



## **DSP Group, Inc. Reports Fourth Quarter 2015 Results**

*Record Quarterly Contribution from New Products at 33% of Revenues*

*Fourth Quarter Gross Margin Increased 340 Basis Points Year-over-Year to 43%*

*Fourth Quarter GAAP and Non-GAAP Earnings per Share Exceeded Guidance*

**LOS ALTOS, Calif., February 2, 2016** - DSP Group<sup>®</sup>, Inc. (NASDAQ: DSPG), a leading global provider of wireless chipset solutions for converged communications, announced today its results for the fourth quarter and the year ended December 31, 2015.

### **Fourth Quarter Financial Highlights:**

- GAAP and non-GAAP diluted earnings per share of \$0.00 and \$0.07, respectively, exceeding guidance
- Revenues of approximately \$33.8 million, down 9% year-over-year
- Record non-GAAP gross margin of 43.2%, exceeding the high end of guidance
- Non-GAAP operating income of \$1.4 million, 4% of revenues, compared to non-GAAP operating income of \$1.1 million in the fourth quarter of 2014
- Non-GAAP net income of \$1.7 million, compared to non-GAAP net income of \$1.3 million in the fourth quarter of 2014
- Generated \$8.3 million of cash flows from operations
- Repurchased 206,000 shares for a total consideration of \$2.0 million
- Cash, deposits and marketable securities of \$121.7 million as of December 31, 2015

### **Full Year 2015 Financial Highlights:**

- GAAP diluted earnings per share of \$0.07 and non-GAAP diluted earnings per share of \$0.34
- Revenues of approximately \$144.3 million, an increase of 1% vs. \$143.0 million in 2014
- Non-GAAP gross margins of 41.7%, a 160 basis points improvement vs. 2014
- Non-GAAP operating income of \$7.5 million, reaching 5% of revenues compared to non-GAAP operating income of \$6.5 million in 2014
- Non-GAAP net income of \$8.0 million, reaching 6% of revenues compared to non-GAAP net income of \$7.3 million in 2014
- GAAP net income of \$1.6 million compared to \$3.6 million in 2014
- Generated \$12.2 million of cash from operating activities
- Repurchased 1.3 million shares for a total consideration of \$13.2 million

**Management Comments:**

Commenting on the results, Ofer Elyakim, CEO of DSP Group, stated, “We are very pleased with our accomplishment of full year revenue growth, which was driven by an increase of approximately 35% from new products and record VoIP sales. Moreover, during the fourth quarter, we successfully executed on our growth initiatives, as reflected by record contributions from new products, reaching 33% of revenues, and a promising design pipeline across HGW, ULE, mobile and VoIP. We are excited about harvesting years of R&D investments and reaping the benefits in the form of successful product launches and promising diversified revenue streams. Looking forward, we expect growth from new products to accelerate and drive overall revenue growth, as well as higher margins and better profitability.”

Mr. Elyakim added, “In the first quarter of 2016, we expect a temporary slowdown in revenues due to decreasing demand for cordless telephony products, which will be partially mitigated by growth from new products. In particular, we expect mobile revenues to contribute more meaningfully to our first quarter results. The proven success of new product initiatives is propelling us rapidly towards an inflection point where the high growth, high margin segments will dominate our business and become the basis for sustaining our long-term value.”

**Products and Market Highlights:**

- Unveiled SparkPA, highest performance CMOS Power Amplifier (PA) for 5GHz Wi-Fi 802.11ac using TSMC standard CMOS Process
- New products revenues of \$11.2 million in the fourth quarter and \$40.1 million for the full year 2015, representing year-over-year increases of 48% and 35%, respectively
- Record Office/VoIP segment revenues of \$7.1 million for the fourth quarter and \$22.2 million for the full year 2015, representing year-over-year increases of 79% and 56%, respectively
- Major design-win for HDClear with a leading mobile OEM
- Turkcell selected our ULE products to power its newly launched home IoT service
- Swisscom launched an innovative button by Askey based on our ULE SoC
- Polycom’s next-generation DECT IP phones power by our DECT and VoIP chipset

## **2015 Fourth Quarter Results**

### **GAAP Results:**

Revenues for the fourth quarter of 2015 were \$33.8 million, a decrease of 9% from revenues of \$37.2 million for the fourth quarter of 2014. Net loss for the fourth quarter of 2015 was \$0.1 million, as compared to net income of \$2.7 million for the fourth quarter of 2014. Basic and diluted earnings per share for the fourth quarter of 2015 were \$0.00, as compared to basic and diluted earnings per share of \$0.13 and \$0.12, respectively, for the fourth quarter of 2014.

### **Year End Results:**

Revenues for the year ended December 31, 2015 were \$144.3 million, an increase of 1% from 2014 revenues of \$143.0 million. Net income for 2015 was \$1.6 million, compared to a net income of \$3.6 million for 2014, a decrease of 57%. Basic and diluted earnings per share for 2015 were \$0.07, compared to basic and diluted earnings per share of \$0.16 for 2014, a 56% decrease.

### **Non-GAAP Results:**

Non-GAAP net income and diluted earnings per share for the fourth quarter of 2015 were \$1.7 million and \$0.07, respectively, as compared to non-GAAP net income and diluted earnings per share of \$1.3 million and \$0.06, respectively, for the fourth quarter of 2014. Non-GAAP net income and earnings per share for the fourth quarter of 2015 excluded the impact of amortization of acquired intangible assets in the amount of \$321,000 associated with the acquisition of BoneTone Communications; equity-based compensation expenses of \$1.2 million; write-off of \$400,000 associated with an expired option related to a previous investment in a private company; and amortization of deferred tax liability related to intangible assets acquired in the BoneTone acquisition in the amount of \$114,000. Non-GAAP net income and earnings per share for the fourth quarter of 2014 excluded the impact of amortization of acquired intangible assets of \$382,000 associated with the acquisition of the CIPT business from NXP B.V. and the BoneTone acquisition; equity-based compensation expenses of \$1.2 million; amortization of deferred tax liability related to intangible assets acquired in connection with the BoneTone acquisition in the amount of \$49,000; elimination of valuation allowance of deferred tax assets and tax advances in the amount of \$2.1 million; and a tax benefit of \$858,000 resulting from the reversal of an income tax contingency reserve.

Non-GAAP net income and diluted earnings per share for the year ended December 31, 2015 were \$8.0 million and \$0.34, respectively, as compared to non-GAAP net income and diluted earnings per share of \$7.3 million and \$0.31, respectively, for the year ended December 31, 2014, an increase of 9.5% and 9.7%, respectively. Non-GAAP net income and diluted earnings per share for the year ended December 31, 2015 excluded the impact of amortization of acquired intangible assets of \$1.3 million associated with the BoneTone acquisition; equity-based compensation expenses of \$5.1 million; write-off of \$400,000 associated with an expired option related to a previous investment in a private company; and amortization of deferred tax liability related to intangible assets acquired in connection with the BoneTone acquisition in the amount of \$369,000. Non-GAAP net income and diluted earnings per share for the year ended December 31, 2014 excluded the impact of amortization of acquired intangible assets of \$1.6 million associated with acquisitions of the CIPT business and BoneTone; equity-based compensation expenses of \$5.4 million; amortization of deferred tax liability related to intangible assets acquired in connection with the BoneTone acquisition in the amount of \$339,000; elimination of valuation allowance of deferred tax assets and tax advances in the amount of \$2.1 million; and a tax benefit of \$858,000 resulting from the reversal of an income tax contingency reserve.

**Earnings Conference Call Details:**

DSP Group will discuss its fourth quarter financial results, along with its outlook and guidance for the first quarter of 2016, on its conference call at 8:30 a.m. ET today, and invites you to listen via our conference call or a live broadcast over the Internet.

Investors may access the conference call by dialing +1 877 280 1254 (domestic US) or +1 646 254 3388 (international) approximately 10 minutes prior to the starting time. The password is DSP Group. The broadcast via the Internet can be accessed by all interested parties through the Investor Relations section of DSP Group's website at [www.dspg.com](http://www.dspg.com) or link to: <http://edge.media-server.com/m/p/yzmuvbdu>

A replay of the conference call will be available for a week following the call. To listen to the session, please dial +1 347 366 9565 (domestic US) or +44(0)20 3427 0598 (international) and enter the company access code: 3790144#.

## **Presentation on Non-GAAP Net Income Calculation**

The Company believes that the non-GAAP presentation of net income and diluted earnings per share presented in this press release is useful to investors in comparing results for the quarter and year ended December 31, 2015 to the same periods in 2014 because the exclusion of the above noted expenses may provide a more meaningful analysis of the Company's core operating results. Further, the Company believes it is useful to investors to understand how the expenses associated with equity-based compensation are reflected in its statements of income.

## **Forward Looking Statements**

This press release contains statements that qualify as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995, including Mr. Elyakim's statements regarding a temporary slowdown in first quarter 2016 revenues due to decreasing demand for cordless telephony products which would be partially offset by growth in new products, optimism about reaping the rewards of prior R&D investments in the form of successful product launches and promising diversified revenue streams, anticipation that new products growth will accelerate and drive overall revenue growth, higher margins and better profitability, more meaningful revenues from mobile in the first quarter of 2016 and the potential that the high growth, high margin segments will dominate DSP Group's business in the future and become the basis for sustaining the company's long-term value. The results from these statements may not actually arise as a result of various factors, including the magnitude of the decline in DSP Group's cordless business; the growth of VoIP sales; the market penetration of new products; unexpected delays in the commercial launch of new products, including in the mobile segment; slower than expected change in the nature of residential communications domain; DSP Group's ability to manage costs, DSP Group's ability to develop and produce new products at competitive costs and in a timely manner and the ability of such products to achieve broad market acceptance; and general market demand for products that incorporate DSP Group's technology in the market. These factors and other factors which may affect future operating results or DSP Group's stock price are discussed under "RISK FACTORS" in the Form 10-K for fiscal 2014, as well as other reports DSP Group has filed with the Securities and Exchange Commission and which are available on DSP Group's website ([www.dspg.com](http://www.dspg.com)) under Investor Relations. DSP Group assumes no obligation to update any forward-looking statements or information, which speak as of their respective dates.

## **About DSP Group**

DSP Group®, Inc. (NASDAQ: DSPG) is a leading global provider of wireless chipset solutions for converged communications. Delivering semiconductor system solutions with software and hardware reference designs, DSP Group enables OEMs/ODMs, consumer electronics (CE) manufacturers and service providers to cost-effectively develop new revenue-generating products with fast time to market. At the forefront of semiconductor innovation and operational excellence for over two decades, DSP Group provides a broad portfolio of wireless chipsets integrating DECT/CAT-iq, ULE, Wi-Fi, PSTN, HDClear™, video and VoIP technologies. DSP Group enables converged voice, audio, video and data connectivity across diverse mobile, consumer and enterprise products – from mobile devices, connected multimedia screens, and home automation & security to cordless phones, VoIP systems, and home gateways. Leveraging industry-leading experience and expertise, DSP Group partners with CE manufacturers and service providers to shape the future of converged communications at home, office and on the go. For more information, visit [www.dspg.com](http://www.dspg.com).

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

|   | Three Months Ended<br>December 31, |                 | Twelve Months Ended<br>December 31, |                 |
|---|------------------------------------|-----------------|-------------------------------------|-----------------|
|   | <u>2015</u>                        | <u>2014</u>     | <u>2015</u>                         | <u>2014</u>     |
|   | (Unaudited)                        | (Unaudited)     | (Unaudited)                         | (Audited)       |
| Revenues  | \$ 33,770                          | \$ 37,159       | \$ 144,271                          | \$ 143,036      |
| Cost of revenues  | 19,253                             | 22,438          | 84,411                              | 85,992          |
|   | <hr/>                              | <hr/>           | <hr/>                               | <hr/>           |
| Gross profit  | 14,517                             | 14,721          | 59,860                              | 57,044          |
| Operating expenses:   |                                    |                 |                                     |                 |
| Research and development, net   | 8,803                              | 9,155           | 35,483                              | 33,468          |
| Sales and marketing   | 2,995                              | 2,980           | 12,103                              | 11,905          |
| General and administrative  | 2,486                              | 2,600           | 9,876                               | 10,541          |
| Amortization of intangible assets   | 721                                | 382             | 1,684                               | 1,573           |
|   | <hr/>                              | <hr/>           | <hr/>                               | <hr/>           |
| Total operating expenses  | 15,005                             | 15,117          | 59,146                              | 57,487          |
|   | <hr/>                              | <hr/>           | <hr/>                               | <hr/>           |
| Operating income (loss)   | (488)                              | (396)           | 714                                 | (443)           |
| Financial income, net   | 304                                | 309             | 1,175                               | 1,204           |
|   | <hr/>                              | <hr/>           | <hr/>                               | <hr/>           |
| Income (loss) before taxes on income  | (184)                              | (87)            | 1,889                               | 761             |
| Taxes on income (income tax benefit)  | (76)                               | (2816)          | 327                                 | (2,841)         |
|   | <hr/>                              | <hr/>           | <hr/>                               | <hr/>           |
| Net income (loss)   | <u>\$(108)</u>                     | <u>\$ 2,729</u> | <u>\$1,562</u>                      | <u>\$ 3,602</u> |
| Net earnings per share:   |                                    |                 |                                     |                 |
| Basic   | \$ 0.00                            | \$ 0.13         | \$ 0.07                             | \$ 0.16         |
| Diluted   | \$ 0.00                            | \$ 0.12         | \$ 0.07                             | \$ 0.16         |
| Weighted average number of shares used in per share computations of net earnings per share: |                                    |                 |                                     |                 |
| Basic   | 21,634                             | 21,679          | 21,924                              | 21,968          |
| Diluted   | 21,634                             | 23,331          | 23,340                              | 22,954          |

## Unaudited Reconciliation of GAAP to Non-GAAP Financial Measures

*(In thousands, except per share amounts)*

|   | Three Months Ended<br>December 31, |                 | Twelve Months Ended<br>December 31, |                 |
|---|------------------------------------|-----------------|-------------------------------------|-----------------|
|   | <u>2015</u>                        | <u>2014</u>     | <u>2015</u>                         | <u>2014</u>     |
|   | Unaudited                          | Unaudited       | Unaudited                           | Unaudited       |
| <b>GAAP net income (loss)</b>   | \$(108)                            | \$2,729         | \$1,562                             | \$3,602         |
| Equity-based compensation expense included in cost of revenues  | 72                                 | 63              | 300                                 | 300             |
| Equity-based compensation expense included in research and development, net   | 504                                | 513             | 2,201                               | 2,381           |
| Equity-based compensation expense included in sales and marketing   | 150                                | 140             | 641                                 | 621             |
| Equity-based compensation expense included in general and administrative  | 441                                | 444             | 1,950                               | 2,057           |
| Amortization of intangible assets and write off of expired option   | 721                                | 382             | 1,684                               | 1,573           |
| Amortization of deferred tax liability related to intangible assets   | (114)                              | (49)            | (369)                               | (339)           |
| Reversal of income tax contingency reserve that was determined to be no longer needed due to the finalization of tax audit            |                                    | (858)           |                                     | (858)           |
| Elimination of valuation allowance of deferred tax assets and tax advances  |                                    | (2,061)         |                                     | (2,061)         |
| <b>Non-GAAP net income</b>  | <u>\$ 1,666</u>                    | <u>\$ 1,303</u> | <u>\$ 7,969</u>                     | <u>\$ 7,276</u> |
| Weighted-average number of common stock used in computation of GAAP diluted net earnings per share (in thousands)                     | 21,634                             | 23,331          | 23,340                              | 22,954          |
| Weighted-average number of shares related to outstanding options, stock appreciation rights and restricted share units (in thousands) | 1,531                              | 248             | 357                                 | 671             |
| Weighted-average number of common stock used in computation of non-GAAP diluted net earnings per share (in thousands)                 | 23,165                             | 23,579          | 23,697                              | 23,625          |
| <b>GAAP diluted net earnings per share</b>  | \$ 0.00                            | \$ 0.12         | \$ 0.07                             | \$ 0.16         |
| Equity-based compensation expense   | 0.05                               | 0.05            | 0.22                                | 0.23            |
| Amortization of intangible assets and write off of expired option   | 0.03                               | 0.02            | 0.07                                | 0.07            |
| Amortization of deferred tax liability related to intangible assets   | (0.01)                             | (0.01)          | (0.02)                              | (0.02)          |
| Reversal of income tax contingency reserve that was determined to be no longer needed due to the finalization of tax audit            |                                    | (0.03)          |                                     | (0.04)          |
| Elimination of valuation allowance of deferred tax assets and tax advances.   |                                    | (0.09)          |                                     | (0.09)          |
| <b>Non-GAAP diluted net EPS</b>   | <b>\$ 0.07</b>                     | <b>\$ 0.06</b>  | <b>\$ 0.34</b>                      | <b>\$ 0.31</b>  |

**DSP GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(In thousands)*

|  | December 31,<br><u>2015</u><br>(Unaudited) | December 31,<br><u>2014</u><br>(Audited) |
|--|--|--|
| <b>Assets</b>                                  |  |  |
| Current assets:                                |  |  |
| Cash and cash equivalents                      | \$ 13,704                                  | \$ 20,544                                |
| Restricted deposits                            | 168  | 623                                      |
| Marketable securities and short term deposits  | 18,070                                     | 11,508                                   |
| Trade receivables, net                         | 19,211                                     | 20,298                                   |
| Inventories                                    | 11,453                                     | 15,635                                   |
| Other accounts receivable and prepaid expenses | <u>3,319</u>                               | <u>1,902</u>                             |
| Total current assets                           | 65,925                                     | 70,510                                   |
| Property and equipment, net                    | 3,764                                      | 2,843                                    |
| Long term marketable securities and deposits   | 89,714                                     | 92,269                                   |
| Severance pay fund                             | 11,578                                     | 10,860                                   |
| Deferred income taxes                          | 1,311                                      | 924                                      |
| Intangible assets, net                         | 9,127                                      | 10,411                                   |
| Investment in other companies                  | 1,800                                      | 2,200                                    |
| Long term prepaid expenses and lease deposits  | <u>743</u>                                 | <u>1,162</u>                             |
|  | <u>114,273</u>                             | <u>117,826</u>                           |
| Total assets                                   | <u>\$ 183,962</u>                          | <u>\$ 191,179</u>                        |
| <b>Liabilities and Stockholders' Equity</b>    |  |  |
| Current liabilities:                           |  |  |
| Trade payables                                 | \$ 13,103                                  | \$ 15,282                                |
| Other current liabilities                      | <u>14,470</u>                              | <u>16,411</u>                            |
| Total current liabilities                      | 27,573                                     | 31,693                                   |
| Accrued severance pay                          | 11,703                                     | 10,929                                   |
| Accrued pensions                               | 892  | 1,089                                    |
| Deferred income taxes                          | <u>476</u>                                 | <u>845</u>                               |
| Total long term liabilities                    | 13,071                                     | 12,863                                   |
| Stockholders' equity:                          |  |  |
| Common stock                                   | 22   | 22                                       |
| Additional paid-in capital                     | 361,023                                    | 355,906                                  |
| Accumulated other comprehensive loss           | (1,267)                                    | (1,566)                                  |
| Less – Cost of treasury stock                  | (125,697)                                  | (122,387)                                |
| Accumulated deficit                            | <u>(90,763)</u>                            | <u>(85,352)</u>                          |
| Total stockholders' equity                     | <u>143,318</u>                             | <u>146,623</u>                           |
| Total liabilities and stockholders' equity     | <u>\$ 183,962</u>                          | <u>\$ 191,179</u>                        |