

DSP GROUP INC /DE/  
Form DEF 14A  
April 08, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only**

Definitive Proxy Statement

**(as permitted by Rule 14a-6(e)(2))**

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

**DSP Group, Inc.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Title of each class of securities to which transaction applies:

N/A

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(2) Aggregate number of securities to which transaction applies:

N/A

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

N/A

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(4) Proposed maximum aggregate value of transaction:

N/A

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(5) Total fee paid:

N/A

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(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement no.:

N/A

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(3) Filing Party:

N/A

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(4) Date Filed:

N/A

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**DSP GROUP, INC.**

**Notice of Annual Meeting of Stockholders**

**To Be Held May 19, 2008**

To the Stockholders of DSP GROUP, INC.:

**NOTICE IS HEREBY GIVEN** that the annual meeting of stockholders of DSP Group, Inc., a Delaware corporation, will be held at the New York Marriott East Side Hotel, 525 Lexington Avenue, New York City, New York, on Monday, May 19, 2008, at 8:30 a.m., local time, for the following purposes:

1. **Election of Directors.** To elect two Class II directors, Yair Seroussi and Yair Shamir, to serve until the 2011 annual meeting of stockholders or until his successor is elected and qualified;
2. **Amendment and Restatement of the 1993 Director Stock Option Plan.** To ratify and approve an amendment and restatement of the Company's 1993 Director Stock Option Plan to increase the number of shares of common stock reserved for issuance thereunder from 1,380,875 shares to 1,680,875 shares;
3. **Amendment and Restatement of the 1993 Employee Stock Purchase Plan.** To ratify and approve an amendment and restatement to the Company's 1993 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance thereunder from 1,000,000 shares to 1,500,000 shares;
4. **Selection of Independent Auditors.** To ratify the appointment of Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, as our independent auditors for the year ending December 31, 2008; and
5. To transact such other business as may properly come before the annual meeting and any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement which is attached and made a part hereof.

Our board of directors has fixed the close of business on March 28, 2008 as the record date for determining the stockholders entitled to notice of and to vote at the annual meeting and any adjournment or postponement thereof.

**Whether or not you expect to attend the annual meeting in person, you are urged to mark, sign, date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope provided to ensure your representation and the presence of a quorum at the annual meeting. Should you receive more than one proxy because your shares are registered in different names and addresses, each proxy should be returned to ensure that all of your shares will be voted. If you send in your proxy card and then decide to attend the annual meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the proxy statement.**

By Order of the Board of Directors,

/s/ Eliyahu Ayalon  
Eliyahu Ayalon  
*Chief Executive Officer*

Santa Clara, California

April 1, 2008

Mailed to Stockholders

on or about April 10, 2008

**DSP GROUP, INC.**

**2580 North First Street, Suite 460**

**San Jose, CA 95131**

**PROXY STATEMENT**

**FOR 2008 ANNUAL MEETING OF STOCKHOLDERS**

**General Information**

This proxy statement is furnished to the stockholders of DSP Group, Inc., a Delaware corporation, in connection with the solicitation by our board of directors of proxies in the accompanying form for use in voting at the annual meeting of stockholders to be held on May 19, 2008, at 8:30 a.m., local time, at the New York Marriott East Side Hotel, 525 Lexington Avenue, New York City, New York, and any adjournment or postponement thereof. The shares represented by proxies received, properly marked, dated, executed and not revoked will be voted at the annual meeting.

**Solicitation, Record Date and Voting Procedures**

The solicitation of proxies will be conducted by mail and we will bear all attendant costs. These costs will include the expense of preparing and mailing proxy materials for the annual meeting and reimbursements paid to brokerage firms and others for their expenses incurred in forwarding solicitation material regarding the annual meeting to beneficial owners of our common stock. We may conduct further solicitation personally, telephonically or by facsimile through our officers, directors and regular employees, none of whom will receive additional compensation for assisting with the solicitation. We have retained the services of D.F. King, a professional proxy solicitation firm, to assist in the solicitation of proxies; and we will pay approximately \$8,000 for its services, in addition to a fee of \$5 per call and reimbursement of its out-of-pocket expenses.

The close of business on March 28, 2008 has been fixed as the record date for determining the holders of shares of our common stock entitled to notice of and to vote at the annual meeting. As of the close of business on the record date, we had 29,434,000 shares of common stock outstanding and entitled to vote at the annual meeting. The presence at the annual meeting of a majority of these shares of our common stock, either in person or by proxy, will constitute a quorum for the transaction of business at the annual meeting. An automated system administered by our transfer agent will tabulate votes cast by proxy, and a representative from our transfer agent will act as the inspector of elections to tabulate votes cast in person at the annual meeting. Each outstanding share of common stock on the record date is entitled to one vote on all matters.

Under the General Corporation Law of the State of Delaware, an abstaining vote and a broker non-vote are counted as present and are, therefore, included for purposes of determining whether a quorum of shares is present at the annual meeting. Abstentions are included in determining the number of shares voted on the proposals submitted to stockholders (other than the election of directors) and will have the same effect as a no vote on such proposals. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular matter because the nominee does not have the discretionary voting power with respect to that matter and has not received instructions from the beneficial owner. Broker non-votes, and shares as to which proxy authority has been withheld with respect to any matter, are generally not deemed to be entitled to vote for purposes of determining whether stockholders approval of that matter has been obtained.

With respect to our proposal 1 of this proxy statement, the director nominee will be elected by a plurality of the votes of shares of our common stock represented and voted at the annual meeting, and abstentions and broker non-votes will have no effect on the outcome of the election of the director nominee. With respect to proposals 2, 3 and 4 of this proxy statement, the affirmative vote of a majority of shares of our common stock represented and voted at the annual meeting is required for approval. Abstentions will have the same effect as no votes on proposals 2, 3 and 4, whereas broker non-votes will have no effect on such proposals.

### **The Proxy**

The persons named as proxy holders, Eliyahu Ayalon and Dror Levy, were selected by our board of directors and currently serve as our executive officers.

All shares represented by each properly executed, unrevoked proxy received in time for the annual meeting will be voted in the manner specified therein. If no specification is made on the proxy as to any one or more of the proposals, the common stock represented by the proxy will be voted as to the proposal for which no specification is given as follows: (1) FOR the election of the Class II director nominees named in this proxy statement; (2) FOR the increase of 300,000 shares of common stock reserved for issuance under the Company's 1993 Director Stock Option Plan; (3) FOR the increase of 500,000 shares of common stock reserved for issuance under the Company's 1993 Employee Stock Purchase Plan; (4) FOR the ratification of the selection of Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, as our independent auditors for the 2008 fiscal year; and (5) with respect to any other matters that may come before the annual meeting, at the discretion of the proxy holders. We do not presently know of any other business to be conducted at the annual meeting.

### **Revocability of Proxy**

If the shares of common stock are held in your name, you may revoke your proxy given pursuant to this solicitation at any time before the proxy card is voted by: (i) delivering to us (to the attention of Dror Levy, our Secretary), at the address of our principle executive offices, a written notice of revocation or a duly executed proxy bearing a later date, or (ii) attending the annual meeting and voting in person. If your shares are held in street name, you should follow the directions provided by your broker regarding how to revoke your proxy. Your attendance at the annual meeting after having executed and delivered a valid proxy card will not in and of itself constitute a revocation of your proxy. You will be required to give oral notice of your intention to vote in person to the inspector of elections at the annual meeting.

**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

Our bylaws authorize the number of directors to be not less than five or more than nine. The number of directors on our board of directors is currently fixed at eight. The board is divided into three classes: Class I, Class II and Class III. Each director serves a three-year term. The board is currently composed of three Class I directors (Messrs. Eliyahu Ayalon, Zvi Limon and Louis Silver), whose terms will expire at the annual meeting of stockholders to be held in 2010; two Class II directors (Messrs. Yair Seroussi and Yair Shamir), whose terms will expire at this year's annual meeting of stockholders, and three Class III directors (Messrs. Gerrit Johan Frederik Kaat, Patrick Tanguy and Avigdor Willenz), whose terms will expire at the annual meeting of stockholders to be held in 2009. At each annual meeting of stockholders, directors will be elected for full terms of three years to succeed those directors whose terms are expiring.

At this annual meeting, the stockholders will elect two Class II directors. Messrs. Seroussi and Shamir have been nominated to serve a three-year term, until the annual meeting of stockholders to be held in 2011, or until their successors are elected or appointed and qualified, or until their earlier resignation or removal. Our board has no reason to believe that each of Messrs. Seroussi and Shamir will be unable or unwilling to serve as a nominee or as a director if elected.

**Class II Director Nominees**

**Yair Seroussi** has served as one of our directors since February 2002. Mr. Seroussi is currently the Managing Director of Amdeal Holdings Ltd., an entity acting as the advisory director of Morgan Stanley in charge of its activities in Israel since 1993. Mr. Seroussi also serves as a director of Israel Corp., an Israeli holding company; and Frutarom Industries, a multinational flavor and fragrance house; each of which is traded on The Tel-Aviv Stock Exchange. Mr. Seroussi is also a director of Wintegra, Inc. and on the Board of Governors of the Hebrew University.

**Yair Shamir** has served as one of our directors since October 1996 and is also the Chairman of our compensation committee. Mr. Shamir serves as Chairman of I.A.I. (Israel Aircraft Industries) since July 2005 and is Chairman of Catalyst Fund L.P., an Israeli Venture Capital firm since 2000. From 2005 to 2007, Mr. Shamir served as Chairman of Shamir Optical Industry Ltd, a leading designer, manufacturer and distributor of progressive spectacle lenses for presbyopia. Mr. Shamir was the Chairman of El-Al, Israel Airlines from April 2004 to January 2005. Since 1997, he has served as Chairman of VCON Telecommunications Ltd., a developer and marketer of video conference systems and was its Chief Executive Officer from 1997 to 2005.

**Director Independence**

Our board of directors has determined that the director nominees, Messrs. Seroussi and Shamir, are independent as that term is defined in Rule 4200 of the listing standards of the National Association of Securities Dealers.

**Required Vote**

The nominees will be elected by a plurality of the votes cast. Abstentions and broker non-votes are not counted toward the nominee's total.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR  
THE ELECTION OF THE DIRECTOR NOMINEE NAMED ABOVE.**

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**EXECUTIVE OFFICERS AND DIRECTORS**

The following table sets forth certain information with respect to our executive officers and directors as of March 10, 2008:

Name	Age	Position
Eliyahu Ayalon	65	Chairman of the Board of Directors and Chief Executive Officer
Brian Robertson	38	President
Boaz Edan	49	Chief Operating Officer
Dror Levy	34	Chief Financial Officer and Secretary
Eli Fogel	60	Senior Vice President and Chief Technology Officer
Gerrit Johan Frederik Kaat	55	Director
Zvi Limon (1)(2)	49	Director
Yair Seroussi (2)(3)	52	Director
Yair Shamir (1)(2)	62	Director
Louis Silver (1)(3)	54	Director
Patrick Tanguy (2)(3)	47	Director
Avigdor Willenz (3)	51	Director

- (1) Member of the compensation committee
- (2) Member of the audit committee
- (3) Member of the nomination and corporate governance committee

*Eliyahu Ayalon* joined us in April 1996 as President, Chief Executive Officer and director. In January 2000, Mr. Ayalon was appointed to serve as Chairman of our board. Between April 2005 and January 2006, Mr. Ayalon stepped down as Chief Executive Officer and became our Executive Chairman. Mr. Ayalon resumed as our Chief Executive Officer in January 2006. Mr. Ayalon is also a member of the board of directors of CEVA, Inc., a developer and licensor of DSP cores and related platform-level IP to the semiconductor industry, as of November 2002, and was the Chairman until February 2005. Mr. Ayalon previously served as President and Chief Executive Officer of Mennen from May 1992 to April 1996. Mr. Ayalon is a member of the Board of Governors of the Technion-Israel Institute of Technology and a member of the executive committee of the University Center of Ariel, Israel.

*Brian Robertson* joined us in October 2007 in connection with the acquisition of the Cordless and VoIP Terminals Business of NXP B.V. Prior to joining us, Mr. Robertson was the General Manager of the Cordless and IP Terminals business line at NXP B.V. beginning in December 2006. From July 2005 to September 2006, Mr. Robertson was the Regional Marketing Director Asia Pacific of the Business Unit Mobile & Personal of NXP B.V. and also at Philips Semiconductors B.V. prior to the founding of NXP B.V. From January 2004 to July 2005, Mr. Robertson led Philips Semiconductors B.V.'s regional marketing and sales for Identification Asia. From April 2003 to January 2004, he led the Global Marketing & Applications Mobile and Personal division at Philips Semiconductors B.V. From September 2001 to March 2003, Mr. Robertson was a Global Account Director (Sales) at Philips Semiconductors B.V.

*Boaz Edan* joined us in May 1999 as Vice President, Operations and served as Senior Vice President, Products Division Manager until October 2002 whereby he became our Chief Operating Officer. Mr. Edan previously served as Material Director of Tower Semiconductor Ltd., a foundry manufacturer of semiconductor integrated circuits, from 1996 to May 1999.

*Dror Levy* joined us in August 2002 as Corporate Controller and was promoted to the position of Vice President of Finance in January 2006 and as our Chief Financial Officer and Secretary in July 2006. Prior to joining the Company, Mr. Levy worked at Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global,



where he served as an account manager in the high-tech practice. Mr. Levy is a certified public accountant and holds an M.B.A. from Tel Aviv University and a B.A. in Business and Accounting from the Israeli College of Management.

*Eli Fogel* joined us in July 2003 as Senior Vice President & Chief Technology Officer. Mr. Fogel served as Senior Vice President for Engineering & Chief Technology Officer at DSP Communication from 1996 to 1999 (later acquired by Intel). At Intel, Mr. Fogel served as the Chief Technology Officer of the Cellular Communication Division.

*Gerrit Johan Frederik Kaat* has served as one of our directors since October 2007. Mr. Kaat is Senior Vice President of NXP Semiconductors B.V. and responsible for strategy and technology in the Business Unit Mobile and Personal. NXP B.V. was formed after the disentanglement of Philips Semiconductors from Philips in September 2006. Mr. Kaat served in several research and development, and business management functions with Philips Semiconductors B.V. since February 1980. He was the General Manager of the Business Unit Mobile and Personal of Philips Semiconductors from October 2003 until September 2006 and for the same business unit until April 2007 within NXP Semiconductors. From 1996 to 2003, Mr. Kaat worked in the Business Unit Mobile Communications of Philips Semiconductors as the General Manger of the Business Line Cellular.

*Zvi Limon* has served as one of our directors since February 1999. Mr. Limon has been a partner at Magnum Communications Fund, a consulting and investment advisory firm, since 1998 and a partner of Rimon Fund, an investment fund, since September 2006. He served as Chairman of Limon Holdings Ltd., a consulting and investment advisory firm, from October 1993 to July 2000. The Company elected and agreed to nominate Mr. Limon to the board of directors as a representative of Magnum Technology, Ltd. under certain conditions pursuant to the terms of a stock purchase agreement, dated February 11, 1999, with Magnum, filed as an exhibit to our quarterly report on form 10-Q for the quarter ended March 31, 1999. Mr. Limon also serves as a member of the board of directors of CEVA, Inc. and GVT SA, the parent company of Global Village Telecom in Brazil.

*Yair Seroussi* has served as one of our directors since February 2002. Mr. Seroussi is currently the Managing Director of Amdeal Holdings Ltd., an entity acting as the advisory director of Morgan Stanley in charge of its activities in Israel since 1993. Since 2002, Mr. Seroussi also has served as Chairman of Eyal Microwave, a designer and manufacturer of microwave applications. Mr. Seroussi also serves as a director of Israel Corp., an Israeli holding company; Frutarom Industries, a multinational flavor and fragrance house; and Aspen Real Estate, a real estate company, each of which is traded on The Tel-Aviv Stock Exchange. Mr. Seroussi is also on the Board of Governors of the Hebrew University.

*Yair Shamir* has served as one of our directors since October 1996 and is also the Chairman of our compensation committee. Mr. Shamir serves as Chairman of I.A.I. (Israel Aircraft Industries) since July 2005 and is Chairman of Catalyst Fund L.P., an Israeli Venture Capital firm since 2000. Mr. Shamir is also Chairman of Shamir Optical Industry Ltd, a leading designer, manufacturer and distributor of progressive spectacle lenses for presbyopia since August 2005. Mr. Shamir was the Chairman of El-Al, Israel Airlines from April 2004 to January 2005. From 1997 to date, he serves as Chairman of VCON Telecommunications Ltd., a developer and marketer of video conference systems and was its CEO from 1997 to 2005. Mr. Shamir currently serves as a director of Mercury Interactive, a provider of performance management solutions; and Orckit Communications, Limited, a developer and manufacturer of local loop communications systems.

*Louis Silver* has served as a member of our board of directors since November 1999. He is a Principal of RP Capital Group, an alternative investment firm focused on investment opportunities in EEMEA and has served as an advisor to RP Capital Group since April 2005. From January 2005 until January 2006, he acted as a private banking consultant. From August 2002 until April 2005, he acted as a legal and business development advisor to companies and individuals. From September 1996 until June 2002, he served as an advisor and counsel to Discount Bank & Trust Company. Mr. Silver is a member of the board of directors of CEVA, Inc., Scopus Video Networks Ltd. a developer of digital video networking products and AxisMobile plc, a provider of consumer mobile email technology to communication service providers.

*Patrick Tanguy* has served as one of our directors since November 1999. Since September 2007, Mr. Tanguy has been a Managing Director at Wendel, a French-listed investment company. From February 2006 to September 2007, Mr. Tanguy was the Chief Executive Officer of Prezioso S.A., an industrial coating and insulation specialist. From April 2004 to February 2006, Mr. Tanguy was the Chief Executive Officer of Monne-Decroix, a real estate development company. He served as Chief Executive Officer of Technal Group, an aluminum building systems company, from 1999 to March 2004. From May 1998 to September 1999, Mr. Tanguy served as a director of Hays DX France, an express transport services company. From August 1993 to April 1998, he served as the Chairman of Groupe DAFSA, a supplier of economic data and financial information.

*Avigdor Willenz* has served as one of our directors since February 2008. Mr. Willenz served as Chief Executive Officer and Chairman of the board of directors of Galileo Technology Ltd. from 1992 until 2001. He served as a director in Marvell(R) Technology Group Ltd. from 2001 to 2002 following the merger of Galileo Technology with Marvell. From 1988 to 1992, Mr. Willenz was Corporate Product Definition Manager/Chief Engineer for Integrated Device Technology (IDT). Mr. Willenz currently serves as a member of the board of directors of Wintegra, Inc. and Pixier Ltd. Mr. Willenz previously served as a member of the board of directors of Radware Ltd. Mr. Willenz holds a B.Sc.E.E. from Technion, Israel Institute of Technology.

### **Director Independence**

Our board of directors has determined that all non-employee directors of the board, consisting of Messrs. Kaat, Limon, Seroussi, Shamir, Silver, Tanguy and Willenz, are independent as that term is defined in the NASDAQ listing standards. In making this determination, our board of directors considered transactions and relationships between each director or his immediate family and the company and our subsidiaries, including those reported in the section below captioned, Certain Relationships and Related Transactions. The purpose of this review was to determine whether any such relationships or transactions were material and, therefore, inconsistent with a determination that the director is independent. As a result of this review, our board affirmatively determined, based on its understanding of such transactions and relationships, that all of our non-employee directors are independent of the company and, therefore, a majority of the members of our board is independent, under the standards set forth by the NASDAQ listing standards.

### **Relationships among Directors or Executive Officers**

There are no family relationships among any of our directors or executive officers.

### **Meetings and Committees of the Board of Directors**

During 2007, our board of directors met 8 times in meetings or telephonically. No director attended fewer than 75% of the aggregate of either (i) the total number of board meetings held during the period for which he was a director, or (ii) the total number of committee meetings of the board held in 2007 on which he served. Mr. Kaat was appointed to our board in October 2007 and therefore only attended two meetings of our board of directors in 2007. In light of the geographic dispersion of our directors, the directors' attendance at the annual meeting of stockholders is encouraged but not required. Director attendance at each annual stockholders meeting will be posted on our web site at [www.dspg.com](http://www.dspg.com). It is also the policy of our board that at the conclusion of each meeting of the board the independent directors shall meet separately with no members of management present, and that the Chairman of our nomination and corporate governance committee shall act as the chair of such meetings of the independent directors.

### **Compensation Committee**

The compensation committee met 2 times in meetings or telephonically in 2007. The compensation committee currently consists of Messrs. Limon, Shamir and Silver. Our board of directors has determined that all current members of the compensation committee are independent as that term is defined in the NASDAQ

listing standards. The committee's functions are to establish and apply our compensation policies with respect to our executive officers. Additional duties and powers of the compensation committee are set forth in its charter, which was adopted and approved in January 2005, and a copy of which is available on our website at [www.dspg.com](http://www.dspg.com).

#### *Audit Committee*

The audit committee met 5 times in meetings or telephonically in 2007. The audit committee currently consists of Messrs. Limon, Seroussi, Shamir and Tanguy. The audit committee is directly responsible for the appointment, compensation, retention and oversight of our independent auditors. In addition, the audit committee is responsible for approving the audit and non-audit services performed by our independent auditors and for reviewing and evaluating our accounting principles and our system of internal accounting controls. Additional duties and powers of the audit committee are set forth in its amended and restated charter, which was adopted and approved in November 2002 and further amended in July 2003 and January 2005, and a copy of which is available on our website at [www.dspg.com](http://www.dspg.com). The audit committee has also established procedures for (a) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and (b) the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters.

After considering transactions and relationships between each member of the audit committee or his immediate family and the company and our subsidiaries and reviewing the qualifications of the members of the audit committee, our board of directors has determined that all current members of the audit committee are (1) independent as that term is defined in Section 10A of the Securities Exchange Act of 1934, as amended (the Exchange Act); (2) independent as that term is defined in the NASDAQ listing standards; and (3) financially literate and have the requisite financial sophistication as required by the NASDAQ listing standards. Furthermore, our board of directors has determined that Mr. Tanguy qualifies as an audit committee financial expert, as defined by the applicable rules of the Exchange Act, pursuant to the fact that, among other things, he is currently the Chief Executive Officer of Prezioso S.A., and was the Chief Executive Officer of Monne-Decroix and Technal Group, and in those capacities has acquired the relevant experience and expertise and has the attributes set forth in the applicable rules as being required for an audit committee financial expert.

#### *Nomination and Corporate Governance Committee*

The nomination and corporate governance committee met once in 2007. The nomination and corporate governance committee consists of Messrs. Seroussi, Silver and Tanguy. Mr. Willenz was appointed to the nomination and corporate governance committee in February 2008. Our board of directors has determined that all current members of the nomination and corporate governance committee are independent as that term is defined in the NASDAQ listing standards. The nomination and corporate governance committee is to assist the board in all matters relating to the establishment, implementation and monitoring of policies and processes regarding the recruitment and nomination of candidates to the board and committees of the board, and the development, evaluation and monitoring of our corporate governance processes and principles. The committee also is responsible for developing, implementing and monitoring compliance of our code of business conduct and ethics and making recommendations to the board of revisions to the code from time to time as appropriate. Additional duties and powers of the nomination and corporate governance committee are set forth in its charter, which was adopted and approved in January 2005, and a copy of which is available on our website at [www.dspg.com](http://www.dspg.com).

#### **Compensation Committee Interlocks and Insider Participation**

Our compensation committee during 2007 consisted of Messrs. Limon, Shamir and Silver; Mr. Shamir served as its Chairman. No member of this committee is a present or former officer or employee of the company or any of our subsidiaries. Mr. Silver is a member of the board of directors and a member of the compensation

committee of the board of CEVA, Inc. and Mr. Ayalon, our Chairman of the board of directors and Chief Executive Officer, is a member of the board of directors of CEVA, Inc. Other than as noted with respect to Mr. Ayalon, none of our executive officers served on the board of directors or compensation committee of any entity which has one or more executive officers serving as a member of our board or compensation committee.

### **Qualifications of Directors**

Our board of directors has not established any special qualifications or any minimum criteria for director nominees. In considering candidates for the board, the nomination and corporate governance committee will consider the entirety of each candidate's credentials. However, as specified in the charter for the nomination and corporate governance committee, the nomination and corporate governance committee shall consider certain qualifications such as the nominee's personal and professional integrity, ability, judgment, broad experience in business, finance or administration, familiarity with our industry, ability to serve the long-term interests of our stockholders and sufficient time available to devote to our affairs. The nomination and corporate governance committee will also use its best efforts to seek to ensure that the composition of our board of directors at all times adheres to the independence requirements applicable to companies listed on the NASDAQ Global Select Market, as well as other regulatory requirements applicable to us.

### **Director Nomination Process**

We do not have a formal director nomination process.

#### *Continuing Directors*

Generally, the nomination and corporate governance committee identifies nominees by first evaluating the current members of the board willing to continue in service. Current members of the board with skills and experience that are relevant to our business and who are willing to continue in service are considered for renomination. The nomination and corporate governance committee will balance the value of continuity of service by existing members of the board with that of obtaining a new perspective.

#### *New Directors*

Generally, once a need to add a new board member is identified, the nomination and corporate governance committee will initiate a search by working with staff support, seeking input from board members and senior management and, if necessary, hiring a consultant or search firm. After a slate of possible candidates is identified, members of the nomination and corporate governance committee, other members of the board and senior management have the opportunity to interview the prospective candidate(s). The remaining members of the board who do not interview the prospective candidate(s) are kept informed of the progress. A potential new director also may be recommended by a current director, after which the input of the nomination and corporate governance committee and the other members of the board on the merits of his or her appointment to the board would be sought. The nomination and corporate governance committee ultimately recommends the best candidate(s) the committee members determine after the selection process for approval by the full board.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who own more than 10% of our common stock (collectively, Reporting Persons) to file initial reports of ownership and changes in ownership of our common stock with the Securities and Exchange Commission. Copies of these reports are also required to be delivered to us.

We believe, based solely on our review of the copies of such reports received or written representations from the Reporting Persons, that during the fiscal year ended December 31, 2007, all Reporting Persons complied with all applicable filing requirements.

### **Communications with the Board**

Our board of directors believes that full and open communication between stockholders and members of our board is in our best interests and the best interests of our stockholders. Stockholders can contact any director or committee of the board by writing to the Chairman of the nomination and corporate governance committee, c/o DSP Group, Inc., 2580 North First Street, Suite 460, San Jose, CA 95131. The Chairman of the nomination and corporate governance committee will determine the extent to which such stockholder communications should be disseminated to other members of the board and what response, if any, should be made to such communications. Comments or complaints relating to our accounting, internal accounting controls or auditing matters may be referred directly to our audit committee by writing to the Chairman of the audit committee, c/o DSP Group, Inc., 2580 North First Street, Suite 460, San Jose, CA 95131.

### **Stockholder Proposals**

The nomination and corporate governance committee will consider stockholder proposals properly submitted to us, including recommendations of qualified director nominee(s), in accordance with the procedures set forth below. In order to have a proposal considered by the nomination and corporate governance committee for the 2009 annual meeting, a stockholder must submit its proposal and other relevant information in writing to the attention of our Secretary at our principle executive offices no later than December 11, 2008. The stockholder must submit the following relevant information: (1) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (2) the name and address, as they appear on our books, of the stockholder proposing such business; (3) the class and number of shares of our common stock which are beneficially owned by the stockholder; (4) any material interest of the stockholder in such business; and (5) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Exchange Act, in the stockholder's capacity as a proponent to the proposal.

With respect to recommendations of director nominee(s), the stockholder must submit the following relevant information in writing to the attention of our Secretary at our principle executive offices no later than December 11, 2008: (1) the name, age, business and residence address of the prospective candidate; (2) a brief biographical description of the prospective candidate, including employment history for the past five years, and a statement of the qualifications of the prospective candidate; (3) the class and number of shares of our common stock, if any, which are beneficially owned by the prospective candidate; (4) a description of all arrangements or understandings between the stockholder and the prospective candidate pursuant to which the nomination is to be made by the stockholder if the stockholder and the prospective candidate are different individuals; (5) the candidate's signed consent to serve as a director if elected and to be named in the proxy statement; and (6) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Exchange Act. Once the nomination and corporate governance committee receives the stockholder recommendation, it may deliver to the prospective candidate a questionnaire that requests additional information about the candidate's independence, qualifications and other matters that would assist the nomination and corporate governance committee in evaluating the candidate, as well as certain information that must be disclosed about the candidate in our proxy statement or other regulatory filings, if nominated.

The nomination and corporate governance committee will not evaluate candidates differently based on who has made the proposal. The committee will consider candidates for the board from any reasonable source, including stockholder recommendations. The committee has the authority under its charter to hire and pay a fee to consultants or search firms to assist in the process of identifying and evaluating candidates. No such consultants or search firms were used for the slate of director nominees at this annual meeting since all directors nominated are for re-election, and, accordingly, no fees have been paid to consultants or search firms in the past fiscal year.

Greater detail about the submission process for stockholder proposals are set forth in our bylaws, a copy of which may be obtained by making a written request to our Secretary at the address of our principal executive offices.

We have not received a director nominee recommendation from any stockholder (or group of stockholders) that beneficially owns more than five percent of our common stock.

**Code of Business Conduct and Ethics**

Our board of directors adopted a code of business conduct and ethics in July 2003 and further amended it in January 2005. This code applies to all of our employees and is posted on our web site at [www.dspg.com](http://www.dspg.com). The code satisfies the requirements under the Sarbanes-Oxley Act of 2002, as well as NASDAQ rules applicable to issuers listed on the NASDAQ Global Select Market. The code, among other things, addresses issues relating to conflicts of interests, including internal reporting of violations and disclosures, and compliance with applicable laws, rules and regulations. The purpose of the code is to deter wrongdoing and to promote, among other things, honest and ethical conduct and to ensure to the greatest possible extent that our business is conducted in a legal and ethical manner. Any waivers to the code with respect to our executive officers and directors may be granted only by the audit committee. Any waivers to the code with respect to the remainder of the employees may be granted by the corporate compliance officer, which is currently our Chief Financial Officer. Any waivers to the code and any amendments to the code applicable to our Chief Executive Officer, Chief Financial Officer, principal accounting officer, controller or persons performing similar functions, will be posted on our web site. Our audit committee has also established procedures for (a) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and (b) the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters.

## SECURITY OWNERSHIP OF

## CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to us with respect to beneficial ownership of our common stock as of March 10, 2008, by (i) each stockholder known to us to own beneficially more than 5% of our common stock; (ii) each of our directors; (iii) the Named Executive Officers; and (iv) all of our directors and executive officers as a group.

Name of Beneficial Owner (1)	Shares Beneficially Owned (2)	Approximate Percent Beneficially Owned (3)
NXP B.V. KASLION Acquisition B.V. KASLION Holding B.V. KASLION S.à r.l. High Tech Campus 60, 5656 AG Eindhoven, the Netherlands (4)	4,186,603	13.9%
Wellington Management Company, LLP 75 State Street Boston, Massachusetts 02109 (5)	3,021,700	10.1%
Artisan Partners Limited Partnership Artisan Investment Corporation ZFIC, Inc. Andrew A. Ziegler Carlene Murphy Ziegler Artisan Funds, Inc. 875 East Wisconsin Avenue, Suite 800 Milwaukee, WI 53202 (6)	2,245,000	7.5%
ClearBridge Advisors, LLC Smith Barney Fund Management LLC 399 Park Avenue New York, NY 10022 (7)	1,753,200	5.8%
Barclays Global Investors (Deutschland) AG Barclays Global Investors, NA. Apianstrasse 6, D-85774 Unterföhring, Germany (8)	1,750,254	5.8%
Eliyahu Ayalon (9)	291,143	*
Brian Robertson		
Boaz Edan (10)	195,662	*
Dror Levy (11)	45,539	*
Eli Fogel (12)	136,066	*
Tal Simchony (13)	28,125	*
Gerrit Johan Frederik Kaat		
Zvi Limon (14)	219,317	*
Yair Seroussi (15)	85,303	*
Yair Shamir (16)	112,651	*
Louis Silver (17)	148,007	*
Patrick Tanguy (18)	123,256	*
Avigdor Willenz		
All directors and executive officers as a group (13 persons) (19)	1,413,694	4.5%

\* Less than 1%

(1) Except as otherwise indicated, the address of each of the executive officers and directors is c/o DSP Group, Inc., 2580 North First Street, Suite 460, San Jose, CA 95131.

- (2) To our knowledge, except as set forth in the footnotes to this table, and subject to applicable community property laws, each person named in this table has sole voting and investment power with respect to the shares set forth opposite such person's name.
- (3) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to the securities. Shares of our common stock, subject to options currently exercisable or that will become exercisable within 60 days of March 1, 2008 are deemed outstanding for computing the percentage of the person holding such options, but are not deemed outstanding for computing the percentage of any other person. Percentages are based on 30,049,176 shares of our common stock outstanding as of March 10, 2008.
- (4) Based on a Schedule 13D filed by NXP B.V. on September 14, 2007, with the Securities and Exchange Commission on behalf of itself, KASLION Acquisition B.V., KASLION Holding B.V. and KASLION Sàrl.
- (5) Based on a Schedule 13G filed by Wellington Management Company, LLP on February 14, 2008, with the Securities and Exchange Commission.
- (6) Based on a Schedule 13G/A filed by Artisan Partners Limited Partnership on February 13, 2008, with the Securities and Exchange Commission on behalf of itself, Artisan Investment Corporation, ZFIC, Inc., Andrew A. Ziegler, Carlene Murphy Ziegler, Artisan Funds, Inc., as a reporting group. Artisan Partners Limited Partnership reported beneficial ownership of 2,245,000, of our common stock, including 1,088,300 shares held by Artisan Funds.
- (7) Based on a Schedule 13G/A filed by ClearBridge Advisors, LLC on February 14, 2008 with the Securities and Exchange Commission on behalf of itself and Smith Barney Fund Management LLC. ClearBridge Advisors, LLC reported beneficial ownership of 1,710,000 shares and Smith Barney Fund Management LLC reported beneficial ownership of 43,200, shares of our common stock.
- (8) Based on a Schedule 13G filed by Barclays Global Investors, NA, on behalf of Barclays Global Investors (Deutschland) AG on February 5, 2008, with the Securities and Exchange Commission.
- (9) Includes 290,000 shares of our common stock subject to options and stock appreciation rights that are currently exercisable or will become exercisable within 60 days of March 10, 2008. Each stock appreciation right award is exercisable for a number of shares of our common stock equal to up to fifty percent of the units subject to the award. The number of shares of our common stock subject to a stock appreciation right award represented in the table is calculated based on 50% of the units subject to such an award.
- (10) Represents 195,662 shares of our common stock subject to options and stock appreciation rights that are currently exercisable or will become exercisable within 60 days of March 10, 2008. Each stock appreciation right award is exercisable for a number of shares of our common stock equal to up to fifty percent of the units subject to the award. The number of shares of our common stock subject to a stock appreciation right award represented in the table is calculated based on 50% of the units subject to such an award.
- (11) Represents 45,539 shares of our common stock subject to options and stock appreciation rights that are currently exercisable or will become exercisable within 60 days of March 10, 2008. Each stock appreciation right award is exercisable for a number of shares of our common stock equal to up to fifty percent of the units subject to the award. The number of shares of our common stock subject to a stock appreciation right award represented in the table is calculated based on 50% of the units subject to such an award.
- (12) Represents 136,066 shares of our common stock subject to options and stock appreciation rights that are currently exercisable or will become exercisable within 60 days of March 10, 2008. Each stock appreciation right award is exercisable for a number of shares of our common stock equal to up to fifty percent of the units subject to the award. The number of shares of our common stock subject to a stock appreciation right award represented in the table is calculated based on 50% of the units subject to such an award.
- (13) Mr. Simchony resigned as our President on October 31, 2007. He has options and stock appreciation rights to purchase 28,250 shares of our common stock exercisable until March 30, 2008. Each stock appreciation right award is exercisable for a number of shares of our common stock equal to up to fifty percent of the units subject to the award. The number of shares of our common stock subject to a stock appreciation right award represented in the table is calculated based on 50% of the units subject to such an award. To our knowledge, he has no outstanding shares.
- (14) Represents 219,317 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of March 10, 2008.
- (15) Represents 85,303 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of March 10, 2008.



- (16) Represents 112,651 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of March 10, 2008.
- (17) Includes 147,507 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of March 10, 2008.
- (18) Represents 123,256 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of March 10, 2008.
- (19) See footnotes (9) through (18). Includes 1,411,551 shares of our common stock subject to options and stock appreciation rights that are currently exercisable or will become exercisable within 60 days of March 10, 2008. Each stock appreciation right award is exercisable for a number of shares of our common stock equal to up to fifty percent of the units subject to the award. The number of shares of our common stock subject to the stock appreciation right awards represented in the table is calculated based on 50% of the units subject to such an award.

### EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information regarding our equity compensation plans as of December 31, 2007.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	983,034	23.08	640,693(1)
Equity compensation plans not approved by security holders (2)	4,229,730	22.25	1,991,683
<b>Total</b>	<b>5,212,764</b>	<b>22.40</b>	<b>2,632,376</b>

- (1) The amount includes 193,000 shares of common stock available for future issuance under our 1993 Employee Stock Purchase Plan.
- (2) Neither the Amended and Restated 1998 Non-Officer Employee Stock Option Plan (the 1998 Plan ) nor the Amended and Restated 2003 Israeli Share Incentive Plan (the 2003 Plan ) was previously approved by our stockholders. The total number of shares of common stock available for the grant of options under the 2003 Plan is increased on the first day of each calendar year beginning in 2004 by a number of shares equal to three percent of the number of shares of our common stock outstanding as of such date or a lesser number as determined by the administrator of the plan. In 2004, we granted stock options to purchase a total of 239,000 shares of common stock outside of stockholder-approved stock option plans in connection with our acquisition of the Wi-Fi assets of Bermai, Inc., of which 144,125 were outstanding as of December 31, 2007. Further, in 2007, we granted stock options to purchase a total of 235,000 shares of common stock outside of stockholder-approved stock option plans in connection with our acquisition of the cordless and VoIP terminals business of NXP B.V. of which 235,000 were outstanding as of December 31, 2007.

#### *1998 Non-Officer Employee Stock Option Plan*

Our board of directors adopted the 1998 Plan in November 1998. As of December 31, 2007, a maximum of 703,425 shares of common stock is currently available for issuance under the 1998 Plan. The board of directors, or a committee designated by the board of directors, administers the 1998 Plan. The administrator has the sole discretion to interpret any provision of the 1998 Plan, and to determine the terms and conditions of awards of non-qualified stock options or stock appreciation rights under the 1998 Plan. Options and stock appreciation rights currently may be granted to our employees and employees of any of our subsidiaries. Officers may not be granted options or stock appreciation rights under the 1998 Plan. The material features of the 1998 Plan are summarized below.

*Term.* The term of each option or stock appreciation right shall be stated in the applicable option or stock appreciation right agreement.

*Exercise Price or Base Appreciation Right.* The exercise price per share of common stock for an option and the base appreciation amount for a stock appreciation right shall be determined by the administrator.

*Vesting.* Each option or stock appreciation right shall vest in accordance with a schedule as determined by the administrator.

*Early Exercise.* An option may include a provision whereby the participant may elect to exercise any part or all of the option prior to vesting of the option. Any unvested shares received pursuant to such exercise may be subject to a repurchase right in favor of the Company or any other restriction the administrator determines to be appropriate.

*Transferability.* Options and stock appreciation rights are transferable to the extent provided in the applicable option agreement or stock appreciation right agreement.

*Termination of Employment.* A participant may not exercise an option or stock appreciation right after the termination of the participant's employment, director or consulting relationship with us or with any of our subsidiaries, except to the extent specified in the applicable option or stock appreciation right agreement. Where the option or stock appreciation right agreement permits the exercise of the option or stock appreciation right following termination of the participant's employment or other service relationship with us or any of our subsidiaries, the option or stock appreciation right shall terminate to the extent not exercised on the last day of the specified period or the last day of the term of the option or stock appreciation right, which ever occurs first.

*Acquisition of the Company.* If we are acquired whether by sale, transfer of assets, merger or similar transaction, the administrator shall have the authority to provide for the full automatic vesting and exercisability of one or more outstanding unvested options or unvested stock appreciation rights under the 1998 Plan on such terms and conditions as the administrator may specify.

*Amendment and Termination of the Plan.* The 1998 Plan will continue until it is terminated by the board of directors. The board may amend the 1998 Plan at any time or from time to time or may suspend or terminate it, without approval of the stockholders, except as required by law. However, no action by the board of directors or stockholders may alter or impair any option or stock appreciation right previously granted under the 1998 Plan. No option or stock appreciation right may be granted during any suspension of or after termination of the 1998 Plan.

#### *2003 Israeli Share Incentive Plan*

Our board of directors adopted the 2003 Plan in November 2002. As of December 31, 2007, the maximum number of shares of common stock available for issuance under the 2003 Plan was 1,288,258 shares. Pursuant to the plan terms, the number of shares authorized for issuance is increased annually on the first business day of each calendar year equal to three percent of the number of shares of our common stock issued and outstanding as of such date or a lesser number of shares as determined by the board of directors. The board of directors, or a committee designated by the board of directors, administers the 2003 Plan. The administrator has the sole discretion to interpret any provision of the 2003 Plan and to determine the terms and conditions of the options and stock appreciation rights issued under the 2003 Plan. Options and stock appreciation rights currently may be granted to our employees and other service providers and employees and other service providers of any of our subsidiaries. The material features of the 2003 Plan are summarized below.

*Term.* The term of each option or stock appreciation right shall be stated in the applicable option agreement or stock appreciation right agreement.

*Exercise Price or Base Appreciation Right.* The exercise price per share of common stock for an option and the base appreciation amount for a stock appreciation right shall be determined by the administrator and will be set forth in the applicable option or stock appreciation right agreement.

*Vesting.* Each option or stock appreciation right shall vest in accordance with a schedule as determined by the administrator.

*Transferability.* Options and stock appreciation rights are non-transferable except as provided in the option or stock appreciation right agreement. During the lifetime of the participant, the option or stock appreciation right may be exercised only by the participant.

*Termination of Employment.* In the event a participant's employment relationship with us or any of our subsidiaries is terminated other than for cause or as a result of death or disability, the vested portion of the option or stock appreciation right shall be exercisable for 90 days after the date of termination. In the event a

participant's employment relationship with us or any of our subsidiaries is terminated as a result of death or disability, the vested portion of the option or stock appreciation right shall be exercisable for 12 months after the date of termination. In the event a participant's employment relationship with us or any of our subsidiaries is terminated for cause, the option or stock appreciation right shall immediately terminate and cease to be exercisable. In no event shall an option or stock appreciation right be exercisable after the expiration date of the option or stock appreciation right.

*Acquisition of the Company.* The terms of an option or stock appreciation right agreement may provide for the full automatic vesting and exercisability of the option or stock appreciation right in the event we are acquired by sale, transfer of assets, merger or similar transaction.

*Amendment and Termination of the 2003 Plan.* The 2003 Plan will terminate in November 2012. The board of directors may amend the 2003 Plan at any time or from time to time or may suspend or terminate it, without approval of the stockholders, except as required by law. However, no action by the board of directors or stockholders may alter or impair any option or stock appreciation right previously granted under the 2003 Plan.

## EXECUTIVE COMPENSATION

### Compensation Discussion & Analysis

#### *Overview of Compensation Philosophy and Objectives*

We operate in a very competitive, dynamic and challenging industry. Our compensation policy, as established by the compensation committee of our board of directors, is designed to attract, motivate and retain highly talented individuals who will contribute to our long-term success, reward our executive officers who contribute to our financial performance and provide a strong link between our executive officers' compensation and long-term interests of our stockholders. We believe that our executive officers' compensation should not be based on the short-term performance of our stock, whether favorable or unfavorable, but rather that the price of our stock will, in the long-term, reflect our operating performance and ultimately the management of the company by our executive officers. The various compensation levels for our executive officers are set based on the scope of their responsibilities and performance. Our policy for allocating between long-term and currently paid compensation is to ensure adequate base compensation to attract and retain key personnel, while providing incentives to maximize long-term value for our company and our stockholders. We further believe that the executive officers' total annual cash compensation should vary with the company's performance and that the higher an executive officer's level of responsibility within the company, the greater the percentage of such executive officer's compensation should be tied to the company's performance. However, notwithstanding the above principles, we rely upon judgment and not upon rigid guidelines or formulas in determining the amount and mix of compensation elements for each executive officer.

The compensation committee, which is comprised solely of independent, non-employee board members, has the authority and responsibility to establish the overall compensation strategy for the company, including reviewing, analyzing and approving the compensation structure for our Chief Executive Officer, our executive and non-executive officers and other key employees each year; and administer our incentive compensation and benefit plans, 401(k) plan, and stock option and purchase plans. The compensation committee regularly updates the board of directors with respect to its undertakings in establishing the company's overall compensation strategy. Messrs. Limon, Shamir and Silver were the members of the compensation committee in 2007, with Mr. Shamir acting as the Chairman.

#### *Role of Chief Executive Officer and Compensation Consultants in Compensation Decisions*

Mr. Ayalon, our Chief Executive Officer, annually reviews the performance of each executive officer (other than himself whose performance is reviewed solely by the compensation committee). Mr. Ayalon's assessment of the performance of each such executive officer, their accomplishments, and individual and corporate performance of each such executive officer and his conclusions thereon, including with respect to salary adjustments and annual award amounts, are then presented to the compensation committee in connection with the committee's annual review of each executive officer's total compensation. The compensation committee evaluates, discusses and modifies or approves the recommendations provided by Mr. Ayalon.

The charter of the compensation committee authorizes the committee to engage the services of consultants to assist in the determination of our executive officers' compensation. The compensation committee did not engage the services of a compensation consultant in determining our executive officers' compensation in 2007.

#### *Principal Elements of Executive Compensation*

Compensation of our executive officers consists of three principal components: base salary, bonus and long-term incentive compensation consisting of grants of stock options and stock appreciation rights.

**Base Salary.** The base salaries of our executive officers are set by the compensation committee. When setting base salary levels, the compensation committee considers competitive market conditions for executive compensation, the company's performance, the performance of the individual executive officer for the then

completed year and any promotion or other change in job responsibility of the individual executive officer. The base salaries of Mr. Edan, our Chief Operating Officer, Mr. Levy, our Chief Financial Officer, and Mr. Fogel, our Chief Technology Officer, were increased in 2007 in consideration of salaries paid to executive officers in the same positions in similarly-situated Israeli companies, as well as the devaluation of the U.S. dollar against the NIS, the Israeli currency, which had a negative impact on Messrs. Edan, Levy and Fogel, whose base salaries are paid in U.S. dollars but who reside in Israel. Also, as a result of exchange rate fluctuations, the compensation committee determined to restate the base salaries of Messrs. Edan, Levy and Fogel in NIS and link annual base salary increases to the Israeli consumer prices index.

*Bonus.* In consideration of the small size of our management team, the flexibility offered by a less formula-based bonus plan and the recognition that the long-term success of the company is achieved by the attainment of various strategic goals and not singular focus on specific financial metrics, the compensation committee annually evaluates the performance of, and set the cash bonuses payable to, our Chief Executive Officer and other executive officers based on a broad set of corporate and personal performance goals. The performance factors utilized by the compensation committee include the following: (1) increased sales of our products and changes in our profitability during the year; (2) our performance in penetrating new markets for our products; (3) the success in executing on our long-term strategic goals; (4) each executive officer's overall individual performance in his position and his relative contribution to our corporate performance during the year; and (5) the desire of the board of directors to retain the executive officer in the face of considerable competition for executive talent within the industry. The compensation committee also considers each executive officer's base salary, with higher ranked executive officers being compensated at a higher percentage of base salary. The board of directors or the compensation committee in the future may modify the foregoing criteria or select other performance factors with respect to bonuses paid to executive officers for any given year.

*Long-term Incentive Compensation.* Stock option grants and the grant of stock appreciation rights are made from time to time to our employees, including executive officers, whose contributions have or will have a significant impact on our long-term performance. We began to grant stock appreciation rights to our executive officers beginning in 2006 with a view to conserve the number of shares of our common stock authorized for issued under our various equity incentive plans. We believe that the grant of stock options and stock appreciation rights (1) align our executive officers' interests with stockholder interests by creating a direct link between compensation and stockholder return; (2) give executive officers a significant, long-term interest in our success; and (3) help retain key executive officers in a competitive market for executive talent. We grant stock options and stock appreciation rights to our executive officers pursuant to our Amended and Restated 2001 Stock Incentive Plan (the "2001 Stock Plan") and Amended and Restated 2003 Israeli Share Incentive Plan (the "2003 Stock Plan"). In 2007, we provided long-term awards to our executive officers through the grant of stock appreciation rights, which vest based on continued employment consistent with the general vesting schedules discussed below.

*Compensation of Chief Executive Officer.* The determination by the compensation committee of the remuneration of Mr. Ayalon generally was based upon methods consistent with those used for the other executive officers. The compensation committee additionally considered the following factors in evaluating the performance of, and setting the compensation for, Mr. Ayalon: (1) changes in revenues and net income from the previous year; (2) changes in our market share as compared both to our industry peers and to the previous year; (3) changes in the stock price of our common stock as compared both to our industry peers and to the previous year; (4) his contribution to an enhanced research and development strategy in response to changing market trends; (5) his contribution to the hiring and retention of top management personnel; and (6) the time and effort that Mr. Ayalon individually applied in connection with the execution of his duties. The compensation committee believes that the salary and long-term incentive compensation paid to Mr. Ayalon during 2007 were appropriate based on the above criteria.

*Equity Incentive Programs*

We intend that our equity incentive awards be the primary vehicle for offering long-term incentives and rewarding our executive officers and key employees. We also regard our equity incentive awards as a key retention tool. This is a very important factor in our determination of the type of award to grant and the number of underlying shares that are granted in connection with that award.

Equity incentive awards are granted based upon individual performance measures established for each individual by the compensation committee. The size of each grant is generally set at a level that the compensation committee deems appropriate to create a meaningful opportunity for stock ownership, the individual's position with the company and the individual's potential for future responsibility and promotion. In the grant of awards, the compensation committee further considers the executive officer's past performance, the total compensation being paid to the executive officer, the number of options awarded to the executive officer during previous years and the vesting status of such options, and the comparability with option grants made to our other executive officers and similarly situated executive officers at peer companies. All awards of stock options and stock appreciation rights are made at the market price at the time of the awards.

*Stock Option Awards Granted.* We grant stock option awards to our executive officers and key employees based upon the criteria discussed above. However, there is no set formula for the granting of stock option awards to individual executive officers. Generally, stock options previously granted to our executive officers vest as to 25% of the grant on the first anniversary of the grant date with the remaining options vesting quarterly over the next three years and expiring seven years from the grant date. Stock options previously granted to our Chief Executive Officer vest as to 25% of the grant on the grant date with the remaining options vesting annually over the next three years and expiring seven years from the grant date. During 2007, only a stock option to purchase 50,000 shares of our common stock was granted to Mr. Robertson in connection with his appointment as our President in October 2007.

*Stock Appreciation Right Awards Granted.* Due to the evolution of regulatory, tax and accounting treatment of equity incentive programs and because it is important for us to retain our executive officers and key employees, we realized that it is important that we explore the use of other forms of equity awards. During 2006, we began to grant our executive officers a new equity-based award instrument—a share appreciation right, capped with a ceiling. The stock appreciation right confers upon our executive officers the right to stock appreciation over a preset price during a specified period of time. When the stock appreciation right is exercised, the appreciation amount is paid by the issuance of shares. The ceiling limits the maximum income for each stock appreciation right such that when the fair market value of our common stock is equal to or greater than two times the exercise price of the stock appreciation right, the portion of the stock appreciation rights that is vested on such date is automatically exercised on the next trading day and the appreciation amount is paid to the executive officer by the issuance of the respective number of shares of our common stock. Stock appreciation rights granted to our executive officers generally vest as to 25% of the grant on the first anniversary of the grant date with the remaining stock appreciation rights vesting quarterly over the next three years and expiring seven years from the date of grant. Stock appreciation rights granted to our Chief Executive Officer vest as to 25% of the grant on the grant date with the remaining stock appreciation rights vesting annually over the next three years and expiring seven years from the date of grant. Grant of stock appreciation rights to our executive officers are made based upon the criteria discussed above. However, there is no set formula for the grant of stock appreciation rights to individual executive officers. During 2007, 1,683,650 stock appreciation right units were granted to our employees. Our named executive officers received 330,000 stock appreciation right units or 20% of the total stock appreciation right units granted in 2007.

*Timing of Grants.* Equity incentive awards to our executive officers and other key employees are typically granted annually in conjunction with the compensation committee's review of their individual performance during the prior year. Options and stock appreciation rights are not necessarily granted to each employee every year. Grants of stock options and/or stock appreciation rights to newly hired executive officers who are eligible to receive them generally are made at the next regularly scheduled compensation committee or board meeting following their hire date.

*Stock Ownership Guidelines.* We do not currently require our executive officers and members of our board to own a minimum number of shares of our common stock. The compensation committee is satisfied that stock and option holdings among our executive officers and directors are sufficient at this time to provide motivation and to align this group's interests with those of our stockholders.

*Retirement Benefits and Perquisites*

We do not offer any retirement benefits to our Israeli-based executive officers except for social benefits required pursuant to Israeli labor laws, or are common practice in Israel and are generally available to all Israeli employees. Specifically, based on Israeli labor laws, an Israeli employee is entitled to severance pay upon termination of employment for any reason, including retirement, based on the most recent monthly salary of such employee multiplied by the number of years of employment of such employee. We make a payment of 8.333% of each employee's monthly base salary to an insurance fund to pay for this future liability owed to Israeli employees upon termination of their employment. In addition, we make a payment of 5% of each employee's monthly base salary to another insurance fund, which accrued amount may be withdrawn by the employee after retirement or, subject to various tax restrictions in Israel, after leaving our employment.

With respect to Mr. Robertson, our President, who is based on Switzerland, we pay half of the contributions to AHV (Old Age and Survivors Insurance), IV (Invalidity Insurance), EO (Loss of Earnings) and ALV (Unemployment Insurance) on Mr. Robertson's behalf and he pays the other half of the contributions. Mr. Robertson also participates in our Swiss pension plan, which was formerly the NXP Semiconductors Switzerland AG pension plan that was transferred to us in connection with our acquisition of the cordless and VoIP terminals business of NXP B.V. in September 2007. The contributions and the benefits under the Swiss pension plan are determined by the rules and regulations in force at any given time of the relevant pension plan. We do not offer Mr. Robertson any retirement benefits that are not generally available to our Swiss employees in a managerial function.

We currently do not provide any material benefits to our executive officers that are not generally available to our employees.

*Post-Termination Protection*

The compensation committee also recognizes that, from time to time, it is appropriate to enter into agreements with certain key employees to ensure that we continue to retain their services and to promote stability and continuity within our company. We have entered into employment agreements with our Named Executive Officers. The varied terms of their employment agreements reflect the importance of retaining their services and their potential contributions to the attainment of our long-term goals. Their employment agreements are described beginning on page 30 of this proxy statement.

*Financial Restatements*

The compensation committee has not adopted a policy with respect to whether we will make retroactive adjustments to any cash- or equity-based incentive compensation paid to executive officers (or others) where the payment was predicated upon the achievement of financial results that were subsequently the subject of a restatement. Our compensation committee believes that this issue is best addressed when the need actually arises, when all of the facts regarding the restatement are known.

*Tax and Accounting Treatment of Compensation*

Section 162(m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to publicly held companies for compensation exceeding \$1 million paid to certain of the corporation's executive officers. The limitation applies only to compensation which is not considered to be performance-based. Only our



2001 Stock Plan is structured so that any compensation deemed paid to an executive officer in connection with the exercise of option grants made under the plan will qualify as performance-based compensation which will not be subject to the \$1 million limitation. Generally, our executive officers are granted stock options and stock appreciation rights 2001 Stock Plan and the 2003 Stock Plan. The compensation committee is aware of the limitations imposed by Section 162(m), and the exemptions available therefrom, and will address the issue of deductibility when and if circumstances warrant, and may use such exemptions in addition to the exemption contemplated under the 2001 Stock Plan. The compensation committee also reserves the right to use its judgment to authorize compensation payments that do not comply with the exemptions in Section 162(m) when the committee believes that such payments are appropriate and in the best interests of our stockholders, after taking into account changing business conditions or the executive officer's performance. In addition, the compensation committee cannot ensure that compensation intended to qualify for deductibility under Section 162(m) will in fact be deductible because: (1) a number of requirements must be satisfied in order for the compensation to qualify; and (2) uncertainties as to the application and interpretation surrounding this section currently exist.

#### **Compensation Committee Report**

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis set forth above with our management. Based on its review and discussions, the committee recommended to our board of directors that the Compensation Discussion and Analysis be included in this report.

Submitted by the compensation committee:

Zvi Limon

Yair Shamir

Louis Silver

**2007 Summary Compensation Table**

The following table sets forth the total compensation awarded to, earned by or paid to our principal executive officer, former president, principal financial officer and the three other highest paid executive officers whose total compensation in fiscal year 2007 exceeded \$100,000 for the periods presented. We refer to these executive officers as our Named Executive Officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$) (5)	Option Awards (\$ (6)	All Other Compensation (\$ (7)	Total (\$)
Eliyahu Ayalon (1)	2007	350,000	290,000	472,036(8)	139,480	1,251,516
Executive Chairman of the Board and Chief Executive Officer	2006	350,000	200,000	315,268	126,693	991,961
Brian Robertson (2)	2007	130,000		20,888(9)	34,726	185,614
President						
Tal Simchony (3)	2007	220,000	70,000	377,629(10)	91,691	759,320
Former President	2006	201,667	110,000	591,128	72,452	975,247
Boaz Edan	2007	192,454	150,000	258,264(11)	68,268	668,986
Chief Operating Officer	2006	160,000	100,000	236,451	60,966	557,417
Dror Levy (4)	2007	142,604	90,000	147,579(12)	61,125	441,308
Vice President, Finance, Chief Financial Officer and Secretary	2006	113,788	40,000	71,000	58,221	283,009
Eli Fogel	2007	173,105	90,000	147,579(13)	70,964	481,648
Senior Vice President and Chief Technology Officer	2006	152,482	50,000	157,634	69,400	429,516

- (1) Mr. Ayalon was our Chief Executive Officer from 1996 to April 2005 and resumed such position again on January 25, 2006.
- (2) Mr. Robertson became our President on October 31, 2007.
- (3) Mr. Simchony was our President from February 1, 2006 to October 31, 2007.
- (4) Mr. Levy became our Chief Financial Officer on July 19, 2006.
- (5) Represents the bonus amount awarded to the Named Executive Officer in 2007 at the discretion of the board of directors.
- (6) Represents the fair value of the stock appreciation rights as of the date they were granted, computed in accordance with SFAS 123(R), disregarding adjustments for forfeiture assumptions. The amounts above represent the expenses recognized pursuant to SFAS 123(R) in 2007 only.
- (7) See the table captioned "2007 All Other Compensation" below for greater detail.
- (8) Relates to a grant of 100,000 stock appreciation right units on January 24, 2007 to purchase up to 50,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.
- (9) Relates to an option grant to purchase 50,000 shares of our common stock on October 31, 2007.
- (10) Relates to a grant of 80,000 stock appreciation right units on January 24, 2007 to purchase up to 40,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.
- (11) Relates to a grant of 70,000 stock appreciation right units on January 24, 2007 to purchase up to 35,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.
- (12) Relates to a grant of 40,000 stock appreciation right units on January 24, 2007 to purchase up to 20,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.
- (13) Relates to a grant of 40,000 stock appreciation right units on January 24, 2007 to purchase up to 20,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.

**2007 All Other Compensation**

The following table sets forth all other compensation awarded to, earned by or paid to each of our Named Executive Officers during fiscal year 2007.

Name	Israeli Social Benefits (\$) (1)	Car Allowance (\$) (2)	Education Fund (\$) (3)	Vacation (4)	Social Security Payments (5)	Disability Insurance Payments (6)	Other (7)	Total (\$)
Eliyahu Ayalon	46,577	29,620	26,207	21,525	5,730	8,735	1,086	139,480
Boaz Edan	25,654	18,711	14,435	959	5,730	1,431	1,347	68,268
Dror Levy	19,010	11,952	10,696	11,489	5,730	998	1,250	61,125
Eli Fogel	23,075	16,683	12,983	10,270	5,730	964	1,259	70,964
Tal Simchony	30,641	22,444	16,473	12,660	5,730	1,318	2,426	91,691

- (1) Based on Israeli labor laws, an Israeli employee is entitled to severance pay upon termination of employment by the employer for any reason, including retirement, based on the most recent monthly base salary of such employee multiplied by the number of years of employment of such employee. We make a payment of 8.333% of each employee's monthly base salary to an insurance fund to pay for this future liability payable to our employees upon termination of their employment. In addition, we make a payment of 5% of each employee's monthly base salary to another insurance fund, which accrued amount may be withdrawn by the employee after retirement or, subject to various tax restrictions in Israel, after leaving our employment. The amounts represent the above referenced contributions we made on behalf of each of the Named Executive Officers in 2007.
- (2) We generally provide all of our Israeli employees with a car for business-related purposes and pay the associated expenses.
- (3) As is customary in Israel applicable to all Israeli employees, we provide our Israeli employees with a certain amount of monthly contributions (7.5% of their base salary) for the benefit of each employee's study and training purposes, which amounts contributed by us to each of the Named Executive Officers in 2007 are as specified.
- (4) Represents the dollar value of the difference between the vacation days to which the Named Executive Officer is entitled in 2007 and the vacation days used by such Named Executive Officer in 2007.
- (5) Represents payments we made to the Israeli government that the employees will receive in the event of unemployment or other disability.
- (6) As is customary in Israel, we make a payment of up to 2.5% of each employee's monthly base salary to cover employer liability associated with employment disability.
- (7) Represents tax reimbursements and convalescence pay.

Name	Pension Fund Contributions (\$) (1)	Car Allowance (\$) (2)	Vacation (3)	Insurance Contributions (4)	Other (5)	Total (\$)
Brian Robertson	10,576	7,727	5,446	6,477	4,500	34,726

- (1) Mr. Robertson participate in our Swiss pension plan, which was formerly the NXP Semiconductors Switzerland AG pension plan that was transferred to us in connection with our acquisition of the cordless and VoIP terminals business of NXP B.V. in September 2007. The contributions and the benefits under the Swiss pension plan are determined by the rules and regulations in force at any given time of the relevant pension plan.
- (2) We generally provide to Swiss employees above a certain managerial level with a car for business-related purposes and pay the associated expenses.
- (3) Represents the dollar value of the difference between the vacation days to which Mr. Robertson was entitled in 2007 and the vacation days used by Mr. Robertson in 2007.
- (4) Represents half of the contributions we made to AHV (Old Age and Survivors Insurance), IV (Invalidity Insurance), EO (Loss of Earnings) and ALV (Unemployment Insurance) on Mr. Robertson's behalf. Mr. Robertson pays the other half of the contributions.
- (5) Represents a prorated portion of an allowance of EUR 8,370 (approximately \$13,200 per year) payable to Mr. Robertson in 4 quarterly installments at the end of the last month of each quarter.

**2007 Grants of Plan Based Awards**

The following table sets forth each equity award granted to our Named Executive Officers during fiscal year 2007.

Name	Grant Date	Approval Date	Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares or Units	All Other Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Closing Price on Grant Date (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (3)
			Threshold (#)	Target (#)	Maximum (#)					
Eliyahu Ayalon	01/24/2007					100,000(1)	21.70	21.70	696,460	
Brian Robertson	10/31/2007					50,000(2)	15.79	15.79	214,634	
Boaz Edan	01/24/2007					70,000(1)	21.70	21.70	481,740	
Dror Levy	01/24/2007					40,000(1)	21.70	21.70	275,280	
Eli Fogel	01/24/2007					40,000(1)	21.70	21.70	275,280	
Tal Simchony	01/24/2007					80,000(1)	21.70	21.70	557,168	

- (1) Represents grants of stock appreciation right units made pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan. Stock appreciation rights granted to our executive officers generally vest as to 25% of the grant on the first anniversary of the grant date with the remaining stock appreciation rights vesting quarterly over the next three years and expiring seven years from the date of grant. Stock appreciation rights granted to our Chief Executive Officer vest as to 25% of the grant on the grant date with the remaining stock appreciation rights vesting annually over the next three years and expiring seven years from the date of grant. All stock appreciation rights have a ceiling of 200%. When the vested stock appreciation rights are exercised, the number of underlying shares that may be received upon exercise cannot exceed 50% of the number of stock appreciation right units granted. For example, the stock appreciation right grant of 100,000 units to Mr. Ayalon is exercisable for up to 50,000 shares of our common stock.
- (2) Represents an option grant to purchase 50,000 shares of our common stock on October 31, 2007 in connection with Mr. Robertson's appointment as our President.
- (3) Represents the fair value of the stock appreciation rights as of the date they were granted, computed in accordance with SFAS 123(R) but disregarding adjustments for forfeiture assumptions.

**Outstanding Equity Awards at Fiscal Year-End 2007**

The following table sets forth information concerning unexercised options held by each of our Named Executive Officers as of December 31, 2007. None of our Named Executive Officers had any stock awards outstanding at fiscal year-end 2007.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Awards		
			Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date (7)
Eliyahu Ayalon	125,000(1)(3)			24.16	12/4/2010
	82,500(1)(3)	27,500(1)(3)		23.88	7/4/2012
	40,000(2)(4)	40,000(2)(4)		28.59	4/5/2013
	25,000(2)(4)	75,000(2)(4)		21.70	1/24/2014
Brian Robertson		50,000(3)(5)		15.79	10/31/2014
Tal Simchony	56,250(2)(4)			28.59	3/30/2008
Boaz Edan	12,500(1)(3)			17.82	2/4/2009
	45,100(1)(3)			16.79	1/22/2010
	75,000(1)(3)			24.16	12/4/2010
	30,375(1)(3)	23,625(1)(3)		23.88	7/4/2012
	22,500(2)(4)	37,500(2)(4)		28.59	4/5/2013
		70,000(2)(4)		21.70	1/24/2014
Dror Levy	2087(1)(3)			13.35	8/26/2009
	636(1)(3)			11.48	10/30/2009
	21,250(1)(3)			22.42	5/13/2010
	8,440(1)(3)	6,560(1)(3)		23.88	7/4/2012
	7,500(2)(4)	12,500(2)(4)		28.59	4/5/2013
		40,000(2)(4)		21.70	1/24/2014
Eli Fogel	11,250(1)(3)			21.80	7/11/2010
	90,000(1)(3)			24.40	7/21/2010
	15,190(1)(3)	11,810(1)(3)		23.88	7/4/2012
	15,000(2)(4)	25,000(2)(4)		28.59	4/5/2013
		40,000(2)(4)		21.70	1/24/2008

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- (1) The stock options were granted pursuant to our Amended and Restated 1991 Employee and Consultant Stock Plan, Amended and Restated 2001 Stock Incentive Plan and Amended and Restated 2003 Israeli Share Incentive Plan.
- (2) The stock appreciation rights were granted pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.
- (3) Stock options granted to our executive officers generally vest as to 25% of the grant on the first anniversary of the grant date with the remaining options vesting quarterly over the next three years and expiring seven years from the grant date. Stock options previously granted to our Chief Executive Officer vest as to 25% of the grant on the grant date with the remaining options vesting annually over the next three years and expiring seven years from the grant date.
- (4) Stock appreciation rights granted to our executive officers generally vest as to 25% of the grant on the first anniversary of the grant date with the remaining stock appreciation rights vesting quarterly over the next three years and expiring seven years from the date of grant. Stock appreciation rights granted to our Chief Executive Officer vest as to 25% of the grant on the grant date with the remaining stock appreciation rights vesting annually over the next three years and expiring seven years from the date of grant. The table sets forth the number of units granted pursuant to a stock appreciation right award. All stock appreciation rights have a ceiling of 200%. When the vested stock appreciation rights are exercised, the number of underlying shares that may be received upon exercise cannot exceed 50% of the number of stock appreciation right units granted.
- (5) The stock option was granted as an inducement of employment in connection with Mr. Robertson's appointment as our President in October 2007 and was granted outside of a stockholder-approved plan.
- (6) All stock options and stock appreciation rights were granted at fair market value on the grant date.
- (7) All stock options and stock appreciation rights have a maximum term of seven years.

### **2007 Option Exercises and Stock Vested**

None of our Named Executive Officers exercised any options during fiscal year 2007. None of our Named Executive Officers has received any stock awards and therefore no shares were acquired upon vesting of any stock awards.

### **Nonqualified Deferred Compensation**

We do not provide any nonqualified defined contribution or other deferred compensation plans to our Named Executive officers.

### **Employment Agreements**

Each of our Named Executive Officers has a written employment agreement with us.

In April 1996, Mr. Ayalon entered into an employment agreement with DSP Group, Ltd., our wholly-owned subsidiary in Israel ( DSP Israel ), pursuant to which Mr. Ayalon was to serve as our President and Chief Executive Officer. The term of the agreement is indefinite. Effective January 1, 2003, Mr. Ayalon's annual salary was increased to \$350,000, subject to adjustment from time to time. Mr. Ayalon is also entitled to an annual bonus, the amount of which is determined in the sole discretion of the board. The agreement may be terminated by us or Mr. Ayalon, without cause, upon a six-month advance written notice. Mr. Ayalon's employment agreement was amended in November 1997 to provide for the following: (i) Mr. Ayalon's base compensation shall be fixed at the commencement of each year, but shall not be subject to reduction during the term of the agreement, (ii) if Mr. Ayalon terminates the agreement without good reason or if we terminate the agreement for cause, then no further payments shall be made to Mr. Ayalon pursuant to the agreement and he shall be subject to a one-year prohibition against competition in addition to the customary prohibitions against disclosure of trade secrets, (iii) upon our change of control or if the agreement is terminated by Mr. Ayalon for good reason or by us without cause, then all rights of Mr. Ayalon under the agreement would continue for two years and all options held by Mr. Ayalon shall accelerate and immediately vest and be exercisable in whole or in part at any time during the remaining two-year term of the agreement, and (iv) in the event of death or permanent disability of Mr. Ayalon, all options shall accelerate and immediately vest. The board further amended Mr. Ayalon's agreement in November 1999 to provide that if Mr. Ayalon terminates the agreement voluntarily at any time, provided that he gives a 12-months advance written notice, then all rights of Mr. Ayalon under the agreement would continue during the notice period and for two years and all options held by Mr. Ayalon shall be fully vested six months after the date of the notice. Additionally, these amendments provide that all vested options held by Mr. Ayalon upon the date of his cessation of employment with us for any reason shall be exercisable for a period of two years.

In connection with Mr. Robertson's initial employment as Vice President & BL Manager, Cordless & Internet Protocol Terminals after our acquisition of the cordless and VoIP terminals business of NXP B.V., he entered into an employment agreement with DSP Group Switzerland AG, one of our wholly-owned subsidiaries ( DSP Switzerland ), effective September 1, 2007. The agreement remains unchanged notwithstanding Mr. Robertson's appointment as our President. The agreement provides for a fixed salary of CHF 312,531.25 (was approximately U.S. \$270,000 at the date of signing) (the Annual Salary ) to be paid in 13 monthly installments and Mr. Robertson is entitled to an annual bonus, the amount of which is determined in the sole discretion of our board of directors. In connection with Mr. Robertson's initial employment, he is entitled to a one-time performance bonus of 80% of the Annual Salary (the Performance Bonus ) payable as follows: (1) 40% of the Performance Bonus is payable on September 1, 2008; and (2) the remaining 40% is payable in four equal installments on the last day of each completed quarter thereafter. Each payment of Performance Bonus is payable only if Mr. Robertson has not resigned from DSP Switzerland and DSP Switzerland has not terminated his employment for a justified reason at the time that any payment of Performance Bonus is due. Mr. Robertson's employment with us may be terminated at any time by either party and for any reason upon three months prior notice.

In May 1999, Mr. Edan entered into an employment agreement with DSP Israel, pursuant to which Mr. Edan was to serve as our Vice President of Operations. In October 2002, Mr. Edan became our Chief Operating Officer. In May 2007, the compensation committee determined to restate Mr. Edan's base salary in NIS, the Israeli currency, and link annual base salary increases to the Israeli consumer prices index. Also as of May 2007, Mr. Edan's annual salary was increased to 840,000 NIS (approximately \$250,000), subject to adjustment from time to time. The term of the agreement is indefinite. Mr. Edan also is entitled to an annual bonus, the amount of which is determined in the sole discretion of the board. The agreement may be terminated by us or Mr. Edan upon a 90-days advance written notice. However, we have the right to terminate Mr. Edan's employment without prior notice. In such a case, Mr. Edan shall be paid the amount due to him under the prior notice period at the rate of his then current salary for such period. In July 2003, we agreed to amend all of Mr. Edan's outstanding option agreements to provide that in the event of his termination by us without cause, all of his options would vest upon termination and could be exercised for a period of two years following termination. Also, in the event Mr. Edan's employment was terminated because of his death or permanent disability, all of his options would accelerate and immediately vest.

In June 2002, in connection with Mr. Levy's initial employment as our Controller, he entered into an employment agreement with DSP Israel. No further agreement was entered into with Mr. Levy when he became our Chief Financial Officer. In May 2007, the compensation committee determined to restate Mr. Levy's base salary in NIS, the Israeli currency, and link annual base salary increases to the Israeli consumer prices index. Also as of October 2007, Mr. Levy's annual salary was increased to approximately 600,000 NIS (\$170,000), subject to adjustment from time to time. Mr. Levy also is entitled to an annual bonus, the amount of which is determined in the sole discretion of the board. Mr. Levy is employed at will. However, if we wish to terminate his employment but fails to provide him with a three-months advance written notice, Mr. Levy would be entitled to receive an amount equal to three-months of his then-effective salary. Further, if Mr. Levy's employment is terminated for specified reasons (as defined in the employment agreement), in accordance with Israeli law, he would be entitled to a severance pay of one month for each year of employment. Mr. Levy's employment agreement does not provide for any additional compensation in the event of termination of his employment or the change in control of our company.

In July 2003, Mr. Fogel entered into an employment agreement with DSP Israel, pursuant to which Mr. Fogel was to serve as our Senior Vice President and Chief Technology Officer. Mr. Fogel became an executive officer in January 2005. The term of the agreement is indefinite. In May 2007, the compensation committee determined to restate Mr. Fogel's base salary in NIS, the Israeli currency, and link annual base salary increases to the Israeli consumer prices index. Also as of May 2007, Mr. Fogel's annual salary was increased to 720,000 NIS (approximately \$210,000), subject to adjustment from time to time. Mr. Fogel also is entitled to an annual bonus, the amount of which is determined in the sole discretion of the board. The agreement may be terminated by us or Mr. Fogel upon two-month advance written notice. However, if we wish to terminate his employment but fails to provide him with a two-month advance written notice, Mr. Fogel would be entitled to receive an amount equal to two-months of his then-effective salary. Further, if Mr. Fogel's employment is terminated for specified reasons (as defined in the employment agreement), in accordance with Israeli law, he would be entitled to a severance pay of one month for each year of employment. Mr. Fogel's employment agreement does not provide for any additional compensation in the event of termination of his employment or the change in control of our company.

In February 2006, Mr. Simchony entered into an employment agreement with DSP Israel, pursuant to which Mr. Simchony was to serve as our President. Pursuant to the Agreement, Mr. Simchony was entitled to an annual salary of \$220,000, subject to adjustment from time to time. Mr. Simchony also was entitled to an annual bonus, the amount of which was determined in the sole discretion of the board. Mr. Simchony was employed at will. However, if we wish to terminate his employment but failed to provide him with a three-month advance written notice, Mr. Simchony would be entitled to receive an amount equal to three-months of his then-effective salary. Further, if Mr. Simchony's employment was terminated for specified reasons (as defined in the employment agreement), in accordance with Israeli law, he would be entitled to a severance pay of one month for each year of employment. Mr. Simchony's employment agreement did not provide for any additional compensation in the



event of termination of his employment or the change in control of our company. Mr. Simchony resigned from the company in October 2007, and his employment agreement was terminated.

**Potential Payments Upon Termination or Change of Control**

The following table sets forth the amount of compensation to each of Messrs. Ayalon, Robertson, Edan, Levy and Fogel in the event termination of such executive officer's employment or a change in control of our company occurred as of December 31, 2007.

Name: Eliyahu Ayalon	Termination for Cause (\$)	Voluntary Termination by Employee After Provision of Requisite Notice (\$)	Termination upon Death of Employee (\$)	Termination w/o Cause or for Good Reason (\$)	Upon a Change in Control (\$)
Base Salary		951,801		951,801	951,801
Vested and Unvested Options/SARs (1)					
Accrued Vacation Pay	110,692	110,692	110,692	110,692	110,692
Total	110,692	1,063,493	110,692	1,063,493	1,063,493

(1) As of December 31, 2007 (the last trading day of fiscal 2007), Mr. Ayalon had no in-the-money options outstanding.

Name: Brian Robertson	Termination for Cause (\$)	Termination After Provision of Requisite Notice (\$)	Termination w/o Provision of Requisite Notice (\$)	Termination upon Death of Employee (\$)
Base Salary		46,625	117,295	71,670
Vested and Unvested Options (1)				
Accrued Vacation Pay	5,446	5,446	5,446	5,446
Total	5,446	52,071	122,741	77,116

(1) As of December 31, 2007 (the last trading day of fiscal 2007), Mr. Robertson had no in-the-money options outstanding.

Name: Boaz Edan	Termination for Cause (\$)	Termination by Company After Provision of Requisite Notice (\$)	Termination by Company w/o Provision of Requisite Notice (\$)	Termination upon Death of Employee (\$)
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