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Reason for Report:
Company Update; Earnings Report

Changes	From (Previous)	To (Current)
Rating	----	Outperform
Price Tgt	\$27.00	\$28.00
FY02E EPS	\$0.83	\$0.84
FY03E EPS	\$0.99	\$1.03
FY02E Rev (mil)	\$132.6	\$137.1
FY03E Rev (mil)	\$156.5	\$166.8

Price: \$21.27
52-Wk Range: \$26.48-\$17.68
Price Target: \$28.00
(sum of parts: 28x CY02E Op Inc. & Cash)
Shares Out (mil): 28.1
Market Cap (mil): \$598
Avg Daily Vol (000): 222
Book Value/Share: \$9.84
Cash Per Share: \$8.93
Debt to Total Capital: 0%
Div (ann) – Yield: Nil
Est LT EPS Growth 20%-25%
P/E to LT Growth (2002): 1.0x
Est Next Rep Date: Late July 2002
FY End: Dec. 2002

Rev (mil)	2001	2002E	2003E
Mar	\$24.2	\$25.2A	----
Jun	\$26.4	\$31.7	----
Sep	\$35.0	\$41.7	----
Dec	\$29.2	\$38.5	----
FY	\$114.7	\$137.1	\$166.8
CY	\$114.7	\$137.1	\$166.8

FY RM 5.2x 4.4x 3.6x
CY RM 5.2x 4.4x 3.6x

EPS	2001	2002E	2003E
Mar	\$0.21	\$0.12A	----
Jun	\$0.20	\$0.17	----
Sep	\$0.25	\$0.28	----
Dec	\$0.15	\$0.26	----
FY	\$0.79	\$0.84	\$1.03
CY	\$0.79	\$0.84	\$1.03

FY P/E 26.9x 25.3x 20.7x
CY P/E 26.9x 25.3x 20.7x

Note: EPS are fully diluted and exclude one-time items.

Disclosures (see last page for details):

- (#) Market Maker
- (^) Beneficial Interest
- (>) Beneficial Interest/Pre-IPO
- (@) Underwriter
- (-) Employee/Director

DSP Group Inc. (DSPG– \$21.27) Outperform

Volatility: High

The R Factor: Real Good Quarter + Raised Revenue Guidance = Raised EPS Estimates, Revised Target, And Reiteration Of Outperform Rating

KEY POINTS:

- We are raising our CY02E and CY03E estimates following a good 1Q02 performance and increased Product Sales guidance. Our new 12-month price target is \$28, or 28x CY02E operating income, plus the \$250 million cash on hand, up from \$27, previously.
- DSPG reported a good quarter yesterday with revenue of \$25.2 million and operating EPS of \$0.12 (excluding a \$0.02 allowance for one-time items) versus our estimates of \$24.9 million in sales and EPS of \$0.11. Excluding the one-time items, EPS was one penny higher than our estimates and two cents higher than consensus.
- The IP Licensing business remains very tough but Product Sales (Fabless Semi DSP chipset business) visibility is the best in Company history, fueled by sales of DSPG's 2.4GHz chipsets to some of the world's largest cordless phone OEMs.
- Management raised CY02 revenue guidance for Product Sales from 20% growth to 25% growth this year and stated that recent industry reports suggest a 50% increase in the sale of 2.4Ghz cordless handsets in CY03.
- The proposed merger of DSPG's Licensing Business (Ceva) with Parthus is on track for closure in Q3 of this year and remains a positive for DSPG shareholders.

INVESTMENT RECOMMENDATION:

DSP Group's moves to leverage its technology and market position in the digital telephony market are already bearing fruit in 2002 and will continue well into 2003. As consumers migrate to the 2.4 GHz digital cordless phones offering a wide range of features and functionality including greater range and multi-handset capabilities, DSPG will be entrenched in the marketplace as a primary chipset provider to the major OEMs. With great momentum in the product division and the Parthus/Ceva transaction looming on the horizon, we believe that limited downside exists at this time and that shareholder's are well positioned to benefit from this pending deal. **We reiterate our Outperform rating with a 12-month price target of \$28**, based upon 28x our CY02E operating earnings forecast, plus cash at hand.

COMPANY DESCRIPTION:

DSP Group, Inc. (#), is a global leader in the development and marketing of high-performance, cost-effective, licensable DSP cores. Gartner Group ranked DSP Group #1 in Licensable DSP Core market share in 2000. The Company's family of DSP cores provides ideal solutions for low-power, high-volume applications such as cellular, broadband communications, VoIP, digital audio, disk-drive controllers, and many other DSP applications. By combining its DSP core technologies with its proprietary, advanced speech-processing algorithms, DSP Group also delivers a wide range of enabling, application-specific integrated circuits for full-featured, cordless digital telephony products, including 900 MHz and 2.4 GHz cordless technologies. DSP Group's headquarters are located in Santa Clara, Calif. and the Company maintains an affiliate presence around the world.

More Details On The Good March Quarter

Yesterday, April 22, DSPG reported good 1Q02 results, beating expectations. Sales of \$25.2 million were ahead of our \$24.9 million estimate, while operating EPS of \$0.12 were two cents ahead of First Call consensus and a penny above our estimate. Product sales of \$20.6 million were ahead of our \$20.0 million projection, but were offset somewhat by a lower-than-expected contribution from IP Licensing. The Licensing division, Ceva, soon to be a merger partner in ParthusCeva, recorded revenue of \$4.6 million as compared with our optimistic \$4.9 million forecast. Operating expenses of \$10.8 million, excluding one-time items, were \$600,000 lower than our forecast, and aided the Company's out-performance. We note that the \$865,000 in one-time items are related to expenses associated with disbanding the IPO efforts for the Licensing division and a small start-up investment write-off.

Strong Outlook Ahead

While the Licensing division pipeline remains robust, the decision-making process remains lengthy, thus prompting management to reiterate its expectations for a flat revenue year in that segment. However, sales and visibility for the Company's 2.4GHz chipset are very strong, and management noted that the Company is enjoying its greatest visibility in product sales in history. We believe that this is a function of a number of design wins with key OEMs, and a migration from analog to digital phones. In addition, with multi-handset capabilities, and a longer range, the OEMs expect a 50% increase in 2.4GHz handset sales in 2003. As a dominant chipset provider to the major OEMs (thanks in part to strong RF technology), DSPG will be entrenched in this market and stands to be a huge beneficiary of the consumer trend toward procurement of 2.4GHz phones. The Q1 results are already beginning to flush this thesis out as 2.4GHz chipset sales accounted for 25% or more of total product sales despite the fact that the product did not begin shipment until the end of the period.

Raising Numbers

Due to the great positioning and visibility, management raised top-line guidance for product sales in CY02 from 20% annual growth to 25%. We have elected to revise our CY02 and CY03 estimates accordingly, and have produced a model that assumes no change in corporate structure for DSPG at this time. As we get closer to the spin-off date in Q3 for the ParthusCeva merger, we will modify our revenue and operating model for the Company.

Our revised forecasts include CY02E sales of \$137.1 million, up from \$132.6 million, and reflects a roughly \$5 million increase in product sales. Operating margin of around 15% excludes the aforementioned one-time items, and is higher than our previous forecast of 14.4% for the year. We note that operating margin in CY01 was only 12.5%. Although the corporate structure will change, and no guidance was provided, we have raised our CY03 forecasts as well. Our new CY03 projections include total revenue of \$166.8 million versus \$156.5 million previously and EPS of \$1.03 as compared with \$0.99.

Reiterate Market Outperform

With great momentum in the product division and the Parthus/Ceva transaction looming on the horizon, we believe that limited downside exists at this time and that shareholder's are well positioned to benefit from this pending deal. We reiterate our Outperform rating with a 12-month price target of \$28, based upon 28x our CY02E operating earnings forecast, plus cash at hand.

DSP Group Ltd
Income Statement
(\$ in thousands, except per share)

	2000	1Q01	2Q01	3Q01	4Q01	2001	1Q02A	2Q02E	3Q02E	4Q02E	200E	200E
Product Revenues	\$ 84383	\$ 18048	\$ 18845	\$ 26945	\$ 24231	\$ 88069	\$ 20585	\$ 25500	\$ 34500	\$ 30000	\$ 110585	\$ 135000
Licensing & Royalty Revenues	25129	6,126	7,513	8,010	4,956	26605	4,637	6,200	7,200	8,500	26537	31800
Total Revenues	\$ 109512	\$ 24174	\$ 26358	\$ 34955	\$ 29187	\$ 114674	\$ 25222	\$ 31700	\$ 41700	\$ 38500	\$ 137122	\$ 166800
Products	47861	9,683	11,276	17,283	14,540	52782	12,459	15,300	20,700	18,000	66,459	81,700
Licensing & Royalty	1047	324	481	361	425	1,591	464	496	576	680	2,216	3,200
Total Cost of Revenues	\$ 48908	\$ 10007	\$ 11,757	\$ 17,644	\$ 14,965	\$ 54373	\$ 12,923	\$ 15,800	\$ 21,300	\$ 18,700	\$ 68,675	\$ 84,900
Gross Profit	\$ 60604	\$ 14,167	\$ 14,601	\$ 17,311	\$ 14,222	\$ 60301	\$ 12,299	\$ 15,900	\$ 20,400	\$ 19,800	\$ 68,447	\$ 81,900
Research and Development, net	20912	6,272	6,402	6,564	6,923	26161	6,554	6,700	6,900	7,000	27,154	30,000
Sales and Marketing, net	12909	2,735	3,027	3,065	3,252	12,079	2,639	3,600	3,800	3,900	13,939	15,300
General and Administrative	6515	1,696	1,894	2,200	1,956	7,746	1,623	1,650	1,700	1,800	6,773	7,300
Unusual Items	14154	-	-	-	-	-	865	-	-	-	865	-
Total Operating Expenses	\$ 54490	\$ 10,703	\$ 11,323	\$ 11,829	\$ 12,131	\$ 45,986	\$ 11,681	\$ 11,950	\$ 12,400	\$ 12,700	\$ 47,866	\$ 52,600
Operating Income	\$ 6,114	\$ 3,464	\$ 3,278	\$ 5,482	\$ 2,091	\$ 14,315	\$ 618	\$ 3,950	\$ 8,000	\$ 7,100	\$ 20,581	\$ 29,300
Interest & Other Income	13521	3,467	3,508	3,200	3,107	13,282	2,682	2,200	2,300	2,400	9,582	10,000
Interest & Other Expense	(20)	(84)	(49)	(53)	(112)	(298)	(55)	-	-	-	(55)	-
Equity in Income of Affiliates	2644	105	-	-	-	105	-	-	-	-	-	-
Minority Interest in Loss of Subsidiary	148	173	-	-	-	173	-	-	-	-	-	-
Minority Interest in Subsidiary's Stock	379	-	-	-	-	-	-	-	-	-	-	-
Realization of investments	57593	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	\$ 80198	\$ 7,125	\$ 6,737	\$ 8,629	\$ 5,086	\$ 27,577	\$ 3,245	\$ 6,150	\$ 10,300	\$ 9,500	\$ 30,108	\$ 39,300
Income Taxes	29959	1,463	1,380	1,775	1,043	5,661	555	1,292	2,112	1,948	5,906	8,253
Net Income(Loss)	\$ 50239	\$ 5,662	\$ 5,357	\$ 6,854	\$ 4,043	\$ 21,916	\$ 2,690	\$ 4,859	\$ 8,189	\$ 7,553	\$ 24,203	\$ 31,047
Wtd Avg., Diluted Shares Outstanding	28598	27,438	27,445	27,790	27,818	27,800	28,059	28,500	28,800	29,300	28,665	30,000
Fully Diluted EPSadj. for one-time items	\$ 1.04	\$ 0.21	\$ 0.20	\$ 0.25	\$ 0.15	\$ 0.79	\$ 0.12	\$ 0.17	\$ 0.28	\$ 0.26	\$ 0.84	\$ 1.03
Margin Analysis												
Revenue Breakdown												
Product Sales	771%	74.7%	71.5%	77.1%	83.0%	768%	81.6%	80.4%	82.7%	77.9%	80.6%	80.9%
Licensing & Royalty Revenues	229%	25.3%	28.5%	22.9%	17.0%	232%	18.4%	19.6%	17.3%	22.1%	19.4%	19.1%
Gross												
Product Gross Margin	433%	46.3%	40.2%	35.9%	40.0%	401%	39.5%	40.0%	40.0%	40.0%	39.9%	39.5%
Licensing & Royalty Gross Margins	958%	94.7%	93.6%	95.5%	91.4%	940%	90.0%	92.0%	92.0%	92.0%	91.6%	89.9%
Total Gross Margin	553%	58.6%	55.4%	49.5%	48.7%	526%	48.8%	50.2%	48.9%	51.4%	49.9%	49.1%
Operating(as a % of Total Rev):												
R&D, net	191%	25.9%	24.3%	18.8%	23.7%	228%	26.0%	21.1%	16.5%	18.2%	19.8%	18.0%
Sales & Marketing, net	118%	11.3%	11.5%	8.8%	11.1%	105%	10.5%	11.4%	9.1%	10.1%	10.2%	9.2%
G&A	5.9%	7.0%	7.2%	6.3%	6.7%	6.8%	6.4%	5.2%	4.1%	4.7%	4.9%	4.4%
Total Operating Expenses	498%	44.3%	43.0%	33.8%	41.6%	401%	46.3%	37.7%	29.7%	33.0%	34.9%	31.5%
Total Operating Margin	5.6%	14.3%	12.4%	15.7%	7.2%	12.5%	2.5%	12.5%	19.2%	18.4%	15.0%	17.6%
Tax Rate	37.4%	20.5%	20.5%	20.6%	20.5%	20.5%	17.1%	21.0%	20.5%	20.5%	19.6%	21.0%
Net Margin	45.9%	23.4%	20.3%	19.6%	13.9%	19.1%	10.7%	15.3%	19.6%	19.6%	17.7%	18.6%

Rating Definitions

Investment Opinion: investment opinions are based on each stock's return potential relative to the overall market*, not an absolute return.

- **Strong Buy:** Expected to significantly outperform the relevant broader market index over the next 6 to 12 months. An identifiable catalyst is present to drive appreciation.
- **Outperform:** Expected to outperform the relevant broader market index over the next 12 to 18 months.
- **Market Perform:** Expected to perform in line with the relevant broader market index over the next 6 to 12 months.
- **Underperform:** Expected to underperform the relevant broader market index over the next 6 to 12 months.

* Broader market indices = Russell 2000 and S&P 500

Volatility Rating: Our focus on growth companies implies that the stocks we recommend are typically more volatile than the overall stock market. We are not recommending the "suitability" of a particular stock for an individual investor. Rather, we are identifying the volatility of a particular stock.

- **Low:** The stock price has moved up or down by more than 10% in a month in fewer than 8 of the past 24 months.
- **Medium:** The stock price has moved up or down by more than 20% in a month in fewer than 8 of the past 24 months.
- **High:** The stock price has moved up or down by more than 20% in a month in at least 8 of the past 24 months. All IPO stocks automatically get this risk rating for the first 12 months of trading.

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