

Research Update*January 10, 2005*DSP Group, Inc. (DSPG—\$22.29)

Rating: Buy

Target: \$25

We expect the company to report 12/21/04 backlog approaching the \$42 million level of the prior year and well above the \$29 million level the year before that. On this basis, we regard our forecast for 1Q05 earnings of \$0.06 per share on revenue of \$32.0 million with a positive bias. We expect 4Q04 EPS to be reported in line with our adjusted/GAAP estimates of \$0.06/(\$0.03) on sales of \$26.0 million.

At CES the company appeared to be busy engaging customers with new products for video, cordless over WiFi and cordless for VoIP applications in general, although the residential VoIP market is still two to three orders of magnitude smaller than the PSTN market. In addition to the telephony activity, the company appears to be expanding its digital voice recorder offering to address higher-volume consumer applications for music storage. We regard this as a "wild card" to be monitored as a potential source of incremental revenue in the back half of the year. Although growth in Europe (digital European cordless telephone—DECT), improving domestic channel conditions and investment in R&D (VoIP, cordless over WiFi and video), as well as sales and marketing to new networking-oriented customers that come with VoIP and WiFi are the central elements of DSP Group's fundamentals these days, the addition of a growth-market wild card is encouraging—something we have not seen for a while from DSP Group.

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Important Disclosures and Analyst Certification

Prices herein are as of the close of January 7, 2005.

At the time of this report, Ferris, Baker Watts, Inc. makes a market in the shares of DSP Group, Inc.

The analyst(s) who prepared this report may be compensated in part from a bonus pool that is partially funded by fees received by Ferris, Baker Watts, Inc. for providing investment banking services.

There are three rating categories within the FBW Investment Rating System: Buy, Hold, and Sell. The rating assigned to each company is based on an analysis of four factors: intrinsic value, relative value, capital flow/market sentiment, and fundamental catalysts. In order for a Buy rating to be assigned, one factor must be positive, or two positives must be identified if one factor is negative; under a Hold rating, all factors are considered neutral, or positives and negatives are balanced; a Sell rating indicates that all four factors are negative, or negative fundamental developments imply questionable intrinsic value.

Analyst Certification: I, Matt Robison, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and its underlying securities. I further certify that we have not and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this research report.

Ratings Distribution & Investment Banking Disclosure

	Ratings Distribution [^]	Investment Banking [*]
Buy-rated	61%	28%
Hold-rated	37%	16%
Sell-rated	2%	0%

[^] Percentage of all FBW-covered stocks assigned a Buy, Hold, or Sell rating.

^{*} Percentage of companies within FBW-rated Buy, Hold, and Sell categories for which FBW or an associated firm provided investment banking services within the past 12 months.

Data as of 9/30/04

Rating & Target History (3-yr.)

DSP Group Inc. (DSPG)

7-Jan-2002 to 7-Jan-2005 (Daily)

U.S. Dollar

High: 29.400

Low: 11.738

Last: 22.290



Key: FBW Rating - Target

FBW has assigned a rating to DSPG for more than three years.

Source: FactSet Data Systems and FBW

Additional Information Available Upon Request

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