amounts under the Company's insurance policy. The proposed settlement is subject to the execution of a stipulation of settlement and court approval.

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.

DSP Group, Inc.

Consolidated Statements of Income

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Revenues:			
Product sales	\$51,238	\$41,290	\$41,425
Licensing, royalties and other	10,721	11,620	9,012
Total revenues	61,959	52,910	50,437
Costs of revenues:			
Cost of product sales	31,143	29,432	24,775
Cost of licensing, royalties and other	1,169	1,096	1,308
Total cost of revenues	32,312	30,528	26,083
Gross profit	29,647	22,382	24,354
Operating expenses:			
Research and development	8,420	8,481	8,396
Sales and marketing	4,934	4,429	5,135
General and administrative	4,505	5,669	5,624
Unusual items	-	1,529	913
Total operating expenses	17,859	20,108	20,068
Operating income	11,788	2,274	4,286
Other income (expense):			
Interest and other income	2,936	1,627	1,399
Interest expense and other	(226)	(158)	(102)
Gain on settlement of litigation, net of expenses	-	3,750	-
Equity in income (loss) of equity method investees, net of amortization of goodwill of \$351 in 1997, \$286 in 1996, and \$273 in 1995	(706)	(457)	(212)
Gain on sale of stock in affiliated company	-	-	1,893
Income before provision for income taxes	13,792	7,036	7,264
Provision for income taxes	(2,758)	(1,057)	(53)
Net income	\$11,034	\$ 5,979	\$ 7,211
Net earning per share:			
Basic	\$ 1.13	\$ 0.63	\$ 0.77
Diluted	\$ 1.08	\$ 0.62	\$ 0.75
Shares used in per share computation:			
Basic	9,736	9,510	9,352
Diluted	10,203	9,581	9,658

SEE ACCOMPANYING NOTES.

DSP Group, Inc.
Consolidated Balance Sheets

	DECEMBER 31,	
	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,325	\$ 12,172
Marketable securities	58,619	30,762
Accounts receivable, less allowance for returns and doubtful accounts of \$293 in 1997 and \$636 in 1996	3,594	4,861
Inventories	4,116	2,957
Deferred income taxes	2,850	500
Prepaid expenses and other current assets	1,441	1,357
Total current assets	77,945	52,609
Property and equipment, at cost:		
Computer equipment	6,341	5,985
Furniture and fixtures and other	1,428	1,040
Leasehold improvements	1,241	299
	9,010	7,324
Less accumulated depreciation and amortization		
	5,522	4,033
	3,488	3,291
Other investments, net of accumulated amortization		
	2,935	2,415
Other assets, net of accumulated amortization of \$284 in 1996		
	150	388
Deferred income taxes	650	504
Total assets	\$ 85,168	\$ 59,207

SEE ACCOMPANYING NOTES.

DSP Group, Inc.

Consolidated Balance Sheets (continued)

	DECEMBER 31,	
	1997	1996

	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,319	\$ 1,428
Accrued compensation and benefits	2,171	1,739
Income taxes payable	1,691	908
Accrued royalties	171	176
Deferred revenue	2,360	-
Accrued expenses and other	1,286	507

Total current liabilities	10,998	4,758
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value:		
Authorized shares -- 5,000		
Issued and outstanding shares -- none	-	-
Common stock, \$0.001 par value:		
Authorized shares -- 20,000		
Issued and outstanding shares -- 10,094 in 1997 and 9,540 in 1996	10	10
Additional paid-in capital	74,418	66,781
Unrealized gain on marketable equity security	1,050	-
Accumulated deficit	(1,308)	(12,342)

Total stockholders' equity	74,170	54,449

Total liabilities and stockholders' equity	\$ 85,168	\$ 59,207

SEE ACCOMPANYING NOTES.

DSP Group, Inc.

Consolidated Statements of Stockholders' Equity

THREE YEARS ENDED DECEMBER 31, 1997	COMMON SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	STOCKHOLDERS' NOTES RECEIVABLE (IN THOUSANDS)	ACCUMULATED DEFICIT	UNREALIZED GAIN ON MARKETABLE EQUITY SECURITY	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 1994	9,199	\$ 9	\$ 63,151	\$ (827)	\$ (25,532)	\$ --	\$ 36,801
Exercise of Common Stock options by employees and third parties for cash and notes receivable	224	--	1,986	(313)	--	--	1,673
Compensation expense upon acceleration of stock option vesting	--	--	130	--	--	--	130
Sale of Common Stock under employee stock purchase plan	16	--	222	--	--	--	222
Income tax benefit from stock options exercised	--	--	798	--	--	--	798
Payments on notes receivable from stockholders	--	--	--	706	--	--	706
Net income	--	--	--	--	7,211	--	7,211
Balance at December 31, 1995	9,439	9	66,287	(434)	(18,321)	--	47,541
Exercise of Common Stock options by employees	77	1	283	--	--	--	284
Sale of Common Stock under employee stock purchase plan	24	--	211	--	--	--	211
Payments on notes receivable from stockholders	--	--	--	434	--	--	434
Net income	--	--	--	--	5,979	--	5,979
Balance at December 31, 1996	9,540	10	66,781	--	(12,342)	--	54,449
Exercise of Common Stock options by employees	526	--	6,382	--	--	--	6,382
Sale of Common Stock under employee stock purchase plan	28	--	218	--	--	--	218
Income tax benefit from stock options exercised	--	--	1,037	--	--	--	1,037
Unrealized gain on marketable security	--	--	--	--	--	1,050	1,050
Net income	--	--	--	--	11,034	--	11,034
Balance at December 31, 1997	10,094	\$ 10	\$ 74,418	\$ --	\$ (1,308)	\$1,050	\$ 74,170

SEE ACCOMPANYING NOTES.

DSP Group, Inc.

Consolidated Statements of Cash Flows

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995

	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income	\$ 11,034	\$ 5,979	\$ 7,211
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,797	1,443	1,278
Amortization of software development costs	322	185	98
Loss (gain) on disposal of equipment	-	-	(30)
Deferred revenue	2,360	(50)	(53)
Deferred income tax	(1,459)	1,169	(2,173)
Gain on sale of stock of affiliated company	-	-	(1,893)
Gain on write off of deferred rent	-	(380)	-
Acquired research and development from related party	-	1,529	-
Equity in loss (income) of equity method investees net of amortization	706	457	(212)
Write down/write off of assets	-	290	500
Write off of capitalized software development cost	-	31	89
Compensation expense upon acceleration of stock option vesting	-	-	130
Changes in operating assets and liabilities:			
Accounts receivable	1,267	2,628	(1,521)
Accounts and notes receivable from related parties	-	640	742
Inventories	(1,159)	43	(1,044)
Prepaid expenses and other current assets	(84)	(481)	(297)
Other assets	(84)	(14)	41
Accounts payable	1,891	(1,009)	(1,673)
Accrued compensation and benefits	432	(152)	600
Income taxes payable	783	(609)	1,344
Accrued royalties	(5)	(371)	249
Accrued expenses and other	779	16	335
	-----	-----	-----
Net cash provided by operating activities	18,580	11,344	4,145

SEE ACCOMPANYING NOTES.

DSP Group, Inc.

Consolidated Statements of Cash Flows (continued)

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995

	(IN THOUSANDS)		
INVESTING ACTIVITIES			
Purchase of available-for-sale marketable securities	\$ (77,135)	\$ (32,217)	\$ (28,310)
Sale of available-for-sale marketable securities	49,278	20,604	18,171
Purchases of equipment	(2,160)	(836)	(3,060)
Sale of equipment	166	-	75
Sale of Nogatech, Inc.	-	-	1,259
Sale of stock of affiliated company	-	-	1,893
Investment in Aptel	(176)	(2,158)	-
Capitalized software development costs	--	(173)	(265)

Net cash used in investing activities	(30,027)	(14,780)	(10,237)

FINANCING ACTIVITIES			
Line of credit	-	-	5
Sale of common stock for cash upon exercise of options, warrants, and employee stock purchase plan	6,600	495	1,895
Repayment of stockholders' notes receivable	-	434	706
Income tax benefit from stock option exercises	-	-	798

Net cash provided by financing activities	6,600	929	3,404

Decrease in cash and cash equivalents	(4,847)	(2,507)	(2,688)
Cash and cash equivalents at beginning of year	12,172	14,679	17,367

Cash and cash equivalents at end of year	\$ 7,325	\$12,172	\$14,679

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the period for:			
Interest expense	\$ 6	\$ 17	\$ 7
Income taxes	\$ 3,148	\$ 372	\$ 221
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Issuance of Common Stock in exchange for notes receivable, net of repurchases	\$ -	\$ -	\$ 313

SEE ACCOMPANYING NOTES.

December 31, 1997

1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

DSP Group, Inc. (the "Company") is engaged in the development of high-performance, cost-effective DSP-based software and integrated circuits for digital speech products targeted at the convergence of the personal computer, communications, and consumer electronics markets. The Company has three wholly owned subsidiaries: DSP Semiconductors Ltd. (DSP Semiconductors Israel), an Israeli corporation primarily engaged in research, development, marketing, sales, technical support and certain general and administrative functions, 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.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

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

PRODUCT SALES

Product sales of speech processors for digital telephone answering devices, computer telephony and other products are recognized upon shipment. The Company has no ongoing commitments after shipment other than for warranty and sales returns/exchanges by distributors. 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

Licensing revenues, including technology revenues, are generally recognized on shipment by the Company provided that no significant vendor or post-contract support obligations remain outstanding and collection of the resulting receivable is deemed probable. Insignificant vendor and post-support obligations are accrued upon shipment. 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 customer.

DEFERRED REVENUE

Deferred revenue at December 31, 1997, is primarily comprised of \$2,180,000 in deferred revenue for a certain untested TAD chip shipped to a customer in the third and fourth quarters of fiscal 1997. The customer has already paid for the chip, but the Company is deferring revenue recognition until the completion of its testing to ensure the chip meets customer specifications. The related inventory cost of the chip totals \$1,208,000 and is included in Finished Goods Inventory in the accompanying consolidated balance sheet. The Company currently anticipates that it will complete its testing in the first quarter of fiscal 1998. Upon completion of the testing, the Company's operating results will reflect the recognition of the deferred revenue and related inventory costs.

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, which range from three to ten years, or the life of the lease, whichever is shorter.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market and are composed of the following (IN THOUSANDS):

	DECEMBER 31,	
	1997	1996
Work-in-process	\$ 16	\$ 217
Finished goods	4,100	2,740
	<u>\$4,116</u>	<u>\$2,957</u>

OTHER INVESTMENTS

Other investments are comprised of (in thousands):

	DECEMBER 31,	
	1997	1996
Equity method investments:		
Investment in AudioCodes Ltd., net of accumulated amortization of \$876 in 1997 and \$681 in 1996	\$ 1,709	\$ 2,008
Investment in Aptel Ltd., net of accumulated amortization of \$14 in 1996	-	407
Cost method investments:		
Investment in Nexus Telecommunications Systems Ltd., at fair value (cost basis of \$176)	1,226	-
	<u>\$ 2,935</u>	<u>\$ 2,415</u>

AudioCodes, Ltd.

AudioCodes, Ltd. (AudioCodes) is an Israeli corporation primarily engaged in research, development production and marketing of voice communication products. 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 has an option 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.

The Company's equity in the net income (loss) of AudioCodes was (\$103,000) in 1997, \$36,000 in 1996, and \$61,000 in 1995. As of December 31, 1997, the difference between the investment in AudioCodes and the Company's proportionate share of net assets is \$356,000, primarily related to the remaining unamortized portion of the excess of purchase price over net assets.

Aptel Ltd. and Nexus Telecommunications Systems Ltd.

In July 1996, the Company invested \$2,000,000 of cash for approximately 40% of the equity interests in Aptel Ltd. (Aptel), which is located in Netanya, Israel. Aptel was an emerging company in its product development stage. Aptel had 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. 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 \$1,529,000 based on an independent estimate of value. 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 and \$221,000 in 1996. As of June 30, 1997, the Company had fully written-off its investment in Aptel.

In December 1997, Aptel's shareholder's (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 297,000 ordinary shares of Nexus in the exchange transaction amounting to a 2% ownership interest in Nexus. The Company's basis in the Nexus stock received is \$176,000 and the Company accounts for the investment using the cost method. The Company's investment in Nexus is classified as available-for-sale, however, the Company is restricted from trading the shares under an agreement with Nexus until December 1998. The Company's investment in Nexus is presented in the Company's consolidated balance sheet at the market value of the Nexus shares as of December 31, 1997, of \$1,226,000, with the unrealized gain of \$1,050,000 recorded as a separate component of stockholder's equity.

FOREIGN CURRENCY TRANSACTIONS

Foreign operations are measured using the U.S. dollar as the functional currency. Accordingly, monetary accounts (principally cash, receivables, and liabilities) are remeasured using the foreign exchange rate at the balance sheet date. Operations accounts and nonmonetary balance sheet accounts are remeasured at the rate in effect at the date of transaction. The effects of foreign currency remeasurement are reported in current operations and have not been significant to date.

NET INCOME PER SHARE

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share (SFAS 128). SFAS 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where necessary, restated to conform to the SFAS 128 requirements.

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the period. For the same periods, diluted net income per share further includes the effect of dilutive stock options outstanding during the period. The following table sets forth the computation of basic and diluted net income per share (in thousands except per share amounts):

	1997	1996	1995
	-----	-----	-----
Numerator:			
Net Income	\$11,034	\$5,979	\$7,211
	-----	-----	-----
Denominator:			
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	9,736	9,510	9,352
Incremental shares attributable to exercise of outstanding options (assuming proceeds would be used to purchase treasury stock)	467	71	306
	-----	-----	-----
Weighted average number of shares of common stock used to compute diluted earnings per share	10,203	9,581	9,658
Net income per share - Basic.	\$ 1.13	\$ 0.63	\$ 0.77
	-----	-----	-----
Net income per share - Diluted.	\$ 1.08	\$ 0.62	\$ 0.75
	-----	-----	-----

Options outstanding to purchase approximately 210,000, 1,067,000 and 119,000 of common stock for the years ended December 31, 1997, 1996 and 1995, respectively, were not included in the computation of diluted net income per share, because option exercise prices were greater than the average market price of the common stock resulting in an antidilutive effect.

CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Company to credit risk consist principally of cash, cash equivalents, marketable securities, and trade receivables. By policy, the Company places its cash, cash equivalents, and marketable securities only with high credit quality financial institutions and corporations and, other than U.S. Government Treasury instruments, limits the amounts invested in any one institution or type of investment. The majority of the Company's product sales 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 DSPCore microprocessor architectures and speech compression technology. No collateral is required from the Company's 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

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. The Company's operating results also depend on the timing of the recognition of license fees and the level of per unit royalties. During 1998, the Company expects that revenues from its DSPCore designs and TrueSpeech will continue to be derived primarily from license fees rather than per unit royalties. However, the uncertain timing of such license fees may continue to cause fluctuations in the Company's operating results. The Company's royalties from such products are totally dependent upon the success of its original equipment manufacturer ("OEM") licensees in introducing these products and the success of such products in the marketplace.

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, costs, and to allocate to the Company sufficient foundry capacities to meet the Company's needs in a timely manner. 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. 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 with an original maturity of three months or less to be cash equivalents. The carrying (at cost) amount of cash and cash equivalents as of December 31, 1996 and 1997 approximates fair value (quoted market price).

SECURITIES AVAILABLE-FOR-SALE

All debt and equity securities have been designated as available-for-sale under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). The amortized cost of available-for-sale debt securities is adjusted for the amortization of premiums and accretion of discounts to maturity. Such amortization is included in investment income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in investment income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest and other income.

The following is a summary of available-for-sale securities at December 31, 1997 and 1996 (IN THOUSANDS):

	AMORTIZED COST	
	1997	1996
Obligations of states and political subdivisions	\$ 6,002	\$16,891
Municipal auction rate preferred stock	-	2,200
Corporate obligations	53,270	19,301
	-----	-----
	\$59,272	\$38,392
	-----	-----
Amounts included in marketable securities	\$58,619	\$30,762
Amounts included in cash and cash equivalents	653	7,630
	-----	-----
	\$59,272	\$38,392
	-----	-----

At December 31, 1997 and 1996, the carrying amount of securities approximated the fair value (quoted market price), and the amount of unrealized gain or loss was not significant. Gross realized gains or losses for 1997, 1996, and 1995 were not significant.

The amortized cost of available-for-sale debt and securities at December 31, 1997, by contractual maturities, are shown below (IN THOUSANDS):

	AMORTIZED COST

Due in one year or less	\$43,531
Due after one year to twenty two months	15,088

	\$58,619

CAPITALIZED SOFTWARE DEVELOPMENT COSTS

The Company's policy is to capitalize software development costs beginning at the time technological feasibility is determined to have occurred using either the detailed program design or working model approach. Capitalizable software development costs were not material in 1997 and no such additional costs were capitalized during 1997. At December 31, 1997, all remaining capitalized software development costs have been fully amortized.

RECLASSIFICATION

Certain reclassifications have been made to the 1995 and 1996 consolidated financial statements to conform to the 1997 presentation.

GAIN ON SETTLEMENT OF LITIGATION

In October 1996, the Company entered into agreements with Rockwell International, Inc. ("Rockwell") to license certain of the Company's TrueSpeech speech technologies and to settle all pending litigation between the companies. In connection with the litigation settlement in fiscal 1996, the Company recorded in other income a one time gain on settlement of litigation, net of expenses of \$3,750,000.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement No. 130, Reporting Comprehensive Income ("SFAS 130") and Statement No. 131, Disclosures About Segments of An Enterprise and Related Information (SFAS 131). SFAS 130 establishes rules for reporting and displaying comprehensive income. SFAS 131 will require the Company to use the "management approach" in disclosing segment information. Both statements are effective for the Company during 1998.

2. 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

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:

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 2,800,000 shares of the Company's Common Stock. In addition, under the 1991 Plan, on the date on which a person first becomes a Director of the Company, such new Director is granted an option to purchase 10,000 shares of 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, as determined by the Board of Directors.

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

During October 1995, employees and officers holding options to purchase shares of the Company's Common stock were offered the opportunity to exchange their existing options for the same number of options at the then current market price. Under the terms of the program, options to purchase 395,000 shares of the Company's Common Stock were exchanged and are reflected in grant and cancellation activity for fiscal 1995.

DIRECTORS' PLAN

The Directors' Stock Option Plan (the "Directors' Plan") was adopted in January 1994. Under the Directors' Plan the Company is authorized to issue nonqualified stock options to purchase up to 175,000 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 shareholders, 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 15,000 shares (the "First Option"). Additionally, each outside director shall automatically be granted an option to purchase 5,000 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. In addition, an option to purchase 5,000 shares of Common Stock is granted on January 1 of each year to each outside Director for each committee of the Board of Directors on which he/she shall have as a chairperson for at least six months.

Options granted under the Directors' Plan generally have a term of ten years. The First Option is exercisable 25% 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 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 167,000 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. Nonvested shares are subject to repurchase by the Company at the original issuance price.

A summary of activity under the U.S. Plan, the 1993 Israeli Plan, and the Directors' Plan is as follows (SHARES IN THOUSANDS):

	OPTIONS OUTSTANDING		
	SHARES AVAILABLE FOR GRANT	SHARES UNDER OPTION	PRICE PER SHARE
Balance at December 31, 1994	133	889	\$ 1.80 - \$22.50
Authorized	500	-	
Granted	(902)	902	\$15.13 - \$24.25
Exercised	-	(224)	\$ 1.80 - \$15.40
Canceled	505	(505)	\$ 1.80 - \$24.25
Balance at December 31, 1995	236	1,062	\$ 1.80 - \$24.25
			Weighted Average Exercise Price
Authorized	875	-	\$ -
Granted	(990)	990	\$ 9.61
Exercised	-	(77)	\$ 3.71
Canceled	500	(500)	\$13.00
Balance at December 31, 1996	621	1,475	\$10.94
Authorized			
Granted	(797)	797	\$21.67
Exercised		(526)	\$12.12
Canceled	429	(429)	\$11.18
Balance at December 31, 1997	253	1,317	\$16.87

A summary of the Company's stock option activity and related information as of December 31, 1997, is as follows:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OF OUTSTANDING	WEIGHTED- AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$ 7.63 - \$ 8.99	292,512	3.97 Years	\$ 7.96	23,535	\$ 8.12
\$ 9.00 - \$13.99	308,716	4.49 Years	\$11.03	10,946	\$10.66
\$14.00 - \$19.99	156,294	3.20 Years	\$15.68	67,156	\$14.93
\$20.00 - \$25.99	264,400	4.75 Years	\$22.78	4,500	\$24.25
\$26.00 - \$34.38	295,000	4.66 Years	\$27.15	37,500	\$26.38
\$ 7.63 - \$34.48	1,316,922	4.31 Years	\$16.87	143,637	\$16.77

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"). An aggregate of 350,000 shares of the Company's Common Stock have been reserved 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 28,000, 24,000 and 16,000 shares issued under the Purchase Plan in 1997, 1996 and 1995, respectively.

COMMON STOCK RESERVED FOR FUTURE ISSUANCE

Shares of common stock of the Company reserved for future issuance at December 31, 1997 are as follows (IN THOUSANDS):

Employee Stock Purchase Plan	282
Stock Options	1,570
Undesignated Preferred Stock	5,000

	6,852

STOCK BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25") and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB Opinion No. 25, because the exercise price of the Company's stock options generally equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS 123 which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994, under the fair value method of this Statement. The fair value of these options was estimated at the date of grant using a Black-Scholes single option pricing model with the following weighted average assumptions; risk-free interest rates of 6.15%, 6.10% and 6.30% for 1997, 1996 and 1995, respectively; a dividend yield of 0.0%, a volatility factor of the expected market price of the Company's common stock of 0.70 for 1997 and 0.55 for 1996 and 1995, and a weighted-average expected life of the option of 2.7 years for 1997, and 3.6 years for 1996 and 1995. The weighed average net fair value of options granted in 1997, 1996 and 1995 was \$9.90, \$4.53 and \$6.58 per share, respectively.

The Company does not recognize compensation cost related to employee purchase rights under the Plan. To comply with the pro forma reporting requirements of SFAS 123, compensation cost is estimated for the fair value of the employees' purchase rights using the Black-Scholes model with the following assumptions for those rights granted in 1997, 1996 and 1995; dividend yield of 0.0%; an expected life ranging up to 0.5 years; expected volatility factor of 0.75 in 1997 and 0.5 in both 1996 and 1995; and a risk free interest rate of 5.49% in 1997 and 5.72% in both 1996 and 1995. The weighted average fair value of those purchase rights granted in January 1997, July 1997, January 1996, July 1996, January 1995 and July 1995 were \$2.45, \$8.21, \$1.31, \$1.17, \$6.29 and \$11.09, respectively.

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.

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:

	1997	1996	1995

	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Pro forma net income	\$ 8,485	\$ 2,843	\$ 5,112
Pro forma basic earnings per share	\$ 0.87	\$ 0.30	\$ 0.55
Pro forma diluted earnings per share	\$ 0.85	\$ 0.30	\$ 0.53

For pro forma disclosure under SFAS 123, the repricing of stock options in October 1995 is treated as a modification of an award. Any additional compensation arising from the modification is recognized over the remaining vesting period of the new grant. SFAS 123 is effective for options granted by the Company commencing January 1, 1995. All options granted before January 1, 1995 have not been valued and no pro forma compensation expense has been recognized. However, any option granted before January 1, 1995, that was repriced in 1995, is treated as a new grant within 1995 and is valued accordingly. In addition, since compensation expense is recognized over the vesting period of the related options, which are generally four years, and because pro forma disclosure is only required commencing with 1995, the initial impact on pro forma income may not be representative of compensation expense in future years.

3. INDUSTRY SEGMENT REPORTING

The Company and its subsidiaries operate in one industry segment, principally the development of affordable, high performance, cost effective DSP-based software, integrated circuits, and circuit boards.

Operations outside the United States include research, development, sales, and certain general and administrative functions. The Company's Israeli subsidiary performs research, development, sales, marketing, technical support, and certain general and administrative functions. The Company's Japanese and French subsidiaries perform marketing and technical support activities.

The following is a summary of operations within geographic areas (IN THOUSANDS):

	1997	1996	1995

Sales to unaffiliated customers:			
United States	\$57,364	\$51,883	\$49,163
Israel	4,595	1,027	1,274

	\$61,959	\$52,910	\$50,437

Transfers between geographic areas (eliminated in consolidation):			
Israel	\$9,398	\$7,435	\$4,846
Japan	602	574	542
Europe	319	436	-

	\$10,319	\$8,445	\$5,388

Income (loss) before provision (benefit) for income taxes (including intercompany amounts):			
United States	\$10,297	\$7,504	\$7,183
Israel	3,462	(596)	123
Japan	4	7	36
France	29	121	(78)

	\$13,792	\$7,036	\$7,264

Identifiable assets:			
United States	\$78,028	\$54,880	\$51,614
Israel	6,891	4,039	3,045
Japan	206	219	195
France	43	69	--
	-----	-----	-----
	\$85,168	\$59,207	\$54,854
	-----	-----	-----

	1997	1996	1995
	-----	-----	-----
Export sales:			
Asia	\$45,046	\$35,477	\$27,636
Europe	10,357	10,853	12,188
Israel	1,868	1,747	1,274
	-----	-----	-----
	\$57,271	\$48,077	\$41,098
	-----	-----	-----

Sales to one distributor totaled 33%, 17% and 25% of total revenues in 1997, 1996 and 1995 respectively, and sales to one other customer totaled 11% of total revenues for 1996.

4. 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 its Santa Clara facility lease obligations to another company (the "Assignee"). Accordingly, in 1997, the Company received payments from the lessor of \$322,000 in 1997 and will receive \$322,000 in 1998, \$322,000 in 1999, and \$295,000 in 2000 as compensation for the higher rents to be paid by the Assignee. In addition, commencing January 1, 1997, the Company began subleasing a new space in the same building from the Assignee under a separate sublease agreement that expires in December 1999. In August 1997 the Company entered into a new lease for its Israel facilities in Herzelia Pituach. The lease agreement is effective until May 2002.

At December 31, 1997, the Company is required to make the following minimum lease payments, to reflect the sublease of the new space by the Company as described above and the payments to be received from the lessor on the Santa Clara facility leases (in thousands):

Year	Amount
----	-----
1998	\$ 519
1999	462
2000	162
2001	438
2002	196

	\$1,777

Total rental expense for all leases was approximately \$778,000 (net of sublease income of \$469,000), \$334,000 (net of sublease income of \$546,000, and a gain of \$380,000 on write-off of deferred rent), and \$656,000 (net of \$171,000) for the years ended December 31, 1997, 1996, and 1995, 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.

STOCKHOLDERS' 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 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. On March 7, 1997, the Court issued an order dismissing with prejudice all claims based on statements issued by the Company. The Court permitted plaintiffs to proceed with their claims regarding statements the Company allegedly made to securities analysts. The Court also dismissed with leave to amend plaintiffs' claim that the Company is responsible for the statements contained in analysts' reports, but the plaintiffs have chosen not to amend this claim. On November 5, 1997, the parties reached an agreement in principle to settle this litigation. The proposed settlement requires that the Company fund approximately \$50,000 of the settlement amount to fulfill the retention amounts under the Company's insurance policy. The proposed settlement is subject to the execution of a stipulation of settlement and court approval.

5. INCOME TAXES

The provision for income taxes is as follows (IN THOUSANDS):

	1997	1996	1995
Federal taxes:			
Current	\$ 3,166	\$ (180)	\$ 1,898
Deferred	(1,301)	1,099	(2,173)
	-----	-----	-----
	1,865	919	(275)
State taxes:			
Current	337	3	239
Deferred	(158)	70	-
	-----	-----	-----
	179	73	239
Foreign taxes:			
Current	714	65	89
	-----	-----	-----
Provision for income taxes	\$ 2,758	\$1,057	\$ 53
	-----	-----	-----

The tax benefits associated with the exercise of stock options reduced taxes currently payable by \$1,037,000 in 1997 and \$798,000 in 1995. Such benefits were credited to paid in capital when realized.

Pretax income (loss) from foreign operations was \$3,495,000 in 1997, \$1,061,000 in 1996 (exclusive of an in-process technology write-off of \$1,529,000), and (\$81,000) in 1995.

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 \$4,286,000 at December 31, 1997. 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. Determination of the amount of additional taxes on unremitted earnings is not practicable.

A reconciliation between the Company's effective tax rate and the U.S. statutory rate of 35% in 1997 and 1995 and 34% in 1996 (in thousands):

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
Tax at U.S. statutory rate	\$ 4,827	\$ 2,396	\$ 2,646
State taxes, net of federal benefit	116	3	155
Operating losses utilized	(1,160)	(1,169)	(3,382)
Tax exempt interest income	(26)	(422)	(177)
Foreign income taxed at rates other than U.S. rate	(813)	(306)	44
Research and development expensed upon acquisition	--	520	--
Basis difference upon sale of subsidiary	-	--	711
Tax credits utilized	(480)	--	(126)
Nondeductible losses and expenses of investees	247	92	162
Other individually immaterial items	47	(57)	20
	\$ 2,758	\$ 1,057	\$ 53

As of December 31, 1997, the Company had federal net operating loss and tax credit carryforwards of approximately \$4,500,000 and \$530,000, respectively. The federal net operating loss carryforward will expire at various dates beginning in the years 2006 through 2009, if not utilized. The tax credits will expire at various dates beginning in the years 2000 through 2003, if not utilized.

Due to the change in ownership provisions of the Tax Reform Act of 1986, the Company's federal net operating loss carryforwards and approximately \$108,000 of credit carryforwards are subject to an annual limitation of approximately \$3,300,000 per year.

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, 1997 and 1996 are as follows (IN THOUSANDS):

	1997	1996
Deferred tax assets:		
Tax credits carryforwards	\$ 530	\$ 450
Net operating loss carryforwards	1,550	2,700
Capitalized research and development	330	450
Reserves and accruals	1,730	890
Other	610	210
Total deferred tax assets	4,750	4,700
Valuation allowance	(1,250)	(3,696)
Net deferred tax assets	\$ 3,500	\$ 1,004

Approximately \$828,000 of the valuation allowance at December 31, 1997 is related to benefits of stock option deductions, which will be allocated to paid-in capital when realized. The valuation allowance decreased by \$2,446,000, \$189,000 and \$5,201,000 for 1997, 1996 and 1995, respectively.

DSP Semiconductors Israel ("DSP Israel") has been awarded "Approved Enterprise" status by the Israeli government according to two investment plans that included investments of \$3,788,000 and \$760,000, respectively. The "Approved Enterprise" status allowed DSP Israel a two year tax holiday on undistributed earnings commencing with the year 1992 for which taxable income had been attained and a corporate tax rate of 10%, for an additional eight years, on the first investment plan's proportionate share of income. The proportionate share of income related to the second investment plan will entitle DSP Israel to a four year tax holiday on undistributed earnings commencing with the 1996 tax year and a corporate tax rate of 10% for an additional six years. The aggregate dollar and per share benefit of the Israeli tax holiday was \$1,154,000 and \$0.11 for 1997, and \$306,000 and \$0.03 for 1996, respectively.

6. RELATED PARTY TRANSACTIONS

In 1995, the Company performed certain contract engineering, research and development, sales and marketing, and general and administrative services for DSP Communications Inc. ("DSPC") amounting to \$919,000 and received certain research and development, sales and marketing, and general and administrative services from DSPC amounting to approximately \$122,000.

In 1995, the Company performed certain research and development and general and administrative services for Zen Research, amounting to approximately \$127,000.

In 1993, the Company entered into a development and licensing agreement with AudioCodes (SEE NOTE 1). 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 approximately 15% to 24% 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 1997, 1996 and 1995 the Company recorded approximately \$50,000, \$0 and \$527,000 of research and development costs related to this agreement and \$290,000, \$260,000 and \$179,000 in 1997, 1996 and 1995 of service fees.

RELATED PARTY TRANSACTIONS (IN THOUSANDS)	1997	1996	1995
REVENUES:			
PRODUCT SALES	\$1,542	\$1,644	--
LICENSING	\$ 206	\$ 65	\$1,046
COST OF REVENUES:			
COST OF PRODUCTS	\$ 291	--	--
COST OF LICENSING	\$ 268	\$ 355	\$ 179
OPERATING EXPENSES:			
RESEARCH AND DEVELOPMENT	\$ 340	\$ 269	\$ 527
SALES AND MARKETING	--	--	\$ 85
GENERAL AND ADMINISTRATIVE	--	--	\$ 34

7. SALE OF STOCK OF DSPC

DSPC is a Delaware corporation primarily engaged in the development and marketing of integrated circuits based on digital signal processing for the wireless communications market. The Company sold its remaining 131,000 shares of common stock of DSPC, the successor of a former subsidiary of the Company, DSP Telecommunications Ltd., in April 1995 upon the exercise of the underwriters' overallotment option in connection with DSPC's initial public offering. As the Company's basis in the investment had no book value, the sale resulted in a gain of approximately \$1,200,000 in the second quarter of 1995. The Company had sold 73,000 shares of common stock of DSPC in DSPC's March 1995 initial public offering, resulting in a gain of approximately \$666,000 in the first quarter of 1995. In 1994, the Company sold 1,234,000 shares of DSPC stock to a group of investors for \$1,851,000 in cash of which \$1,551,000 and \$300,000 were sold during the second and fourth quarter of 1994, respectively. Of this amount, \$1,351,000 was sold to investors who were also stockholders of the Company. As the Company's basis in the investment had no book value, the sale resulted in a gain of \$1,851,000.

8. UNUSUAL ITEMS

During the second quarter of 1995, the Company formulated a plan to divest its 89% equity interest in its 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." Nogatech's revenues for the period from January 1, 1995 through August 11, 1995 were \$500,000, and Nogatech incurred an operating loss, exclusive of the \$500,000 write-off, of \$767,000.

In April 1995, the former Chairman of the Board resigned to focus his efforts on DSPC where he serves as chairman. The Company incurred \$413,000 of severance expense as a result of this resignation. The expense consisted of \$283,000 for severance payments to be made over a two-year period and a \$130,000 charge for accelerated vesting of the former Chairman's outstanding stock options.

In July 1996, the Company acquired a 40% equity ownership interest in Aptel, Ltd., a company located in Israel. In connection with the acquisition, the Company recorded a charge of \$1,529,000 for acquired research and development from a related party in the third quarter of 1996 (SEE NOTE 1, OTHER INVESTMENTS).

9. SUBSEQUENT EVENTS

On January 27, 1998, the Company announced its intention to repurchase up to 1,000,000 shares of its common stock from time to time on the open-market or in privately negotiated transactions.

Report of Independent Auditors

The Board of Directors and Stockholders
DSP Group, Inc.

We have audited the accompanying consolidated balance sheets of DSP Group, Inc. as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. For the year ended December 31, 1997, we did not audit the financial statements of DSP Semiconductors, Ltd., a wholly-owned subsidiary, which statements reflect total assets of \$6,891,000 as of December 31, 1997, and total revenues of \$4,595,000, for the year then ended. Those statements were audited by Almagor & Co. whose report has been furnished to us, and our opinion, insofar as it relates to data included for DSP Semiconductors, Ltd., is based solely on the report of Almagor & Co.

We conducted our audits in accordance with generally accepted auditing standards. 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 and the report of Almagor & Co. provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of Almagor & Co., the financial statements referred to above present fairly, in all material respects, the consolidated financial position of DSP Group, Inc. at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

San Jose, California
January 23, 1998, except for Note 9, as to which the date is January 27, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS IN THE ANNUAL REPORT ON FORM 10-K OF DSP GROUP, INC FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR		
DEC-31-1997		
JAN-01-1997		
DEC-31-1997		7,325
	58,619	
	3,887	
	293	
	4,116	
	77,945	
		9,010
	5,522	
	85,168	
10,998		
		0
0		
		0
		10
	74,160	
85,168		
		51,238
	61,959	
		31,143
	32,312	
	8,420	
	0	
	226	
	13,792	
	2,758	
11,034		
	0	
	0	
		0
	11,034	
	1.13	
	1.08	

THIS RESTATED 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, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS		
	DEC-31-1997	
	JAN-01-1997	
	SEP-30-1997	
		14,911
		46,281
		3,393
		811
		3,987
	70,610	
		8,745
	(4,976)	
	76,889	
10,707		0
	0	
		0
		10
		66,172
76,889		
		37,626
	45,378	
		23,306
		24,428
		6,043
		0
	176	
		9,255
		1,666
	0	
		0
		0
		0
		7,589
		.79
		.76

THIS RESTATED 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 JUNE 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS	
DEC-31-1997	
JAN-01-1997	
JUN-30-1997	
	12,410
	36,849
	6,322
	700
	2,562
59,792	
	7,952
	4,482
	65,814
6,292	
	0
0	
	0
	10
	59,512
65,814	
	24,079
28,820	
	15,074
	15,920
	3,959
	0
	121
	5,021
	780
4,241	
	0
	0
	0
	4,241
	.44
	.44

THIS RESTATED 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 MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS		
	DEC-31-1997	
	JAN-01-1997	
	MAR-31-1997	
		17,224
		27,487
		7,254
		375
		2,634
	56,352	
		7,454
		4,110
		62,719
6,132		
		0
0		
		0
		10
		56,577
62,719		
		11,898
	14,178	
		7,530
		7,873
	1,941	
		0
	63	
	2,372	
		356
2,016		
		0
		0
		0
		2,016
		0.21
		0.21

THIS RESTATED SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS IN THE ANNUAL REPORT ON FORM 10-K OF DSP GROUP, INC. FOR THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR	DEC-31-1996	JAN-01-1996	DEC-31-1996
			12,172
		30,762	
		5,497	
		636	
		2,957	
	52,609		
			7,324
		4,033	
		59,207	
4,758			0
	0		
			0
			10
		54,439	
59,207			
			41,290
	52,910		
			29,432
		30,528	
		8,481	
		0	
		158	
		7,036	
		1,057	
	5,979		
		0	
		0	
			0
		5,979	
		0.63	
		0.62	

THIS RESTATED 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.

1,000

9-MOS	DEC-31-1996	
	JAN-01-1996	
	SEP-30-1996	24,152
		9,361
		5,051
		0
		5,389
	45,573	7,389
	(3,637)	
	53,805	
4,879		0
0		0
		9
	48,917	
53,805		29,136
	37,829	21,511
	22,107	
	6,584	
	0	
	121	
	646	
	68	
0	0	
	0	
		0
	578	
	0.06	
	0.06	

THIS RESTATED 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 JUNE 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS	DEC-31-1996	
	JAN-01-1996	
	JUN-30-1996	
		13,888
		18,406
		6,574
		0
		8,103
	48,844	
		7,020
	(3,295)	
	56,652	
7,591		
		0
0		
		0
		9
	49,061	
56,652		
		17,733
	24,218	
		13,133
		13,511
	4,782	
		0
	71	
	939	
		97
0		
		0
		0
		0
		842
		0.09
		0.09

THIS RESTATED 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 MARCH 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS	
DEC-31-1996	
JAN-01-1996	
MAR-31-1996	
	14,651
18,669	
5,376	
0	
7,951	
48,598	6,847
(2,965)	
56,627	
8,038	0
0	0
	9
	48,580
56,627	7,655
11,197	5,200
5,430	
2,544	
0	
43	
638	64
0	
0	
0	0
	574
	0.06
	0.06

THIS RESTATED SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS IN THE ANNUAL REPORT ON FORM 10-K OF DSP GROUP, INC. FOR THE YEAR ENDED DECEMBER 31, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR	DEC-31-1995	JAN-01-1995	DEC-31-1995
			14,679
		19,149	
		8,074	
		613	
		3,000	
	46,617		
			6,688
		2,591	
		54,854	
	7,313		
			0
	0		
			0
			9
		47,532	
54,854			
			41,425
	50,437		
			24,775
		26,083	
		8,396	
		0	
		102	
		7,264	
			53
	7,211		
			0
			0
			0
		7,211	
		.77	
		.75	

ALMAGOR & CO., CERTIFIED PUBLIC ACCOUNTANTS (ISRAEL)

AUDITORS' REPORT
TO THE SHAREHOLDERS OF
DSP SEMICONDUCTORS LTD.

We have audited the accompanying balance sheets of DSP Semiconductors Ltd. (hereinafter - the Company) as of December 31, 1997 and 1996 and the related statements of profit and loss, changes in shareholders' equity and cash flows for each of the years then ended translated into U.S. dollars. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards, including those prescribed by the Israeli Auditor's Regulations (Auditor's Mode of Performance), 1973. Such auditing standards are substantially identical to generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement, whether its source be a mistake made in the financial statements or whether its source be a misleading item included in them. An audit includes examining on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Company, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits the abovementioned financial statements present fairly in conformity with generally accepted accounting principles applied in Israel and in the United States (as applicable to these financial statements, such accounting principles are practically identical), in all material respects, the financial position of the Company as of December 31, 1997 and 1996 and the results of its operations, changes in shareholders equity, and cash flows for each of the years then ended.

Pursuant to Section 211 of the Companies Ordinance (New Version) - 1983, we state that we have obtained all the information and explanations we have required and our opinion on the above financial statements is given according to the best information and explanations received by us and as presented in the Company's books.

/s/ Almagor & Co.

Certified Public Accountants (Israel)

Tel-Aviv, Israel January 22, 1998