About DSP Group

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

DSP GROUP®
at home in your wireless world

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Stockholders Meeting 2012

Dear Stockholder,

2011 was a year in which we saw our investments in research and development focused on new technologies begin to bear fruit while allowing us to plant the seeds for revenue growth in 2012. Our efforts in 2011 were aimed at strengthening our market share in new market verticals based on new technologies and in our primary cordless telephony products. We achieved this goal and by year end had built an exciting strong pipeline of design wins. These design wins coupled with our current product mix demonstrate a successful penetration into new market verticals such as home, business and cellular, as well as key design wins in cordless telephony products, all of which will begin mass shipments throughout 2012. Notwithstanding these positive developments, 2011 was also a challenging year. The consumer electronics market faced a difficult second half in 2011, a period characterized by lackluster consumer spending in Europe and the U.S. amid macroeconomic headwinds, anticipating a global slowdown and a mounting ongoing debt crisis in Europe.

In 2011, we experienced a 24% annual growth rate from our promising line of products for new market verticals, which generated approximately $20 million in revenues in 2011, as compared to $16 million in 2010.

Moreover, during 2011, several leading OEM and ODM customers began mass production of products based on our XpandR, VoIP, DECT/CAT-iq and DECT ULE products. These products are targeting new market verticals such as broadband gateways, home automation and security in the home vertical, and HD video phones, SIP IP phones and Analog Terminal Adaptors (ATA) for the small business and enterprise verticals.

In December 2011, we completed our acquisition of BoneTone Communications, a provider of innovative voice processing technology for intelligent voice enhancement and noise reduction that redefines audio quality and voice intelligibility in mobile devices and headsets, enabling us to enter new markets. Starting in 2012, we expect that our BoneTone products will begin to generate revenues from sales of its HD Mobile Audio products in the mobile vertical.*

This technology addresses a significant market that was previously untapped by DSP Group and expands the field of addressable products for DSP Group, including Bluetooth headsets, mobile handsets and head-phones for surround sound systems. The feedback from leading brands in this industry is overwhelming and design-in activities have already begun with several leading manufacturers. We believe that this unique technology should prove extremely valuable for DSP Group.

As noted above, spending on consumer electronics in 2011 softened due to macroeconomic conditions and the uncertainty around the European debt crisis. This market environment negatively impacted the demand in many consumer electronics segments and in particular, cordless telephony products. During the second half of 2011, we experienced a slowdown in bookings from our cordless telephony customers driven by reduced demand for consumer electronics and cordless telephony products. In addition, demand for our products was further depressed as our supply chain exercised more caution. Our customers and our customers' customers adjusted their inventory policies to better cope with uncertain macroeconomic conditions by implementing measures to minimize working capital exposure and holding lower levels of inventory.

As a result, our 2011 revenues from cordless telephony products suffered a decline of 17% to approximately $174 million from $209 million in 2010. Additional 2011 financial metrics are as follows:

- We ended 2011 with revenues of $194 million, a decline of 14% year over year as compared to revenues of $225 million in 2010.
- Our non-GAAP gross margins** were 36.4%, as compared to 38.2% in 2010
- We reduced our non-GAAP operating expenses** to $76.8 million from $78.3 million in 2010.
- Our non-GAAP operating loss** was $6.3 million during 2011 vs. a profit of $7.8 million in 2010.
- Our non-GAAP net loss** for the year was $4.2 million vs. a profit of $9.5 million in 2010.
- Our non-GAAP diluted loss** per share was $0.18 vs. earnings of $0.40 per share in 2010.

At year end, our cash and marketable securities position was approximately $118 million as compared to approximately $140 million at the end of 2010. The decline in our cash position was attributed to four main factors:

- Repurchase of 6% of our common stock for a total consideration of $9 million.
- Acquisition of BoneTone communications for a total consideration of $9 million.
- Capital expenditures of $2 million.
- Cash use for operations in the amount of $1 million.

In light of the unprecedented decline in revenues from our cordless telephony products, we promptly implemented a restructuring plan aimed at reducing our annual non-GAAP operating expenses to a run rate of approximately $18 million per quarter, down from $19.6 million in 2010. Our objective is to resume positive operating cash flows in 2012,* and we will continue to closely monitor market trends and implement additional cost cutting measures whenever necessary to ensure we achieve this objective.

Also, on a positive note, at year end our backlog was up 30% from the prior quarter, indicating that the slowdown in bookings we experienced from July 2011 is behind us as the inventory depletion cycle appears to have bottomed at year end.* We view this as a positive sign of improving market conditions, which makes us cautiously optimistic about our business.

Finally, we would like to thank our stockholders, business partners, customers and employees for their continued outstanding support, cooperation and loyalty during 2011.

We believe that with your support, our arsenal of innovative technologies, the loyalty of our customers and the dedication of our employees, we are well positioned to meet market challenges in 2012 and take advantage of future opportunities.

Eli Ayalon
Chairman of the Board

Ofer Elyakim
CEO

* These statements qualify as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and DSP Group assumes no obligation to update this information. In addition, the events described in these forward-looking statements may not actually arise as a result of various factors which are discussed under "RISK FACTORS" in DSP Group's Form 10 K for fiscal 2011 which is available on DSP Group's Web site (www.dspg.com) under Investor Relations.

**See DSP Group's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 1, 2012 for a reconciliation of these non-GAAP figures to GAAP figures.

Corporate Directory

Management

Ofer Elyakim
Chief Executive Officer

Dror Levy
Corporate VP of Finance and Chief Financial Officer

David Dahan
Corporate VP and Chief Operating Officer

Lior Blanka
Corporate VP and Chief Technology Officer

Avi Barel
Corporate VP of Sales

Oz Zimerman
Corporate VP of Marketing

Dr. Arie Heiman
Corporate VP and HDMobile Audio Division Manager

Tali Chen
Corporate VP of Human Resources

Doron Koren
Corporate VP and Platform Division Manager

Dima Friedman
Corporate VP of Operations

Igal Bar-Ilan
Corporate VP and IC Division Manager

Yuval Bechori
Corporate VP and Head of Program Management Office

Jan Abelev
Corporate VP of Product Marketing

Directors

Eli Ayalon
Chairman of the Board

Ofer Elyakim
Chief Executive Officer

Zvi Limon
Director & Partner, Rimon Management

Yair Shamir
Chairman of the Board, Israel National Roads Company Ltd. Managing Partner, Catalyst Equity Management Ltd.

Yair Seroussi
Chairman of the Board of Directors, Bank Hapoalim B.M

Patrick Tanguy
Managing Director, Wendel

Louis Silver
Principal, RP Capital Group

Dr. Reuven Regev
Chairman & Chief Executive Officer, Topscan Ltd.

Independent Auditors

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

General Legal Counsel

Morrison & Foerster PLL, 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
May 15th, 2012 at 8:30am local time
Intercontinental New York Barclay
111 East 48th Street,
New York, NY 10017
Tel: +1 212 906 3114

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