

## **About DSP Group**

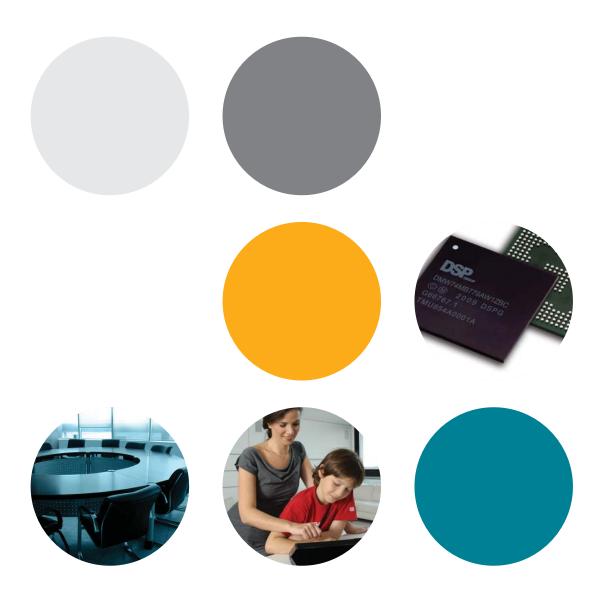
DSP Group, Inc.<sup>TM</sup> (Nasdaq: DSPG) is a leading global provider of wireless chipset solutions for converged communications at home. Delivering system solutions that combine semiconductors and software with reference designs, DSP Group enables world-leading consumer electronics (CE) manufacturers to cost-effectively develop innovative revenue-generating applications with fast time to market. At the forefront of wireless semiconductor development and operational excellence for over two decades, DSP Group provides a broad portfolio of chipsets integrating DECT, Wi-Fi, PSTN and VoIP/CoIP technologies with state-of-the-art application processors. Enabling converged voice, audio, video and data connectivity across diverse consumer products – from cordless and VoIP phones to home gateways and infotainment centers – DSP Group closely partners with CE manufacturers to shape the future of residential converged communications.



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For more information on our products and services, visit our website at: www.dspg.com or contact us at: info@dspg.com



2009 Stockholders Meeting

# Dear Stockholder,

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The consumer electronics market was strongly affected in 2008 by the worldwide economic downturn. In addition to the sharp decline in general consumer electronics spending, we also faced continuous pricing pressures and a decrease in the average selling prices of our traditional cordless telephony products.

However and despite this very challenging environment, we succeeded in achieving gross margins of 37% by improving yields for certain products, and introducing new and more cost-effective products on the one hand, and by negotiating better manufacturing costs with our suppliers on the other hand. We made the assumption that the global economic crisis would continue through 2009 (an assumption that is proving to be true) and therefore took measures in 2008 to reduce our run rate of non-GAAP annual operating expenses (excluding the impact of equity based compensation expenses, amortization of acquired intangible assets and impairment charges) from \$106 million to non-GAAP annual operating expenses of \$97 million for 2008. We anticipate our non-GAAP operating expenses will be even lower in 2009.

The actions taken in 2008 allowed us to maintain our leading market position and achieve non-GAAP operating income of \$13.4 million, excluding the impact of equity based compensation expenses, amortization of acquired intangible assets and impairment charges.

The tough economic environment and the decline in our share price drove us to take two additional steps in 2008:

- 1. We repurchased 4.9 million share of our common stock in 2008 for an aggregate of \$49 million, and
- 2. The decline in our market capitalization combined with a decline in our forecasted business outlook, which we believe is mainly attributable to the impact of a weakening macro economic environment for the consumer electronics market, drove us to take an impairment charge of \$182 million related to the impairment of goodwill and intangible assets.

The economic uncertainty causes our customers to reduce R&D spending and delay projects; therefore the rate of introduction of our new multimedia products is slower than expected. We assume that 2009 will not bring significant improvements of the consumer electronics market, and the decline in consumer electronics spending and average selling prices will continue. Therefore, we shall closely monitor the business environment and if necessary, take additional measures to adjust our spending to meet our goal of returning to positive cash flow for the second half of 2009.

I would like to thank our stockholders, business partners, customers and employees for their cooperation and loyalty through this difficult period. It is my belief that if we continue to manage our expenses carefully, use our cash wisely and collaborate with our customers on new products, when market conditions improve, DSP Group, with its arsenal of innovative technologies and products, loyal and deep customer relationships and partnerships and dedicated employees, will be well positioned to return to growth and profitability.

Eli Ayalon

Chairman & CEO

\*This letter contains forward-looking statements that involve risks and uncertainties, as well as assumptions that if they materialize or prove incorrect, could cause DSP Group's results to differ materially from those expressed or implied by such forward-looking statements. Such statements include DSP Group's non-GAAP operating expenses being lower in 2009, its ability to take additional measures to adjust its spending to meet its goal of returning to positive cash flow for the second half of 2009 and it being well positioned to return to growth and profitability in the future. Please review the "Risk Factors" section of DSP Group's 2008 Form 10-K that accompanies this letter for a description of the risks, uncertainties and assumptions associated with DSP Group's business and financial results. Please also refer to the 2008 Form 10-K for details about the GAAP operating expenses and GAAP operating losses for 2008. DSP Group assumes no obligation to update any forward-looking statements or information, which speak as of their respective dates.

# **Corporate Directory**

## Management

### Eli Ayalon

Chairman of the Board & Chief Executive Officer

#### **Brian Robertson**

President

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### **Boaz Edan**

Executive Vice President Chief Operating Officer

#### **Dror Levy**

Chief Financial Officer

## Eli Fogel

Chief Technology Officer

## Ofer Elyakim

Corporate Vice President & SEA President

## Ofer Shneyour

Corporate Vice President, Business Development

#### Avi Barel

Corporate Vice President, Sales

## Oz Zimerman

Corporate Vice President, Marketing

#### Tali Chen

Corporate Vice President, Human Resources

### **Directors**

### Eli Ayalon

Chairman of the Board & Chief Executive Officer

#### Zvi Limon

Special Venture Partner Magma Venture Partners

#### Yair Shamir

Chairman of the board - Israel Aerospace Industries Ltd. Managing Partner - Catalyst Equity Management

#### Vair Seroussi

Managing Director, Amdeal Ltd.

#### **Patrick Tanguy**

Managing Director, Wendel

#### Louis Silver

Principle, RP Capital Group

## Avigdor Willenz

Galileo Fund

### **Independent Auditors**

Kost, Forer Gabbay & Kassierer A member of Ernst & Young Global, Tel Aviv, Israel

### **General Legal Counsel**

Morrison & Foerster LLP, San-Francisco, California

### **Registrar and Transfer Agent**

American Stock Transfer and Trust Company 59 Maiden Lane, New York, NY 10038



## **Annual Meeting**

The annual meeting of stockholders will be held on June 1<sup>st</sup>, 2009 at 8:30am Marriott New York Marquis 1535 Broadway, New York, NY 10336