

# **DSP GROUP, INC.**

## **CORPORATE GOVERNANCE GUIDELINES**

The Board of Directors (the “Board”) of DSP Group, Inc. (the “Company”) has developed and adopted a set of corporate governance principles to provide the framework for the governance of the Company and to assist the Board in the exercise of its responsibilities. These guidelines reflect the Board’s commitment to monitoring the effectiveness of policy and decision making both at the Board and management level, with a view to enhancing stockholder value over the long term. These guidelines are in addition to, and are not intended to change or interpret, any federal or state law or regulation, including the Delaware General Corporation Law, or the Company’s Certificate of Incorporation or Bylaws. The Board may amend these guidelines from time to time in its discretion and consistent with its duties and responsibilities to the Company and its stockholders.

### **I. ROLE OF THE BOARD**

The basic responsibility of directors is to exercise their business judgment to act in what they reasonably believe is in the best interests of the Company and its stockholders. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company’s senior executives and its outside advisors and auditors. The Board is responsible for oversight of the business and affairs of the Company, determination of the Company’s mission, long-term strategy and objectives and management of the Company’s risks.

In addition to its general oversight of management, the Board or its committees perform the following principal functions:

- Review, evaluate, and, where appropriate, approve the Company’s business strategies and long-term plans, and evaluate its performance against such plans;
- Review, evaluate and approve major corporate actions;
- Assessing major risks facing the Company, including industry and global economic risks, and reviewing options for their mitigation;
- Oversee management’s efforts to establish and maintain for the Company appropriate standards of legal and ethical conduct, including with respect to the integrity of the Company’s accounting, financial reporting and finance processes and systems of internal control, compliance with law and the Company’s Code of Business Conduct and Ethics;
- Select, evaluate and compensate the Company’s executive officers and, except as required by NASDAQ rules or other applicable rules and regulations, determining the compensation of its senior executives;
- Establishing a corporate environment that promotes timely and effective disclosure (including robust disclosure controls, procedures and incentives), fiscal

accountability, high ethical standards and compliance with all applicable laws and regulations; and

- Reviewing management succession planning.

## **II. BOARD COMPOSITION**

### **A. Board Selection**

The Nomination and Corporate Governance Committee shall make recommendations to the Board, which will be responsible for nominating members for election to the Board and for filling vacancies on the Board that may occur between annual meetings of stockholders.

### **B. Director Qualifications**

1. Independence. The Board will have a majority of independent directors as required by the NASDAQ. Furthermore, each director shall be free of any relationship that, in the opinion of the Board, would interfere with his or her exercise of independent judgment as a member of the Board. The Board will determine each director's independence on an annual basis, in accordance with the provisions of the NASDAQ governance rules and any other standards established by the Board from time to time.

2. Other Criteria. The Nomination & Corporate Governance Committee shall establish policies and procedures for identifying and evaluating candidates for the board of directors. In identifying and selecting a nominee, the Board and the Nomination and Corporate Governance Committee shall consider: (1) the nominee's independence, judgment, strength of character, ethics and integrity, (2) the business or other relevant experience and skills and knowledge useful to the oversight of the Company's business of the nominee and (3) such other factors as they conclude are appropriate in light of the needs of the Board. The Board and the Nomination and Corporate Governance Committee shall also consider whether a potential nominee has the ability to devote sufficient time to carry out his or her responsibilities as a director in light of such potential nominee's occupation and the number of boards of directors of other public companies on which he or she serves. The Nomination and Corporate Governance Committee will not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. In addition, from time to time, the Nomination and Corporate Governance Committee shall assess the Board's composition with respect to the qualifications set forth in such policy.

### **C. Size of the Board**

The Board will assess its size from time to time. The number of members may change from time to time depending upon the needs of the Board and the availability of qualified candidates. Each member of the Board is elected to one-year terms. The Nomination and Corporate Governance Committee considers and makes recommendations to the Board concerning the appropriate size and composition of the Board.

D. Declassification of the Board

Stockholders at the June 2014 annual meeting approved an amendment to the Restated Certificate of Incorporation to declassify the Board. The Company believes that declassifying the Board increases directors' accountability to stockholders by enabling stockholders to express a view on each director's performance by means of an annual vote. Beginning with the 2014 annual meeting, as each director's existing three-year term expires, that director would then stand for election annually, and at the annual meeting of stockholders in 2016, all directors would stand for election annually.

E. Term Limits

The Board does not believe it should establish term limits. Such limits may lose the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operation and therefore provide an increasing contribution to the Board. Directors who have served on the Board for an extended period of time are in a position to provide valuable insight into the operation and future of the Company based on their experience with and understanding of the Company's history, policies, operations and objectives. The Board believes that, as an alternative to term limits, it can ensure that the Board continues to evolve and adopt new viewpoints through the evaluation and selection process described herein.

F. Retirement Age

The Board does not believe that a specified mandatory retirement age is necessary. The Nomination and Corporate Governance Committee evaluates each director's contribution annually as part of the nomination and election process.

G. Diversity

The Board does not have a formal policy requiring the Nomination and Corporate Governance Committee to consider the diversity of directors in its nomination process. Nonetheless, the Board values diversity and diversity should be one of the factors considered by the Nomination and Corporate Governance Committee in the director identification and director nomination process. The Nomination and Corporate Governance Committee shall seek director nominees with a broad diversity of experience, professions, education, skills, geographic representation and backgrounds with a view to have a slate of candidates for election that represents a diversity of views, experiences, and backgrounds.

H. Stock Ownership

The Board recognizes the value of aligning the interest of Board members with the interest of the Company's stockholders through stock ownership or other equity participation. A portion of the Company's compensation of directors consists of restricted stock unit awards. These awards provide equity incentives that vest over time and align the economic interest of directors with stockholders.

1. Directors. Directors are required to own (personally and collectively with members of the director's immediate family or with family trusts), within five years following

the later of (a) his or her first election or appoint to the Board, or (b) October 31, 2013, an amount of common stock valued at the lesser of its purchase price or its fair market value (measured on October 31st of each year) equal to at least three times the total annual retainer cash compensation paid by the company for Board service (excluding for this purpose compensation that is not paid to all independent directors, such as compensation for committee or chair service). For purposes of this ownership guideline, unvested restricted stock or restricted stock units, and vested and unvested stock options would not be considered when determining a director's stock ownership. Until such time as a Board member reaches his or her share ownership minimum, such Board member will be required to hold at least 50% of the shares of common stock received upon lapse of the vesting restrictions pursuant to equity awards (net of any shares utilized to pay for the exercise price of the equity award and tax withholding). This ownership requirement may be waived by the Board in individual cases, depending on the financial circumstances of a director, as determined in the discretion of the Board.

2. Executive Officers. Pursuant to the guidelines, the named executive officers of the Company, currently the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer, are required to own (personally and collectively with members of the executive officer's immediate family or with family trusts), within five years following the later of (a) his or her first appointment as an executive officer, or (b) October 31, 2013, an amount of common stock valued at the lesser of its purchase price or its fair market value (measured on October 31st of each year) equal to at least three times the annual base salary for the Chief Executive officer or at least one times the annual base salary for each of the Chief Financial Officer and Chief Operating officer. For purposes of this ownership guideline, a 0.5 intrinsic value of vested in-the-money options and stock appreciation rights are included in the minimum ownership calculation.

I. Change in Director Responsibilities

Directors are required to notify the Chairman of the Board and the Chief Executive Officer in the event of any significant change in their personal circumstances, including a change in their principal job responsibilities. The Board or the Nomination and Corporate Governance Committee, at their discretion, may consider the continued appropriateness of such director's membership on the Board and each applicable Board Committee under the new circumstances. If such body deems it in the best interest of the Company for such Director to terminate his or her membership on the Board or one of its Committees, the Director shall tender his or her resignation.

**III. BOARD OPERATIONS**

A. Chairman of the Board

Unless the Board determines otherwise, the offices of Chairman of the Board and Chief Executive Officer shall be separate.

B. Board Meetings

1. Director Commitment and Attendance. Absent unusual circumstances, directors are expected to attend all Board meetings and meetings of the committee(s) on which

they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Each director is expected to ensure that other existing and planned future commitments do not materially interfere with the member's service as a director of the Company. In furtherance of this policy, all directors are expected to attend at least 75% of all Board and committee meetings. Directors are also expected to attend annual meetings of the Company's stockholders in person, absent a valid reason. The Board does not have a specific policy as to the number of other public company boards of directors on which a director may sit, given that individual circumstances may vary.

2. Agenda. The Chairman of the Board shall work with the Chief Executive Officer and establish the agenda for each Board meeting. Any director may suggest items for inclusion on the agenda and may raise subjects that are not on the agenda for that meeting. The Board shall review the Company's financial performance and business strategies and practices on at least an annual basis.

3. Advance Distribution of Board Materials. To the extent practical and appropriate, meeting agendas, as well as information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting, should generally be distributed in writing to the directors in advance of the meeting for review by the directors. Sensitive subject matters may be discussed at the meeting without written materials being distributed in advance or at the meeting. Directors are expected to review such materials prior to the meeting and should request any additional materials or resources they require to make informed decisions.

4. Executive Sessions. The Company's independent directors are expected to meet in executive session as frequently as appropriate but not less than twice annually. Absent unusual circumstances, these sessions shall be held in conjunction with regular Board meetings.

C. Access to Management and Independent Advisors

Directors have full access to the executive officers of the Company and the Company's outside advisors. Each director is expected to use his or her judgment to ensure that any such contact is not disruptive to the business operations of the Company and will, to the extent appropriate, coordinate any such contact with the Chairman of the Board or the Chief Executive Officer.

Legal counsel, outside accountants, compensation experts and other advisors may assist the Board in its consideration of matters. The Board and any Board committee has the right to retain outside financial, legal and other outside advisors of its choice with respect to any issues relating to its activities, at the Company's expense.

Directors shall also have regular access to Company books and records.

D. Director Orientation and Continuing Education

A newly elected director shall be provided with an orientation program designed to educate the new director about the Company, its policies and procedures and its business

activities. This orientation program shall include briefings by senior management to familiarize new directors with the Company's Certificate of Incorporation, Bylaws, Board Committee charters, the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Business Conduct and Ethics, Corporate Governance Guidelines, its principal officers, and its internal and independent auditors.

Each director is expected to be involved in continuing director education on an ongoing basis to enable him or her to better perform his or her duties.

#### **IV. BOARD COMMITTEES**

##### **A. Committees and Charters**

The Board shall have an Audit Committee, a Compensation Committee and a Nomination and Corporate Governance Committee. Each committee will perform its duties as assigned by the Board in compliance with the Company's Bylaws, and shall have a charter that establishes the purposes, goals and responsibilities of the committees as well as the qualifications for committee membership. Committee charters shall comply with applicable NASDAQ Rules, Securities and Exchange Commission ("SEC") Rules, and any other applicable laws, rules and regulations, and shall be posted on the Company's website. The Board may establish or maintain additional committees from time to time as necessary or appropriate.

##### **B. Committee Membership**

The members of the Audit Committee, the Compensation Committee and the Nomination and Corporate Governance Committee shall be independent in accordance with the provisions of the NASDAQ listing requirements and any other applicable rules and regulations. Each committee will have a chairman designated by the Board, or, if the Board does not do so, the members of each committee shall elect a chairman by a vote of the majority of the full committee.

##### **C. Committee Meetings, Agendas and Reports**

The chairman of each committee shall preside at each committee meeting and, in consultation with the other members of that committee and in a manner consistent with the committee's charter, shall set the frequency and length of committee meetings. The chairman of each committee, in consultation with members of the committee and the Company's senior management, shall also set the agenda of items to be addressed at each meeting. To the extent practical and appropriate, the chairman of each committee shall ensure that the agenda for each meeting is circulated to each committee member in advance of the meeting. Committee members may suggest additional agenda items and may raise subjects that are not on the agenda. Each committee shall report regularly to the full Board with respect to its activities in a manner consistent with its charter.

##### **D. Other Directorships and Audit Committee Memberships**

Directors should advise the Chief Executive Officer and the Chairman of the Board before accepting membership on other boards of directors of public companies or other significant commitments involving affiliation with other businesses or governmental units. While there may be value gained from service on other boards of directors, such service may have legal and regulatory implications to the Company and/or may present recurrent conflicts of interest with the Company. No Audit Committee member may serve on the audit committees of more than three public companies (including the Company), unless the Board determines and the Company discloses in its annual stockholders' meeting proxy statement that such service does not impair the member's ability to serve effectively on the Audit Committee.

## **V. MANAGEMENT EVALUATION AND SUCCESSION PLANNING**

### **A. Selection of Chief Executive Officer**

The Board selects and evaluates the Company's Chief Executive Officer in the manner that it determines to be in the best interests of the Company's stockholders.

### **B. Evaluation of Chief Executive Officer**

The Compensation Committee shall evaluate the Chief Executive Officer's performance according to corporate goals and objectives established periodically by the full Board and report to the Board on its evaluation. The review shall serve as the basis for the recommendation of the Compensation Committee on compensation for the Chief Executive Officer. The Board shall review the Compensation Committee's evaluation and recommendation. The Compensation Committee shall be responsible for overseeing the evaluation of the Company's senior management.

### **C. Management Succession**

The Board is responsible for planning for the succession to the position of Chief Executive Officer and other senior management positions.

The Chairman and the Chief Executive Officer shall also review periodically with the non-management directors the performance of other key members of the senior management of the Company, as well as potential succession arrangements for such management members.

## **VI. DIRECTOR COMPENSATION**

The Compensation Committee has the responsibility for determining the level and form of compensation and benefits for directors. In discharging this duty, the Compensation Committee will conduct a periodic review of the components and amount of director compensation in relation to other similarly situated companies. Board compensation will be consistent with market practices. No additional compensation is paid to members of management for serving on the Board.

## **VII. ANNUAL PERFORMANCE EVALUATIONS**

The Nomination and Corporate Governance Committee is responsible for conducting an annual self-evaluation of the Board's effectiveness and performance and will report its conclusions to the full Board. The evaluation will focus on the Board's contributions to the Company and areas in which the Board or management believes that the Board could improve.

## **VIII. BOARD COMMUNICATIONS**

### **A. Communicating Concerns to the Company**

The Board believes that, under ordinary circumstances, management speaks for the Company and the Chairman of the Board speaks for the Board. Individual Board members may, from time to time, meet with or communicate with various constituencies that are involved with the Company, excluding any communications with Wall Street analysts. Further, in order to comply with current regulations of the SEC regarding stockholders' communications with the Company, stockholders and interested parties may communicate with the Board or any member of the Board including the Chairman of the Board, by sending a written communication to the Board or such person, as applicable, c/o DSP Group, 161 S San Antonio Rd, Suite 10, Los Altos, CA 94022. Any such communication should indicate that the person sending the communication is a stockholder.

### **B. Disclosure Policy**

The Board believes that it is imperative that timely and accurate disclosure in compliance with applicable laws, rules and regulations is made on all material matters, including: (1) the Company's financial condition, (2) the Company's financial performance, (3) foreseeable risk factors for the Company, and (4) the amount and nature of equity compensation paid to directors and senior management of the Company.

The Company has a responsibility to furnish information that is honest, intelligible, meaningful, timely, and broadly disseminated. The Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer of the Company shall be responsible for the dissemination of such information to the public. A director or senior executive may act to disclose information about the Company if authorized to do so in advance by the Chief Executive Officer, the Chief Operating Officer or the Chief Financial Officer of the Company or by the Board.

### **C. Complaints, Irregularities**

The Board shall ensure that employees have the opportunity, without jeopardizing their legal position, to report alleged irregularities within the Company of a general, operational or financial nature to the Chief Executive Officer or to an officer designated by him/her for this purpose. Alleged irregularities that relate to the senior executives shall be reported to the Chairman of the Board, or in the event that the Chairman of the Board is not an independent director, the Lead Director.

## **IX. ADDITIONAL POLICIES**

### **A. Confidentiality**

The proceedings and deliberations of the Board and its committees will be treated as confidential. Each director shall at all times treat all information and documentation obtained in their capacity as a member of the Board with due discretion and, in the case of confidential information or documentation, with utmost confidentiality.

B. Administration of the Corporate Governance Guidelines

The Nomination and Corporate Governance Committee is charged with the responsibility of administering these Corporate Governance Guidelines. The Nomination and Corporate Governance Committee reviews these Guidelines annually and, when appropriate, recommends changes to the Board.

C. Ethics and Legal Compliance

The Company has adopted a Code of Business Conduct and Ethics. The Company conducts its business in accordance with the highest legal and ethical standards and has adopted educational programs and a compliance program to ensure that it does. The Code of Business Conduct and Ethics, as well as these Corporate Governance Guidelines and the Charters of the Audit Committee, the Compensation Committee and the Nomination and Corporate Governance Committee, are posted on the Company's website at [www.dspg.com](http://www.dspg.com).