

DSP GROUP INC /DE/
Form PRRN14A
April 23, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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

(Amendment No. 1)

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 (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

DSP GROUP, INC.
(Name of Registrant as Specified in Its Charter)

STARBOARD VALUE AND OPPORTUNITY MASTER FUND LTD
STARBOARD VALUE AND OPPORTUNITY S LLC
STARBOARD VALUE LP
STARBOARD VALUE GP LLC
STARBOARD PRINCIPAL CO LP
STARBOARD PRINCIPAL CO GP LLC

JEFFREY C. SMITH
MARK R. MITCHELL
PETER A. FELD
MICHAEL BORNAK
NORMAN J. RICE, III
NORMAN P. TAFFE

(Name of Persons(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.
-

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

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

(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):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. 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:

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

(3) Filing Party:

(4) Date Filed:

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PRELIMINARY COPY SUBJECT TO COMPLETION
DATED APRIL 23, 2013

STARBOARD VALUE AND OPPORTUNITY MASTER FUND LTD

_____, 2013

Dear Fellow DSPG Stockholder:

Starboard Value and Opportunity Master Fund Ltd (“Starboard V&O Fund”) and the other participants in this solicitation (collectively, “Starboard” or “we”) are the beneficial owners of an aggregate of 2,222,079 shares of common stock, par value \$0.001 per share (the “Common Stock”), of DSP Group, Inc., a Delaware corporation (“DSPG” or the “Company”), representing approximately 10.1% of the outstanding shares of Common Stock. We have nominated a slate of highly qualified director candidates for election to the Company’s board of directors (the “Board”) at the Company’s upcoming 2013 Annual Meeting of Stockholders (the “Annual Meeting”). We did so because we believe that the current Board has failed to represent the best interests of stockholders and because we believe that the individuals we have nominated are highly qualified, capable and ready to serve stockholders to help make DSPG a stronger, more profitable, and ultimately, more valuable company.

Starboard is an investment management firm that seeks to invest in undervalued and underperforming public companies. Our approach to such investments is to actively engage and work closely with management teams and boards of directors in a constructive manner to identify and execute on opportunities to unlock value for the benefit of all stockholders. Starboard has established a strong track record of creating stockholder value at many public companies for more than ten years.

Since reaching a settlement with DSPG on April 4, 2012, (the “2012 Settlement”), pursuant to which two highly qualified candidates we recommended, Kenneth H. Traub and Thomas Lacey, were elected to the Board, we have continued to communicate our views to the Board regarding how best to maximize stockholder value. We seriously question whether the Company entered into the 2012 Settlement in good-faith since, as we understand, Messrs. Traub and Lacey have not been appointed to any Board committees since joining the Board in May 2012, and despite their objections, the Company included in its Annual Report on Form 10-K for the year ended December 31, 2012 a risk factor impugning the independence of Messrs. Traub and Lacey and accusing Starboard of acting against the best interests of the Company and its stockholders. In addition, the Board has neither improved on numerous poor corporate governance practices at DSPG, nor taken the other actions that we believe necessary to maximize value for stockholders. It has become clear to us that the Board, as currently constituted, does not intend to take these actions. We have therefore been left with little choice but to seek additional Board representation.

We believe significant representation on the Board is required at this juncture. We are therefore seeking your support at the Annual Meeting to elect three director candidates in order to ensure that the interests of stockholders, the true owners of the Company, are appropriately represented in the boardroom at all times. These director candidates are committed to (i) more proactively addressing opportunities to enhance stockholder value and (ii) seeking to expand the Company’s current exploration of strategic alternatives that could maximize stockholder value, including a sale of the entire Company.

The Company has a classified Board, which is currently divided into three classes. We believe that the terms of three directors currently serving on the Board will expire at the Annual Meeting, and are seeking your support at the Annual Meeting to elect our nominees in opposition to the Company’s nominees for terms ending in 2016. Your vote to elect our nominees will have the legal effect of replacing the three incumbent directors with our nominees. Starboard believes that any attempt to decrease the size of the current Board or the number of directors up for election at the

Annual Meeting would constitute an improper manipulation of the Company's corporate machinery.

We urge you to carefully consider the information contained in the attached Proxy Statement and then support our efforts by signing, dating and returning the enclosed WHITE proxy card today. The attached Proxy Statement and the enclosed WHITE proxy card are first being furnished to the stockholders on or about _____, 2013.

If you have already voted for the incumbent management slate, you have every right to change your vote by signing, dating and returning a later dated proxy or by voting in person at the Annual Meeting.

If you have any questions or require any assistance with your vote, please contact Okapi Partners LLC, which is assisting us, at its address and toll-free numbers listed below.

Thank you for your support.

Jeffrey C. Smith
Starboard Value and
Opportunity Master Fund Ltd

If you have any questions, require assistance in voting your WHITE proxy card,
or need additional copies of Starboard's proxy materials,
please contact Okapi Partners at the phone numbers or email listed below.

OKAPI PARTNERS LLC
437 Madison Avenue, 28th Floor
New York, N.Y. 10022
(212) 297-0720
Stockholders Call Toll-Free at: 877-869-0171
E-mail: info@okapipartners.com

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED APRIL 23, 2013

2013 ANNUAL MEETING OF STOCKHOLDERS
OF
DSP GROUP, INC.

PROXY STATEMENT
OF
STARBOARD VALUE AND OPPORTUNITY MASTER FUND LTD

PLEASE SIGN, DATE AND MAIL THE ENCLOSED WHITE PROXY CARD TODAY

Starboard Value and Opportunity Master Fund Ltd (“Starboard V&O Fund”), Starboard Value and Opportunity S LLC (“Starboard LLC”), Starboard Value LP (“Starboard Value LP”), Starboard Value GP LLC (“Starboard Value GP”), Starboard Principal Co LP (“Principal Co”), Starboard Principal Co GP LLC (“Principal GP”), Jeffrey C. Smith, Mark R. Mitchell, and Peter A. Feld (collectively, “Starboard” or “we”) are significant stockholders of DSP Group, Inc., a Delaware corporation (“DSPG” or the “Company”), owning approximately 10.1% of the outstanding shares of common stock, par value \$0.001 per share (the “Common Stock”), of the Company. We are seeking additional representation on the Board of Directors of the Company (the “Board”) because we believe that the Board as currently constituted will not take actions that we believe necessary to maximize value for stockholders. We believe that the Board could be improved with directors who have strong, relevant backgrounds and who are committed to fully exploring all opportunities to unlock stockholder value. We are seeking your support at the Company’s 2013 Annual Meeting of Stockholders scheduled to be held at the Le Parker Meridien, New York 119 W. 56th St., New York City, New York, on Monday, June 10, 2013, at 10:00 a.m., local time (including any adjournments or postponements thereof and any meeting which may be called in lieu thereof, the “Annual Meeting”), for the following:

1. To elect Starboard V&O Fund’s director nominees, Michael Bornak, Norman J. Rice, III, and Norman P. Taffe, (each a “Nominee” and, collectively, the “Nominees”) to serve as Class I directors of the Company to hold office until the 2016 Annual Meeting of Stockholders and until their respective successors have been duly elected and qualified;
2. To 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 3,300,000 shares to 3,800,000 shares;
3. To approve an amendment and restatement to the Company’s 2012 Equity Incentive Plan to increase the number of shares of common stock reserved for issuance thereunder from 350,000 shares to 1,450,000 shares;
4. To ratify the appointment of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, as the Company’s independent auditors for the year ending December 31, 2013;
5. To hold an advisory vote to approve the Company’s named executive officer compensation (the “Say-on-Pay Proposal”);
6. To approve an adjournment or postponement of the Annual Meeting, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the Annual Meeting to adopt and approve

proposals 1 through 5 set forth above (the “Adjournment Proposal”); and

7. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

This Proxy Statement is soliciting proxies to elect only our Nominees. Accordingly, the enclosed WHITE proxy card may only be voted for our Nominees and does not confer voting power with respect to any of the Company’s director nominees. See “Voting and Proxy Procedures” on page 22 for additional information. You can only vote for the Company’s director nominees by signing and returning a proxy card provided by the Company. Stockholders should refer to the Company’s proxy statement for the names, backgrounds, qualifications and other information concerning the Company’s nominees .

As of the date hereof, the members of Starboard and the Nominees collectively own 2,222,079 shares of Common Stock (the "Starboard Group Shares"). We intend to vote the Starboard Group Shares FOR the election of the Nominees, AGAINST the approval of the amendment and restatement to the Company's 1993 Employee Stock Purchase Plan (the "1993 Employee Stock Purchase Plan"), AGAINST the approval of the amendment and restatement to the Company's 2012 Equity Incentive Plan (the "2012 Equity Incentive Plan"), FOR the ratification of the appointment of Kost Forer Gabbay & Kasierer as the Company's independent auditors for the fiscal year ending December 31, 2013, in a manner consistent with the recommendation of Institutional Shareholder Services Inc. ("ISS"), a leading proxy advisory firm, with respect to the Say-on-Pay Proposal, and AGAINST the Adjournment Proposal, as described herein. While we currently intend to vote the Starboard Group Shares in favor of the election of the Nominees, we reserve the right to vote some or all of the Starboard Group Shares for some or all of the Company's director nominees, as we see fit, in order to achieve a Board composition that we believe is in the best interest of all stockholders. We would only vote some or all of the Starboard Group Shares for some or all of the Company's director nominees in the event it becomes apparent to us, based on the projected voting results at such time, that less than all of the Nominees would be elected at the Annual Meeting and that by voting the Starboard Group Shares we could help elect the Company nominees that we believe are the most qualified to serve as directors and thus help achieve a Board composition that we believe is in the best interest of all stockholders. Stockholders should understand, however, that all shares of Common Stock represented by the enclosed WHITE proxy card will be voted at the Annual Meeting as marked and, in the absence of specific instructions, will be voted in accordance with Starboard's recommendations specified herein and in accordance with the discretion of the persons named on the WHITE proxy card with respect to any other matters that may be voted upon at the Annual Meeting consistent with Rule 14a-4(c)(3) promulgated under the Securities Exchange Act of 1934.

The Company has set the close of business on April 16, 2013 as the record date for determining stockholders entitled to notice of and to vote at the Annual Meeting (the "Record Date"). The mailing address of the principal executive offices of the Company is 2580 North First Street, Suite 460, San Jose, California 95131. Stockholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting. According to the Company, as of the Record Date, there were 21,953,563 shares of Common Stock outstanding.

THIS SOLICITATION IS BEING MADE BY STARBOARD AND NOT ON BEHALF OF THE BOARD OF DIRECTORS OR MANAGEMENT OF THE COMPANY. WE ARE NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING OTHER THAN AS SET FORTH IN THIS PROXY STATEMENT. SHOULD OTHER MATTERS, WHICH STARBOARD IS NOT AWARE OF A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING, THE PERSONS NAMED AS PROXIES IN THE ENCLOSED WHITE PROXY CARD WILL VOTE ON SUCH MATTERS IN OUR DISCRETION.

STARBOARD URGES YOU TO SIGN, DATE AND RETURN THE WHITE PROXY CARD IN FAVOR OF THE ELECTION OF THE NOMINEES.

IF YOU HAVE ALREADY SENT A PROXY CARD FURNISHED BY COMPANY MANAGEMENT OR THE BOARD, YOU MAY REVOKE THAT PROXY AND VOTE ON EACH OF THE PROPOSALS DESCRIBED IN THIS PROXY STATEMENT BY SIGNING, DATING AND RETURNING THE ENCLOSED WHITE PROXY CARD. THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE ANNUAL MEETING BY DELIVERING A WRITTEN NOTICE OF REVOCATION OR A LATER DATED PROXY FOR THE ANNUAL MEETING OR BY VOTING IN PERSON AT THE ANNUAL MEETING.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting—This Proxy Statement and our
WHITE proxy card are available at
<http://www.myproxyonline.com/DSPGroup>

IMPORTANT

Your vote is important, no matter how few shares of Common Stock you own. Starboard urges you to sign, date, and return the enclosed WHITE proxy card today to vote FOR the election of the Nominees and in accordance with Starboard's recommendations on the other proposals on the agenda for the Annual Meeting.

- If your shares of Common Stock are registered in your own name, please sign and date the enclosed WHITE proxy card and return it to Starboard, c/o Okapi Partners LLC ("Okapi Partners") in the enclosed postage-paid envelope today.
- If your shares of Common Stock are held in a brokerage account or bank, you are considered the beneficial owner of the shares of Common Stock, and these proxy materials, together with a WHITE voting form, are being forwarded to you by your broker or bank. As a beneficial owner, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your shares of Common Stock on your behalf without your instructions.
- Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.

Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Even if you return the management proxy card marked "withhold" as a protest against the incumbent directors, it will revoke any proxy card you may have previously sent to us. Remember, you can vote for our three Nominees only on our WHITE proxy card. So please make certain that the latest dated proxy card you return is the WHITE proxy card.

OKAPI PARTNERS LLC
437 Madison Avenue, 28th Floor
New York, N.Y. 10022
(212) 297-0720
Stockholders Call Toll-Free at: 877-869-0171

E-mail: info@okapipartners.com

Background to the Solicitation

The following is a chronology of material events leading up to this proxy solicitation:

- On June 20, 2011, Starboard filed a Schedule 13D with the Securities and Exchange Commission (the “SEC”) disclosing ownership of 6.0% of DSPG’s Common Stock.

On August 8, 2011, Starboard met with Ofer Elyakim, the Company’s Chief Executive Officer, at Starboard’s offices in New York. During this meeting, Starboard discussed the Company’s business fundamentals and expressed views on how to unlock stockholder value.

- On August 22, 2011, Starboard delivered a letter to Mr. Elyakim and to the members of the Board, and issued a press release including the full text of the letter. In the letter, Starboard expressed its belief that the Company’s common stock is deeply undervalued and that significant opportunities exist to improve stockholder value based on management and the Board’s taking certain actions in accordance with the recommendations set forth in the letter. Starboard also expressed its belief that the core issue facing DSPG is excessive spending in pursuit of non-core growth initiatives that have failed to produce expected revenue growth and that have, in turn, severely impacted the Issuer’s profitability. In the letter, Starboard urged the Company to immediately reduce spending on certain non-core growth initiatives in order to significantly improve profitability as well as hire a reputable investment bank to explore strategic alternatives to maximize value for stockholders. Finally, Starboard stated its discontent with the Board’s decision to implement a shareholder rights agreement, or “poison pill”, with a 10% triggering threshold and called on the Board to redeem the poison pill as a matter of good corporate governance. Starboard also filed an amendment to its Schedule 13D with the SEC disclosing ownership of 9.1% of DSPG’s Common Stock and its delivery of the letter.

- On August 23, 2011, the Company delivered a private letter to Starboard acknowledging receipt of and issued a press release responding to Starboard’s letter delivered on August 22, 2011.

- On December 9, 2011, Starboard had a conference call with DSPG’s Chairman, Eli Ayalon. During this call, Starboard discussed the Company’s business fundamentals and expressed views on how to unlock stockholder value.
- On December 14, 2011, January 4, 2012 and February 9, 2012, Starboard met with Messrs. Elyakim and/or Ayalon in person at Starboard’s or the Company’s offices. During these meetings, Starboard discussed the Company’s business fundamentals and expressed views on how to unlock stockholder value.
- On February 13, 2012, DSPG agreed to extend the deadline for Starboard’s nomination of director candidates for election at the Company’s 2012 annual meeting of stockholders (the “2012 Annual Meeting”) until five business days after Starboard’s receipt of notification from DSPG that discussions regarding a potential settlement have broken down.

- Between February 14, 2012 and April 3, 2012, DSPG and Starboard continued to discuss the terms of a potential settlement.
- On April 3, 2012, DSPG amended its Bylaws (the “Bylaws”) to increase the size of the Board from eight to nine members.
- On April 4, 2012, Starboard and DSPG entered into a Settlement Agreement (the “Settlement Agreement”). Pursuant to the terms of the Settlement Agreement, DSPG agreed, among other things, (i) to increase the size of the Board from eight to nine members, effective as of the 2012 Annual Meeting, (ii) to nominate Kenneth H. Traub and Thomas Lacey for election to the Board as Class III directors at the 2012 Annual Meeting, (iii) to allow Starboard to recommend substitute directors in the event either of Messrs. Traub or Lacey is unable to serve as a director, resigns or is removed as a director prior to the Annual Meeting, as long as Starboard continues to meet certain beneficial ownership requirements, (iv) to cause Dr. Reuven Regev, a Class III director, to stand for re-election at the 2012 Annual Meeting for a term to expire at the Annual Meeting and (v) to use reasonable best efforts to report the Company’s financial results, including revenue and profitability, across at least two of its business segments, including Home and Enterprise. Under the Settlement Agreement Starboard agreed to abide by certain “standstill provisions,” including making public statements about DSPG or nominating director candidates, until the earlier of 10 business days prior to the deadline for the submission of stockholder nominations for the Annual Meeting or the date that is 100 days prior to the first anniversary of the 2012 Annual Meeting.
- On May 14, 2012, Starboard met with Mr. Elyakim and DSPG’s Chief Financial Officer, Dror Levy, at Starboard’s office in New York. During this meeting, Starboard discussed the Company’s business fundamentals and expressed views on how to unlock stockholder value.
- On May 15, 2012, the Company held the 2012 Annual Meeting, at which the Company’s stockholders elected three Class III directors, including Messrs. Traub and Lacey, to serve until the Company’s 2015 annual meeting of stockholders, and one Class I director to serve until the Annual Meeting.
 - During the second half of 2012, Starboard had several calls with the Company to discuss the business.
 - On January 15, 2013, Starboard attended a DSPG investor presentation at the Needham Investor Conference.
 - On February 4, 2013, the standstill provisions under the Settlement Agreement expired.
- On February 6, 2013, Starboard met with Messrs. Elyakim and Ayalon at Starboard’s office in New York. During this meeting, Starboard discussed the Company’s business fundamentals and expressed views on how to unlock stockholder value.
- On February 11, 2013, Mr. Traub called Starboard to deliver the following settlement offer on behalf of the Board: (i) the Company would agree to nominate a director candidate recommended by Starboard for election to the Board at the Annual Meeting as a Class II director, whose term will expire at the Company’s 2014 annual meeting of stockholders; and (ii) the Board would agree to form a strategic committee consisting of five directors, including Messrs. Traub and Lacey, and three other existing directors.

- During the month of February, Starboard had multiple conversations with the Company to explore potential ways to work constructively and avoid a proxy contest.
- On March 1, 2013, Starboard received a letter from Mr. Elyakim advising Starboard that the Board established June 10, 2013 as the date of the Annual Meeting. In accordance with Section 2.2 of the Bylaws, the deadline for submitting director nominations for the Annual Meeting was set at 90 days in advance of June 10, 2013, or March 12, 2013.
- During the week of March 4, 2013, Starboard and the Company had a number of conversations regarding the terms of a potential settlement. Ultimately, Starboard proposed the following terms:
 - o Appointing two new independent directors to the Board, of which one would replace an existing director and the other would increase the size of the Board by one;
 - o Appoint two independent directors who have been serving on the Board for less than two years to the Compensation Committee of the Board (the “Compensation Committee”), which directors would constitute two of four members of the Compensation Committee and one of which would serve as Chairman of the Compensation Committee;
 - o Form a strategic committee of the Board consisting of four independent directors, including at least two directors who have been serving on the Board for less than two years, one of which would serve as Chairman of the committee (who would not have a tie-breaking vote); and
 - o Appoint at least one independent director who has been serving on the Board for less than two years to each other committee of the Board.
- On March 8, 2013, the Company issued a letter to stockholders responding to Starboard’s settlement proposal and discussing recent developments at DSPG. In the letter, the Company invited Jeffrey C. Smith, Chief Executive Officer and Chief Investment Officer of Starboard Value, to join the Board.
- On March 9, 2013, the Company issued a letter to stockholders acknowledging that in its March 8 letter it incorrectly described Starboard’s proposal regarding the formation of a new Board committee consisting of four members, two of whom would be Starboard nominees.
- On March 11, 2013, Starboard delivered a letter to DSPG (the “2013 Nomination Letter”) nominating Michael Bornak, Norman J. Rice, III, Jeffrey C. Smith and/or Norman P. Taffe for election to the Board at the Annual Meeting. In the 2013 Nomination Letter, Starboard stated that it believes that the terms of three of the Company’s Class I directors currently serving on the Board expire at the Annual Meeting, and, if this remains the case, Starboard will withdraw one of its Nominees. To the extent that there are in excess of three vacancies on the Board to be filled by election at the Annual Meeting or the Company increases or decreases the size of the Board above or below its existing size, Starboard reserved the right to either withdraw certain of its nominees or to nominate additional nominees for election to the Board at the Annual Meeting.
- On April 18, 2013, the Company issued a letter to stockholders containing what Starboard believes to be false and misleading statements regarding the independence of Messrs. Traub and Lacey, and Starboard’s intentions with respect to the Company and nomination of the Nominees for election to the Board at the Annual Meeting.

REASONS FOR THE SOLICITATION

We are soliciting your support to elect our Nominees at the Annual Meeting because we have little confidence that the Board, as currently composed, has the objectivity and commitment to take the steps necessary to enhance stockholder value at DSPG.

We are Concerned with DSPG's Poor Stock Performance

Over the past five years, DSPG's shares have declined over 35%, dramatically underperforming both the Russell 2000 Index and the S&P Information Technology Index by 83% and 84%, respectively.

	Share Price Performance (1)		
	1 Year	3 Year	5 Year
Russell 2000 Index	14.3%	42.3%	41.0%
S&P Information Technology Index	-1.8%	32.0%	41.6%
DSP Group	15.9%		