

DSP GROUP INC /DE/
Form DEF 14A
June 15, 2005

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:

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| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
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DSP Group, Inc.

(Name of Registrant as Specified In Its Charter)

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

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

N/A

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

N/A

(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

(4) Proposed maximum aggregate value of transaction:

N/A

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N/A

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

N/A

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

N/A

(3) Filing Party:

N/A

(4) Date Filed:

N/A

DSP GROUP, INC.

Notice of Annual Meeting of Stockholders

To Be Held July 20, 2005

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 Swissôtel The Drake, New York, 440 Park Avenue at 56th Street, New York City, New York, 10022, on Wednesday, July 20, 2005, at 1:00 p.m., local time, for the following purposes:

1. **Election of Directors.** To elect two Class II directors to serve until the 2008 annual meeting of stockholders or until their successors are elected and qualified;
2. **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, 2005; and
3. 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 May 26, 2005 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,

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Inon Beracha

Chief Executive Officer

Santa Clara, California

June 8, 2005

Mailed to Stockholders

on or about June 15, 2005

DSP GROUP, INC.

3120 Scott Boulevard

Santa Clara, California 95054

PROXY STATEMENT

FOR 2005 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 July 20, 2005, at 1:00 p.m., local time, at Swissôtel The Drake, New York, 440 Park Avenue at 56th Street, New York City, New York, 10022, 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.

Upon request, we will provide our annual report on Form 10-K and Form 10-K/A for fiscal year 2004 in electronic or paper form free of charge and any exhibit listed in the Form 10-K upon payment of reasonable expenses.

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.

The close of business on May 26, 2005 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 28,355,208 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 of the transfer agent will act as 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.

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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 nominees 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 director nominees. With respect to proposal 2 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 proposal 2, whereas broker non-votes will have no effect on such proposals.

The Proxy

The persons named as proxyholders, Inon Beracha and Moshe Zelnik, 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: FOR the election of the director nominees named in this proxy statement; FOR the ratification of the selection of Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, as our independent auditors for the 2005 fiscal year; and with respect to any other matters that may come before the annual meeting, at the discretion of the proxyholders. 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 Moshe Zelnik, 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 six. 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 2007; two Class II directors (Messrs. Yair Seroussi and Yair Shamir), whose terms will expire upon the election and qualification of directors at this annual meeting, and one Class III director (Mr. Patrick Tanguy), whose term will expire at the annual meeting of stockholders to be held in 2006. 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 2007, 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 either Messrs. Seroussi or 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 2003. 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 traded on the The Tel-Aviv Stock Exchange, and Aspen Real Estate, a real estate company traded on the 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 director since October 1996. He has served as Chairman of VCON Telecommunications, Ltd., a developer and marketer of video conference systems, since 2000 and its Chief Executive Officer from February 1997 to January 2005. From 2000 to present, Mr. Shamir has served as the Chairman of Catalyst Fund L.P., a venture capital firm. From January 2005 to present, Mr. Shamir has also served as the Chairman of Shamir Optical Industry Ltd, a leading designer, manufacturer and distributor of progressive spectacle lenses for presbyopia. 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.

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 nominees total.

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

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information with respect to our executive officers and directors as of April 30, 2005:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Eliyahu Ayalon	62	Executive Chairman of the Board of Directors
Inon Beracha	43	Chief Executive Officer
Boaz Edan	46	Chief Operating Officer
Moshe Zelnik	50	Vice President, Finance, Chief Financial Officer and Secretary
Eli Fogel	57	Senior Vice President and Chief Technology Officer
Zvi Limon (1)(2)	46	Director
Yair Seroussi (2)(3)	49	Director
Yair Shamir (1)(2)	59	Director
Louis Silver (1)(3)	51	Director
Patrick Tanguy (2)(3)	45	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. In April 2005, Mr. Ayalon resigned his position as Chief Executive Officer and became our Executive Chairman. Mr. Ayalon is also a member of the board of directors of Ceva, Inc. (f.k.a. ParthusCeva, 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.

Inon Beracha joined us in June 2004 as Senior Vice President, Manager of the DECT Division. In April 2005, he was appointed as our Chief Executive Officer. Mr. Beracha was a Co-Founder of Ceragon Networks Ltd., a provider of broadband wireless networking systems, where he served as the company's Deputy Chief Executive Officer from 1997 to 2004. Prior to co-founding Ceragon, Mr. Beracha was Vice President of the Electronic Research and Development Department of the Israeli Ministry of Defense where he designed, developed and managed the production of wireless communication systems.

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.

Moshe Zelnik joined us in May 1999 as Vice President of Finance, Chief Financial Officer and Secretary. Mr. Zelnik previously served as Senior Vice President and Chief Financial Officer of Mennen from May 1994 to April 1999.

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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 on acquired by Intel). At Intel, Mr. Fogel served as the Chief Technology Officer of the Cellular Communication Division.

Zvi Limon has served as one of our directors since February 1999. Since 1998, Mr. Limon has been a partner at Magnum Communications Fund, an investment fund. 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. Since November 2002, Mr. Limon is also a member of the board of directors of Ceva, Inc., and of several private companies.

Yair Seroussi. See Proposal 1.

Yair Shamir. See Proposal 1.

Louis Silver has served as one of our directors since November 1999. Mr. Silver is currently self-employed. Since November 2002, Mr. Silver is also a member of the board of directors of Ceva, Inc. He served as an advisor and counsel to the Discount Bank & Trust Company, an international bank, from September 1996 to July 2002. From April 1992 to December 1995, Mr. Silver served as Vice President, Secretary and General Counsel of Sapiens International, a provider of enterprise-wide, mission-central business solutions.

Patrick Tanguy has served as one of our directors since November 1999. Since April 2004, Mr. Tanguy has been the President 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 about French companies.

Director Independence

Our board of directors has determined that all non-employee directors of the board, consisting of Messrs. Limon, Seroussi, Shamir, Silver and Tanguy, are independent as that term is defined in Rule 4200 of the listing standards of the National Association of Securities Dealers. In making this determination, our board of directors considered transactions and relationships between each director or his or her 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 rules.

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

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During 2004, our board of directors met six 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 2004 on which he served. It is the policy of our board to encourage members of the board to attend the annual stockholder s meetings. Director attendance at each annual stockholder s meeting will be posted on our web site at www.dspg.com. It is also the policy of our board that at the conclusion of each meeting of the board that 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 held one meeting and acted by unanimous written consent once in 2004. 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 Rule 4200 of the listing standards of the National Association of Securities Dealers. 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.

Audit Committee

The audit committee held five meetings in 2004. 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. 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 Exchange Act; (2) independent as that term is defined in Rule 4200 of the listing standards of the National Association of Securities Dealers; and (3) financially literate and have the requisite financial sophistication as required by the Nasdaq rules applicable to issuers listed on the Nasdaq National Market. 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 Monne-Decroix, and was the Chief Executive Officer of 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 held no meetings in 2004. The nomination and corporate governance committee consists of Messrs. Seroussi, Silver and Tanguy. 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 Rule 4200 of the listing standards of the National Association of Securities Dealers. 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.

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 National 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 hiring a consultant or search firm, if necessary. 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. 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.

Compensation of Directors

Directors who are also employees do not receive any additional compensation for their services as directors. Directors who are not employees receive an annual retainer of \$32,000, payable in quarterly installments of \$8,000 each. The retainer contemplates attendance at four board meetings per year. Additional board meetings of a face-to-face nature are compensated at a rate of \$1,000 per meeting. In addition, committee meetings of a face-to-face nature and on a telephonic basis are compensated at a rate of \$1,000 per meeting. All directors are reimbursed for expenses incurred in connection with attending board and committee meetings.

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Each of our outside directors is also entitled to participate in our 1993 Director Stock Option Plan. The director option plan provides for the grant of non-statutory options to our non-employee directors. The director option plan is designed to work automatically; however, to the extent administration is necessary, it will be provided by our board of directors. The director option plan provides that each eligible director is granted an option on the date on which he first becomes a director (the First Option). Thereafter, each outside director is granted a subsequent option on January 1 of each year if, on such date, he shall have served on our board of directors for at least six months (a Subsequent Option). In addition, an additional option (a Committee Option) is granted on January 1 of each year to each outside director for each committee of the board on which

he shall have served as a chairperson for at least six months. In May 2004, our board of directors reduced the number of options granted to our directors such that a First Option shall consist of an option grant to purchase 30,000 shares of common stock rather than 60,000 shares previously granted; a Subsequent Option shall consist of an option grant to purchase 15,000 shares of common stock rather than 20,000 shares previously granted; and a Committee Option shall consist of an option grant to purchase 15,000 shares of common stock, rather than 20,000 shares previously granted. All other terms of the director options remained unchanged.

On January 1, 2004, each of Messrs. Limon, Shamir, Seroussi, Silver and Tanguy was granted a Subsequent Option (20,000), at an exercise price of \$24.95 per share, under the 1993 Director Stock Option Plan. Additionally, each of Messrs. Limon and Shamir also was granted a Committee Option (20,000) for their services as the chairperson of the audit committee and compensation committee, respectively, at an exercise price of \$24.95 per share, under the director option plan.

On January 27, 2004, Mr. Limon, was granted an option to purchase 200,000 shares of common stock, at an exercise price of \$27.09 per share, under the 2003 Israeli Share Option plan for his services as the Chairman of our Strategic Planning Committee. On March 9, 2004, Mr. Limon voluntarily surrendered to us for cancellation an option to purchase 100,000 shares of common stock, which was a portion of the option granted to him in January 2004.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, 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 certain Reporting Persons, that during the fiscal year ended December 31, 2004, all Reporting Persons complied with all applicable filing requirements, except for the inadvertent late Form 4 filings set forth below:

<u>Reporting Person</u>	<u>Number of Late Filings (1)</u>	<u>Number of Transactions Not Reported on a Timely Basis (1)</u>
Louis Silver	1	1
Patrick Tanguy	1	1
Zvi Limon	2	2
Yair Seroussi	1	1
Yair Shamir	1	1
Boaz Edan	3	27
Moshe Zelnik	3	8

- (1) Includes (a) late reports filed during the fiscal year ended December 31, 2004, which may describe transactions that were not reported on a timely basis during the fiscal year ended December 31, 2004, or prior fiscal years, and (b) the number of transactions that were not reported on a timely basis during the fiscal year ended December 31, 2004, or prior fiscal years.

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., 3120 Scott Boulevard, Santa Clara, CA 95054. 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., 3120 Scott Boulevard, Santa Clara, CA 95054. In view of recently adopted disclosure requirements by the Securities and Exchange Commission related to stockholder communications, the nomination and corporate governance committee may consider development of more specific procedures.

Stockholder Proposals

The nominating 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 nominating and corporate governance committee for the 2006 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 February 15, 2006. 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 its principle executive offices no later than February 15, 2006: (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. The code satisfies the requirements under the Sarbanes-Oxley Act of 2002, as well as Nasdaq rules applicable to issuers listed on the Nasdaq National 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 April 1, 2005, 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)
Citigroup Inc. 399 Park Avenue New York, NY 10043 (4)	1,567,666	5.65%
FMR Corp. c/o 82 Devonshire Street Boston, Massachusetts 02109 (5)	1,610,370	5.70%
Massachusetts Financial Services Company 500 Boylston Street Boston, Massachusetts 02116 (6)	2,023,719	7.17%
Eliyahu Ayalon (7)	753,509	2.60%
Inon Beracha		
Boaz Edan (8)	257,216	*
Moshe Zelnik (9)	106,991	*
Zvi Limon (10)	95,868	*
Yair Seroussi (11)	25,303	*
Yair Shamir (12)	47,752	*
Louis Silver (13)	114,595	*
Patrick Tanguy (14)	101,894	*
All directors and executive officers as a group (10 persons) (15)	1,555,628	5.51%

* Less than 1%

- (1) Except as otherwise indicated, the address of each of the executive officers and directors is c/o DSP Group, Inc., 3120 Scott Boulevard, Santa Clara, California 95054.
- (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 April 1, 2005 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 28,241,286 shares of our common stock outstanding as of April 1, 2005.
- (4) Citigroup Inc. (Citigroup) filed a Schedule 13G, dated February 4, 2005, with the Securities and Exchange Commission, as a reporting group, which included Citigroup Global Markets Holdings Inc. (CCM Holdings) and Smith Barney Fund Management LLC (SB Fund). Citigroup reported beneficial ownership of 1,567,666 shares which included shares held by CCM Holdings and SB Fund. Citigroup did not break out the number of shares held by either CCM Holdings or SB Fund. The reported address for CCM Holdings is 388 Greenwich Street, New York, NY 10013. The reported address for SB Fund is 333 West 34th Street, New York, NY 10001.

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- (5) FMR Corp. filed a Schedule 13G, dated February 14, 2005, with the Securities and Exchange Commission on behalf of itself, Edward C. Johnson, III (Chairman of FMR Corp.) and Abigail P. Johnson (A director of FMR Corp.). FMR Corp. reported beneficial ownership of 1,610,370 shares.

- (6) Massachusetts Financial Services Company filed a Schedule 13F, dated February 10, 2005, with the Securities and Exchange Commission on behalf of itself. Massachusetts Financial Services Company reported beneficial ownership of 2,023,719 shares.
- (7) Includes 744,900 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of April 1, 2005.
- (8) Represents 256,472 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of April 1, 2005.
- (9) Represents 106,991 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of April 1, 2005.
- (10) Represents 95,868 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of April 1, 2005.
- (11) Represents 25,303 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of April 1, 2005.
- (12) Represents 47,752 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of April 1, 2005.
- (13) Includes 4,000 shares of our common stock held by the Adrienne Silver Trust of which Mr. Silver disclaims beneficial ownership and 110,595 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of April 1, 2005.
- (14) Represents 101,894 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of April 1, 2005.
- (15) See footnotes (7) through (14). Includes 1,542,275 shares of our common stock subject to options that are currently exercisable or will become exercisable within 60 days of April 1, 2005.

EXECUTIVE COMPENSATION AND OTHER INFORMATION
Summary Compensation Table

The following table sets forth the total compensation of our Named Executive Officers who are the Chief Executive Officer and our three other most highly compensated executive officers whose total salary and bonus exceeded \$100,000 during the 2004 fiscal year. There were no other executive officers whose total salary and bonus exceeded \$100,000 during the 2004 fiscal year. The following table also summarizes the total compensation earned by each Named Executive Officer for our fiscal years 2002, 2003 and 2004.

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards
		Salary (1)	Bonus (2)	Securities Underlying Options
Eliyahu Ayalon (3) Executive Chairman of the Board	2004	\$ 532,000	\$ 500,000	(5)(6)
	2003	607,000	700,000	500,000(5)(6)
	2002	341,653	950,000	250,000
Inon Beracha (4) Chief Executive Officer	2004	\$ 116,000	\$ 80,000	120,000
	2003			
	2002			
Boaz Edan Chief Operating Officer	2004	\$ 227,000	\$ 150,000	(5)(6)
	2003	274,000	200,000	300,000(5)(6)
	2002	195,391	200,000	126,515
Moshe Zelnik Vice President, Finance Chief Financial Officer and Secretary	2004	\$ 162,000	\$ 80,000	(5)(6)
	2003	176,000	104,000	70,000(5)
	2002	155,258	104,000	88,560

- (1) The salaries of officers located in Israel include social benefit payments and car allowances. Social benefits in Israel for the year 2003 include the national insurance payments made by us for income derived from exercise of options and bonus payments in accordance with Israeli law.
- (2) Our executive officers are eligible for annual cash bonuses. Such bonuses are generally based upon achievement of corporate performance objectives determined by the compensation committee. Bonuses are awarded by the compensation committee based upon individual, as well as corporate performance. We pay bonuses in the year following the year the bonuses were earned.
- (3) Mr. Ayalon was our Chief Executive Officer for all of fiscal years 2002, 2003 and 2004 to which the Summary Compensation Table relates. Mr. Ayalon became our Executive Chairman in April 2005. \$157,592 of the salary and \$199,185 of the bonus for fiscal year 2002 paid by us were related to amounts allocated to services provided by Mr. Ayalon to Ceva, Inc., a predecessor of Ceva, Inc. (f.k.a. ParthusCeva, Inc.) prior to the separation of Ceva, Inc. from us and its subsequent combination with Ceva, Inc. (f.k.a. ParthusCeva, Inc.). The compensation information relating to Mr. Ayalon does not include compensation he receives for his services as Chairman of the board of directors of Ceva, Inc. (f.k.a. ParthusCeva, Inc.) after the separation.
- (4) Mr. Beracha became an executive officer of our company in June 2004, and became our Chief Executive Officer in April 2005. His salary and bonus for 2004 were prorated for the year.
- (5) The Company's past practice was to grant options to its officers at the beginning of each year. Due to Israeli tax optimization considerations, options to purchase 250,000, 150,000 and 20,000 shares of common stock were granted to Messrs. Ayalon, Edan and Zelnik, respectively, in December 4, 2003 rather than January 2004.
- (6) In March 2005, Messrs. Ayalon and Edan voluntarily surrendered to the Company for cancellation an option to purchase 125,000 and 75,000 shares of common stock, respectively, which was a portion of the option granted to them on December 4, 2003.

We did not include in the foregoing table for each Named Executive Officer the aggregate value of such benefits which cannot be precisely ascertained but which is the lesser of either (a) 10% of the salary and bonus paid to such executive officer, or (b) \$50,000.

Option Grants

The following table sets forth certain information with respect to stock options granted to Mr. Beracha during 2004. None of the other Named Executive Officers received an option grant in 2004. Our past practice was to grant options to executive officers at the beginning of each year. Due to Israeli tax optimization considerations, options to purchase 250,000, 150,000 and 20,000 shares of common stock were granted to Messrs. Ayalon, Edan and Zelnik, respectively, on December 4, 2003 rather than January 2004. In March 2005, Messrs. Ayalon and Edan voluntarily surrendered to us for cancellation their option to purchase 125,000 and 75,000 shares of common stock, respectively, which was a portion of the options granted to them in December 2003. In accordance with the rules of the Securities and Exchange Commission, also shown below is the potential realizable value over the term of the option (the period from the grant date to the expiration date) based on assumed rates of stock appreciation of 5% and 10%, compounded annually. These amounts are based on certain assumed rates of appreciation and do not represent our estimate of future stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of our common stock.

Option Grants in 2004

Individual Grants

Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in 2004 (3)	Exercise Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Inon Beracha (1)(2)	120,000	8.17%	\$ 21.92	July 16, 2011	\$ 1,140,066	\$ 2,591,382

(1) These options were granted under our 2001 Stock Incentive Plan.

(2) 25% of the shares of common stock s