As filed with the U.S. Securities and Exchange Commission on August 9, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-22072

The Cushing MLP & Infrastructure Total Return Fund

(Exact name of registrant as specified in charter)

8117 Preston Road, Suite 440, Dallas, TX 75225

(Address of principal executive offices) (Zip code)

Jerry V. Swank

8117 Preston Road, Suite 440, Dallas, TX 75225

(Name and address of agent for service)

214-692-6334

Registrant s telephone number, including area code

Date of fiscal year end: November 30

Date of reporting period: May 31, 2018

Item 1. Reports to Stockholders.

Semi-Annual Report

May 31, 2018

THE CUSHING® MLP & INFRASTRUCTURE TOTAL RETURN FUND

Investment Adviser

Cushing® Asset Management, LP

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The Cushing® MLP & Infrastructure Total Return Fund

Shareholder Letter

Dear Fellow Shareholder,

For the six month fiscal period ended May 31, 2018 (the period), the Cushing® MLP & Infrastructure Total Return Fund (the Fund) delivered a Net Asset Value Total Return (equal to the change in net asset value (NAV) per share plus reinvested cash distributions from underlying Fund investments during the period) of 14.25%, versus a total return of 3.16% for the S&P 500® Index (Total Return). The Fund s Share Price Total Return (equal to the change in market price per share plus reinvested cash distributions from underlying Fund Investments paid during the period) was 18.44%, for the period and differs from the Net Asset Value Total Return due to fluctuations in the discount of share price to NAV. The Fund s shares traded at a 7.54% discount to NAV as of the end of the period, compared to a 10.81% discount at the end of the Fund s last fiscal year and a 7.33% discount as of May 31, 2017. As measured by the Alerian MLP Index (Total Return) (AMZ), the performance of master limited partnerships (MLPs) increased by 5.71% for the period.

Industry Overview and Themes

The fundamentals for the midstream industry continued to generally improve during the period this included positive earnings reports along with constructive forward guidance, higher commodity prices and wider basis differentials (supportive of marketing-based activities and infrastructure development), increased throughput, several large new projects announced, and additional restructuring/simplification steps taken to help balance sheets, distribution coverage, and cost of capital.

Fund performance during the period overcame heightened broader market volatility as well as the surprise negative announcement by the Federal Energy Regulatory Commission (FERC) to eliminate the income tax allowance (ITA) in determining pipeline tariffs under a cost of service mechanism. The FERC s decision on the morning of March 15, 2018 caught investors off guard and fueled widespread selling in the midstream sector with natural gas transportation and storage companies (those most exposed) taking the brunt of losses. The decision led to some companies announcing merger/simplification transactions and other restructuring considerations.

Fund Performance and Strategy

At the subsector level, the Fund benefited from overweight exposure to holdings in the Large Cap Diversified and Natural Gas Gatherers & Processors MLP subsectors. Portfolio holdings in the Large Cap Diversified MLP subsector benefited from their stable and majority fee based cash flows, predominantly investment grade ratings and ability to capitalize on positive midstream fundaments across their interconnected asset footprints. The Natural Gas Gatherers & Processors subsector bounced back after underperforming during most of 2017, relatively attractive valuation levels and increasing demand for their services given increasing U.S. production.

The Fund experienced negatively performance from holdings in the Shipping MLP and Shipping General Partner (GP) subsectors. Performance in these two subsectors was only slightly negative and largely the result of disappointing earnings announcements during the period.

On a stock specific basis, the top three contributors to the Fund s performance during the period were, in order of greatest contribution to least, were: 1) ONEOK Inc. (NYSE: OKE), a Large Cap Diversified C-Corp; 2) Targa Resources Corp. (NYSE: TRGP), a Natural Gas Gatherer & Processor; and 3) Plains GP Holdings, LP (NYSE: PAGP), a Large Cap Diversified C-Corp. OKE benefited from the

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announcement of several new projects totaling $3.7 billion, the largest of which is a greenfield natural gas liquids (NGL) pipeline out of the Bakken (Elk Creek) for $1.4 billion at attractive returns. TRGP was a beneficiary of rising crude oil and NGL commodity prices, additional Permian pipeline and processing project announcements and a project financing joint venture with a leading private equity firm. PAGP benefited from the continued rapid rise of Permian Basin crude oil production, widening Permian Basin differentials and the announcement of the $1.1 billion Cactus II crude oil pipeline expansion. Additionally, the company continued to show improving balance sheet and coverage metrics.

The bottom three contributors to absolute performance during the reporting period, in order of the most negative performance to the least, were: 1) Williams Cos Inc. (NYSE: WMB), a Large Cap Diversified C-Corp; 2) Golar LNG Partners, LP (NASDAQ: GMLP), a Shipping MLP and 3) SemGroup Corp. (NYSE: SEMG), a Crude Oil and Refined Products MLP. Williams has significant natural gas pipeline operations and underperformed due to the previously mentioned FERC announcement eliminating the income tax allowance in determining pipeline tariffs. GMLP underperformed as the company issued disappointing earnings caused by delayed project start up and lower than expected coverage. SEMG was negatively impacted by investor fears over its residual fuel oil and customer exposure at its HFOTCO business segment after a contract loss at a competitor s facility. Additionally, SEMG announced full year 2018 guidance that was below expectations, stoking concerns over its leverage ratios.

During the reporting period, the Fund increased exposure to the Large Cap Diversified C-Corps, Yield Cos, Utilities and Shipping GP subsectors given the positive fundamental backdrop and shift in the Fund s investment strategy to limit investments securities of MLPs that are taxed as partnerships for federal income tax purposes to no more than 25% of the Fund s total assets. The Fund reduced exposure to the Natural Gas Transportation, Crude Oil and Refined Product and Large Cap MLP subsectors during the period due to the negative FERC announcement and the aforementioned change to the Fund s investment strategy. At the end of the reporting period, the three largest subsector exposures, in order of size, were: 1) Large Cap Diversified C-Corps; 2) Large Cap Diversified MLPs; and 3) Natural Gas Gatherers and Processors.

Leverage

The Fund s investment strategy focuses on holding core positions in midstream companies with stable business models and long-term growth prospects. We also work diligently to optimize the use of leverage for additional income and total return potential. This involves leveraging investments in midstream companies and energy debt instruments when the probabilities of positive total return are deemed to be skewed favorably. As the prices of the Fund s investments increase or decline, there is a risk that the impact to the Fund s NAV and total return will be negatively impacted by leverage, but this strategy is designed to have a positive impact over the longer term. At the end of the period, the Fund had a leverage ratio of approximately 141%, which compares to an average 146% leverage ratio for the Fund s prior year period. Leverage trended down during the period due to positive sector performance.

Closing

In conclusion, even though midstream energy sector performance and sentiment remained challenged during the period, we maintain a positive outlook given our expectation for improving hydrocarbon volumes, relatively attractive sector valuations and recovering global crude oil supply / demand fundamentals. We remain confident that North American shale basins will be developed over time and that midstream infrastructure will be well utilized given the need to move production to market.

We truly appreciate your support and look forward to continuing to help you achieve your investment goals.

Sincerely,

Jerry V. Swank

Chairman, Chief Executive Officer and President

The information provided herein represents the opinion of the Fund s portfolio managers and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice. The opinions expressed are as of the date of this report and are subject to change.

The information in this report is not a complete analysis of every aspect of any market, sector, industry, security or the Fund itself. Statements of fact are from sources considered reliable, but the Fund makes no representation or warranty as to their completeness or accuracy. Discussions of specific investments are for illustration only and are not intended as recommendations of individual investments. Please refer to the Schedule of Investments for a complete list of Fund holdings.

Past performance does not guarantee future results. Investment return, net asset value and common share market price will fluctuate so that you may have a gain or loss when you sell shares. Since the Fund is a closed-end management investment company, shares of the Fund may trade at a discount or premium from net asset value. This characteristic is separate and distinct from the risk that net asset value could decrease as a result of investment activities and may be a greater risk to investors expecting to sell their shares after a short time. The Fund cannot predict whether shares will trade at, above or below net asset value. The Fund should not be viewed as a vehicle for trading purposes. It is designed primarily for risk-tolerant long-term investors.

An investment in the Fund involves risks. Leverage creates risks which may adversely affect returns, including the likelihood of greater volatility of net asset value and market price of the Fund s common shares. The Fund is nondiversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund.

The Fund will invest in energy companies, including Master Limited Partnerships (MLPs), which concentrate investments in the natural resources sector. Energy companies are subject to certain risks, including, but not limited to the following: fluctuations in the prices of commodities; the highly cyclical nature of the natural resources sector may adversely affect the earnings or operating cash flows of the companies in which the Fund will invest; a significant decrease in the production of energy commodities could reduce the revenue, operating income, operating cash flows of MLPs and other natural resources sector companies and, therefore, their ability to make distributions or pay dividends and a sustained decline in demand for energy commodities could adversely affect the revenues and cash flows of energy companies. Holders of MLP units are subject to certain risks inherent in the structure of MLPs, including tax risks; the limited ability to elect or remove management or the general partner or managing member; limited voting rights and conflicts of interest between the general partner or managing member and its affiliates, on the one hand, and the limited partners or members, on the other hand. Damage to facilities and infrastructure of MLPs may significantly affect the value of an investment and may incur environmental costs and liabilities due to the nature of their business. Investors in MLP funds incur management fees from underlying MLP investments. Small- and mid-cap stocks are often more volatile and less liquid than large-cap stocks. Smaller companies generally face higher risks due to their limited product lines, markets, and financial resources. Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner. High yield securities have speculative characteristics

and present a greater risk of loss than higher quality debt securities. These securities can also be subject to greater price volatility. An investment in the Fund will involve tax risks, including, but not limited to: The portion, if any, of a distribution received by the Fund as the holder of an MLP equity security that is offset by the MLP s tax deductions or losses generally will be treated as a return of capital to the extent of the Fund s tax basis in the MLP equity security, which will cause income or gain to be higher, or losses to be lower, upon the sale of the MLP security by the Fund. Changes in tax laws, regulations or interpretations of those laws or regulations in the future could adversely affect the Fund or the energy companies in which the Fund will invest.

The potential tax benefits of investing in MLPs depend on them being treated as partnerships for federal income tax purposes. If the MLP is deemed to be a corporation then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the Fund which could result in a reduction of the Fund s value.

The Fund incurs operating expenses, including advisory fees, as well as leverage costs. Investment returns for the Fund are shown net of fees and expenses.

Fund holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Please refer to the Schedule of Investments for a complete list of Fund holdings.

The S&P 500 Index is an unmanaged index of common stocks that is frequently used as a general measure of stock market performance. The Alerian MLP Index is a capitalization-weighted index of prominent energy master limited partnerships. Neither of these indices includes fees or expenses. It is not possible to invest directly in an index.

The Cushing® MLP & Infrastructure Total Return Fund

Allocation of Portfolio Assets[1] (Unaudited)

May 31, 2018

(Expressed as a Percentage of Total Investments)

[1] Fund holdings and sector allocations are subject to change and there is no assurance that the Fund will continue to hold any particular security.
[2] Master Limited Partnerships and Related Companies
[3] Common Stock
[4] Senior Notes

The Cushing® MLP & Infrastructure Total Return Fund

Key Financial Data (Supplemental Unaudited Information)

The Information presented below regarding Distributable Cash Flow is supplemental non-GAAP financial information, which we believe is meaningful to understanding our operating performance. Supplemental non-GAAP measures should be read in conjunction with our full financial statements.

	Period from December 1, 2017 through May 31, 2018	Fiscal Year Ended 11/30/17	Fiscal Year Ended 11/30/16	Fiscal Year Ended 11/30/15	Fiscal Year Ended 11/30/14[(a)]	Fiscal Year Ended 11/30/13[(a)]
FINANCIAL DATA	**(Unaudited)**					
Total income from investments						
Distributions and dividends received, net of foreign taxes withheld	$ 4,126,940	$ 9,481,830	$ 9,454,162	$ 13,068,439	$ 26,986,074	$ 27,806,587
Interest	85,937	15,536	68,490	333,901	488,952	669,582
Other	34	1,093	27,378	80,169	198,333	798,964
Total income from investments	$ 4,212,911	$ 9,498,459	$ 9,550,030	$ 13,482,509	$ 27,673,359	$ 29,275,133
Adviser fee and operating expenses						
Adviser fees, less reimbursement by Adviser	$ 605,203	$ 1,362,722	$ 1,009,528	$ 1,899,225	$ 4,314,026	$ 3,862,641
Operating expenses[(b)]	231,560	565,496	671,117	895,481	1,127,724	686,943
Interest and dividends	500,587	1,028,222	907,714	1,447,431	1,264,615	552,890
Other	0	0	1,097	124,456	112,527	8,116
Total Adviser fees and operating	$ 1,337,350	$ 2,956,440	$ 2,589,456	$ 4,366,593	$ 6,818,892	$ 5,110,590

expenses						
Distributable Cash Flow (DCF)[c]	$ 2,875,561	$ 6,542,019	$ 6,960,574	$ 9,115,916	$ 20,854,467	$ 24,164,543
Distributions paid on common stock	$ 3,648,645	$ 7,293,250	$ 7,273,047	$ 14,873,359	$ 30,182,347	$ 30,006,331
Distributions paid on common stock per share	$ 0.54	$ 1.08	$ 1.08	$ 2.21	$ 4.50	$ 4.50
Distribution Coverage Ratio						
Before Adviser fee and operating expenses	1.2x	1.3x	1.3x	0.9x	0.9x	1.0x
After Adviser fee and operating expenses	0.8x	0.9x	1.0x	0.6x	0.7x	0.8x
OTHER FUND DATA (end of period)						
Total Assets, end of period	126,677,903	114,917,830	149,772,615	138,132,445	326,002,305	329,717,559
Unrealized appreciation (depreciation), net of income taxes	3,623,370	(5,855,903)	21,588,546	(30,615,651)	(8,126,321)	17,896,838
Short-term borrowings	37,450,000	33,650,000	49,454,119	43,368,787	95,547,072	72,950,000
Short-term borrowings as a percent of total assets	30%	29%	33%	31%	29%	22%
Net Assets, end of period	88,432,614	81,002,320	99,969,625	92,650,518	199,847,099	233,619,616
Net Asset Value per common share	$ 13.13	$ 12.03	$ 14.84	$ 13.76	$ 29.70	$ 34.90
Market Value per share	$ 12.14	$ 10.73	$ 12.69	$ 12.02	$ 40.50	$ 40.45
Market Capitalization	$ 81,754,426	$ 72,259,060	$ 85,458,292	$ 80,946,310	$ 272,396,066	$ 270,839,382
Shares Outstanding	6,734,302	6,734,302	6,734,302	6,734,302	6,725,829	6,695,658

[a] Per share data adjusted for 1:5 reverse stock split completed as of September 14, 2015.

(b) Excludes expenses related to capital raising.

(c) Net Investment Income, before Income Taxes on the Statement of Operations is adjusted as follows to reconcile to Distributable Cash Flow: increased by the return of capital on MLP distributions.

The Cushing® MLP & Infrastructure Total Return Fund

Schedule of Investments (Unaudited) **May 31, 2018**

	Shares	Fair Value
Common Stock 82.1%		
Diversified General Partners 17.8%		
Canada 10.8%		
Enbridge, Inc.[1]	125,000	$ 3,883,750
TransCanada Corporation[1]	136,100	5,693,063
United States 7.0%		
Marathon Petroleum Corporation[1]	19,200	1,517,376
Phillips 66[1]	10,200	1,188,198
Semgroup Corporation[1]	136,155	3,444,722
		15,727,109
General Partners 33.3%		
United States 33.3%		
Enlink Midstream, LLC[1]	249,100	4,359,250
ONEOK, Inc.[1]	118,723	8,092,160
Tallgrass Energy GP, L.P.[1]	68,100	1,464,831
Targa Resources Corporation[1]	167,900	8,164,977
Williams Companies, Inc.[1]	276,050	7,414,703
		29,495,921
Large Cap Diversified 5.8%		
United States 5.8%		
Kinder Morgan, Inc.[1]	309,150	5,156,622
Natural Gas Gatherers & Processors 4.6%		
Canada 4.6%		
Pembina Pipeline Corporation[1]	117,400	4,081,998
Shipping 3.6%		
United States 3.6%		
Cheniere Energy Partners LP Holdings LLC[1]	104,750	3,166,592
Shipping General Partners 3.2%		
Bermuda 1.5%		

Golar LNG Ltd.[1]	51,100	1,327,578
United States 1.7%		
Cheniere Energy Inc.[1][2]	22,400	1,492,288
		2,819,866
Utilities		
United States		
Avangrid, Inc.[1]	39,900	2,118,291
Dominion Energy, Inc.[1]	17,200	1,104,068
NextEra Energy, Inc.[1]	21,700	3,598,077
Sempra Energy[1]	17,000	1,811,010
		8,631,446
Yield Cos 4.0%		
United Kingdom 2.0%		
Atlantica Yield Plc[1]	92,100	1,760,031
United States 2.0%		
NRG Yield, Inc.[1]	100,000	1,750,000
		3,510,031
Total Common Stocks (Cost $75,158,888)		$ 72,589,585

See Accompanying Notes to the Financial Statements.

The Cushing® MLP & Infrastructure Total Return Fund

Schedule of Investments (Unaudited) **May 31, 2018 (Continued)**

MLP Investments and Related Companies 58.5%	**Shares**	**Fair Value**
Crude Oil & Refined Products 4.0%		
United States 4.0%		
MPLX, L.P.[1]	98,084	$ 3,522,196
General Partners 15.0%		
United States 15.0%		
Antero Midstream GP, L.P.[1]	117,100	2,254,175
Energy Transfer Equity, L.P.[1]	175,950	3,040,416
Plains GP Holdings, L.P.[1]	323,900	7,958,223
		13,252,814
Large Cap Diversified 13.2%		
United States 13.2%		
	264,150	5,016,218

Energy Transfer Partners, L.P.[1]		
Enterprise Products Partners, L.P.[1]	169,400	4,895,660
Williams Partners, L.P.[1]	43,500	1,731,300
		11,643,178
Natural Gas Gatherers & Processors 11.9%		
United States 11.9%		
DCP Midstream Partners, L.P.[1]	81,600	3,419,856
Enable Midstream Partners, L.P.[1]	117,700	1,946,758
Enlink Midstream Partners, L.P.[1]	135,600	2,318,760
Western Gas Partners, L.P.[1]	54,400	2,810,848
		10,496,222
Shipping 6.6%		
Republic of the Marshall Islands 6.6%		
GasLog Partners, L.P.[1]	150,900	3,689,505

Golar LNG Partners, L.P.[1]	128,850	2,160,815

Financial Restatements

The compensation committee has not adopted a policy with respect to whether we will make retroactive adjustments to any cash- or equity-based incentive compensation paid to executive officers (or others) where the payment was predicated upon the achievement of financial results that were subsequently the subject of a restatement. Our compensation committee believes that this issue is best addressed when the need actually arises, when all of the facts regarding the restatement are known.

Tax and Accounting Treatment of Compensation

Section 162(m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to publicly held companies for compensation exceeding $1 million paid to certain of the corporation s executive officers. The limitation applies only to compensation which is not considered to be performance-based. Only our 2001 Stock Plan is structured so that any compensation deemed paid to an executive officer in connection with the exercise of option grants made under the plan will qualify as performance-based compensation which will not be subject to the $1 million limitation. Generally, our executive officers are granted stock options and stock appreciation rights 2001 Stock Plan and the 2003 Stock Plan. The compensation committee is aware of the limitations imposed by Section 162(m), and the exemptions available therefrom, and will address the issue of deductibility when and if circumstances warrant, and may use such exemptions in addition to the exemption contemplated under the 2001 Stock Plan. The compensation committee also reserves the right to use its judgment to authorize compensation payments that do not comply with the exemptions in Section 162(m) when the committee believes that such payments are appropriate and in the best interests of our stockholders, after taking into account changing business conditions or the executive officer s performance.

Beginning on January 1, 2006, we began accounting for stock-based payments, including stock option grants and stock appreciation rights, in accordance with the requirements of SFAS Statement 123(R).

Compensation Committee Report

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis set forth above with our management. Based on its review and discussions, the committee recommended to our board of directors that the Compensation Discussion and Analysis be included in this report.

Submitted by the compensation committee:

Zvi Limon

Yair Shamir

Louis Silver

2006 Summary Compensation Table

The following table sets forth the total compensation awarded to, earned by or paid to our principal executive officer, former principal executive officer, principal financial officer, former principal financial officer and the three other highest paid executive officers whose total compensation in fiscal year 2006 exceeded $100,000. We refer to these executive officers as our Named Executive Officers.

Name and Principal Position	Salary ($)	Bonus ($) (6)	Option Awards ($) (7)	All Other Compensation ($) (8)	Total ($)
Eliyahu Ayalon (1) Executive Chairman of the Board and Chief Executive Officer	350,000	200,000	315,268(9)	126,693	991,961
Inon Beracha (2) Former Chief Executive Officer	108,333			36,756	145,089
Tal Simchony (3) President	201,667	110,000	591,128(10)	72,452	975,247
Boaz Edan Chief Operating Officer	160,000	100,000	236,451(11)	60,966	557,417
Dror Levy (4) Vice President, Finance, Chief Financial Officer and Secretary	113,788	40,000	71,000(12)	58,221	283,009
Eli Fogel Senior Vice President and Chief Technology Officer	152,482	50,000	157,634(13)	69,400	429,516
Moshe Zelnik (5) Former Chief Financial Officer	142,523		78,817(14)	48,319	269,659

(1) Mr. Ayalon was our Chief Executive Officer from 1996 to April 2005 and resumed such position again on January 25, 2006.

(2) Mr. Beracha was our Chief Executive Officer from April 2005 to January 25, 2006.
(3) Mr. Simchony became our President on February 1, 2006.
(4) Mr. Levy became our Chief Financial Officer on July 19, 2006.
(5) Mr. Zelnik resigned as our Chief Financial Officer on July 19, 2006.
(6) Represents the bonus amount awarded to the Named Executive Officer in 2006 at the discretion of the board of directors.
(7) Represents the fair value of the stock appreciation rights as of the date they were granted, computed in accordance with SFAS 123(R), disregarding adjustments for forfeiture assumptions. The amounts above represent the expenses recognized pursuant to SFAS 123(R) in 2006 only.
(8) See the table captioned 2006 All Other Compensation below for greater detail.
(9) Relates to a grant of 80,000 stock appreciation right units on April 5, 2006 to purchase up to 40,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.
(10) Relates to a grant of 150,000 stock appreciation right units on April 5, 2006 to purchase up to 75,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.
(11) Relates to a grant of 60,000 stock appreciation right units on April 5, 2006 to purchase up to 30,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.
(12) Relates to a grant of 20,000 stock appreciation right units on April 5, 2006 to purchase up to 10,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.
(13) Relates to a grant of 40,000 stock appreciation right units on April 5, 2006 to purchase up to 20,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.
(14) Relates to a grant of 20,000 stock appreciation right units on April 5, 2006 to purchase up to 10,000 shares of our common stock pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.

2006 All Other Compensation

The following table sets forth all other compensation awarded to, earned by or paid to each of our Named Executive Officers during fiscal year 2006.

Name	Israeli Social Benefits ($) (1)	Car Allowance ($) (2)	Education Fund ($) (3)	Vacation (4)	Social Security Payments (5)	Disability Insurance Payments (6)	Other (7)	Total ($)
Eliyahu Ayalon	46,557	27,198	26,195	11,264	5,386	8,609	1,484	126,693
Inon Beracha	15,525	8,233	8,342		3,142	801	713	36,756
Tal Simchony	27,652	14,530	15,039	8,496	4,937	1,203	595	72,452
Boaz Edan	21,283	18,886	11,976	687	5,386	1,209	1,539	60,966
Dror Levy	21,940	10,658	8,535	9,428	5,386	734	1,540	58,221
Eli Fogel	20,326	16,685	11,436	13,493	5,386	765	1,309	69,400
Moshe Zelnik	18,998	9,022	10,689		5,386	2,684	1,540	48,319

(1) Based on Israeli labor laws, an Israeli employee is entitled to severance pay upon termination of employment by the employer for any reason, including retirement, based on the most recent monthly base salary of such employee multiplied by the number of years of employment of such employee. We make a payment of 8.333% of each employee s monthly base salary to an insurance fund to pay for this future liability payable to our employees upon termination of their employment. In addition, we make a payment of 5% of each employee s monthly base salary to another insurance fund, which accrued amount may be withdrawn by the employee after retirement or, subject to various tax restrictions in Israel, after leaving our employment. The amounts represent the above referenced contributions we made on behalf of each of the Named Executive Officers in 2006.

(2) We generally provide all of our Israeli employees with a car for business-related purposes and pay the associated expenses.

(3) As is customary in Israel applicable to all Israeli employees, we provide our Israeli employees with a certain amount of monthly contributions (7.5% of their base salary) for the benefit of each employee s study and training purposes, which amounts contributed by us to each of the Named Executive Officers in 2006 are as specified.

(4) Represents the dollar value of the difference between the vacation days to which the Named Executive Officer is entitled in 2006 and the vacation days used by such Named Executive Officer in 2006.

(5) Represents payments we made to the Israeli government that the employees will receive in the event of unemployment or other disability.

(6) As is customary in Israel, we make a payment of up to 2.5% of each employee s monthly base salary to cover employer liability associated with employment disability.

(7) Represents tax reimbursements and convalescence pay.

2006 Grants of Plan Based Awards

The following table sets forth each equity award granted to our Named Executive Officers during fiscal year 2006.

Name	Grant Date	Approval Date	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#) (1)	Exercise or Base Price of Option Awards ($/Sh)	Closing Price on Grant Date ($/Sh)	Grant Date Fair Value of Stock and Option Awards (2)
Eliyahu Ayalon	4/5/06	4/5/06					80,000	$ 28.59	$ 28.59	$ 742,702
Inon Beracha										
Tal Simchony	4/5/06	4/5/06					150,000	$ 28.59	$ 28.59	$ 1,392,567
Boaz Edan	4/5/06	4/5/06					60,000	$ 28.59	$ 28.59	$ 557,027
Dror Levy	4/5/06	4/05/06					20,000	$ 28.59	$ 28.59	$ 166,662
Eli Fogel	4/5/06	4/5/06					40,000	$ 28.59	$ 28.59	$ 371,351
Moshe Zelnik	4/5/06	4/5/06					20,000	$ 28.59	$ 28.59	$ 183,676

(1) Represents grants of stock appreciation right units made pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan. Stock appreciation rights granted to our executive officers generally vest as to 25% of the grant on the first anniversary of the grant date with the remaining stock appreciation rights vesting quarterly over the next three years and expiring seven years from the date of grant. Stock appreciation rights granted to our Chief Executive Officer vest as to 25% of the grant on the grant date with the remaining stock appreciation rights vesting annually over the next three years and expiring seven years from the date of grant. All stock appreciation rights have a ceiling of 200%. When the vested stock appreciation rights are exercised, the number of underlying shares that may be received upon exercise cannot exceed 50% of the number of stock appreciation right units granted.

(2) Represents the fair value of the stock appreciation rights as of the date they were granted, computed in accordance with SFAS 123(R) but disregarding adjustments for forfeiture assumptions.

Outstanding Equity Awards at Fiscal Year-End 2006

The following table sets forth information concerning unexercised options held by each of our Named Executive Officers as of December 31, 2006. None of our Named Executive Officers had any stock awards outstanding at fiscal year-end 2006.

	Option Awards				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date
Eliyahu Ayalon	125,000(1)(3)			24.16	12/4/2010
	55,000(1)(3)	55,000(1)(3)		23.88	7/4/2012
	20,000(2)(4)	60,000(2)(4)		28.59	4/5/2013
Inon Beracha					
Tal Simchony	150,000(2)(4)			28.59	4/5/2013
Boaz Edan	44,280(1)(3)			35.17	4/17/2007
	12,500(1)(3)			17.82	2/4/2009
	35,725(1)(3)	9,375(1)(3)		16.79	1/22/2010
	56,252(1)(3)	18,748(1)(3)		24.16	12/4/2010
	16,875(1)(3)	37,125(1)(3)		23.88	7/4/2012
		60,000(2)(4)		28.59	4/5/2013
Dror Levy	2087(1)(3)			13.35	8/26/2009
	636(1)(3)			11.48	10/30/2009
	17,500(1)(3)	3,750(1)(3)		22.42	5/13/2010
	4,688(1)(3)	10,312(1)(3)		23.88	7/4/2012
		20,000(2)(4)		28.59	4/5/2013
Eli Fogel	5,625(1)(3)	5,625(1)(3)		21.80	7/11/2010
	73,125(1)(3)	16,875(1)(3)		24.40	7/21/2010
	8,438(1)(3)	18,562(1)(3)		23.88	7/4/2012
		40,000(2)(4)		28.59	4/5/2013
Moshe Zelnik	37,954(1)(3)			35.17	4/17/2007
	9,375(1)(3)	3,125(1)(3)		16.79	1/22/2010
	5,625(1)(3)	12,375(1)(3)		23.88	7/4/2012
	15,000(1)(3)	5,000(1)(3)		24.16	12/4/2010
		20,000(2)(4)		28.59	4/5/2013

(1) The stock options were granted pursuant to our Amended and Restated 1991 Employee and Consultant Stock Plan, Amended and Restated 2001 Stock Incentive Plan and Amended and Restated 2003 Israeli Share Incentive Plan.

(2) The stock appreciation rights were granted pursuant to our Amended and Restated 2003 Israeli Share Incentive Plan.

(3) Stock options granted to our executive officers generally vest as to 25% of the grant on the first anniversary of the grant date with the remaining options vesting quarterly over the next three years and expiring seven years from the grant date. Stock options previously granted to our Chief Executive Officer vest as to 25% of the grant on the grant date with the remaining options vesting annually over the next three years and expiring seven years from the grant date.

(4) Stock appreciation rights granted to our executive officers generally vest as to 25% of the grant on the first anniversary of the grant date with the remaining stock appreciation rights vesting quarterly over the next three years and expiring seven years from the date of grant. Stock appreciation rights granted to our Chief Executive Officer vest as to 25% of the grant on the

grant date with the remaining stock appreciation rights vesting annually over the next three years and expiring seven years from the date of grant. All stock appreciation rights have a ceiling of 200%. When the vested stock appreciation rights are exercised, the number of underlying shares that may be received upon exercise cannot exceed 50% of the number of stock appreciation right units granted.

(5) All stock options and stock appreciation rights were granted at fair market value on the grant date.

(6) All stock options and stock appreciation rights have a maximum term of seven years.

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2006 Option Exercises and Stock Vested

The following table sets forth information concerning any option exercises and the number of shares acquired on vesting by each of our Named Executive Officers during fiscal year 2006. None of our Named Executive Officers has received any stock awards and therefore no shares were acquired upon vesting of any stock awards.

	Option Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise
Name	(#) (1)	($) (2)
Eliyahu Ayalon	412,500	3,974,655
Inon Beracha	60,000	260,382
Tal Simchony		
Boaz Edan	108,214	1,093,740
Dror Levy	15,206	134,692
Eli Fogel	18,750	108,513
Moshe Zelnik	59,640	593.795

(1) Reflects exercise of stock options received pursuant to our Amended and Restated 2001 Stock Incentive Plan and Amended and Restated 2003 Israeli Share Incentive Plan.
(2) The value realized on exercise represents the difference between the exercise price and the market price of the common stock on the date of exercise.

Nonqualified Deferred Compensation

We do not provide any nonqualified defined contribution or other deferred compensation plans to our Named Executive officers.

Employment Agreements

Each of our Named Executive Officers has a written employment agreement with us.

In April 1996, Mr. Ayalon entered into an employment agreement with DSP Group, Ltd., our wholly-owned subsidiary in Israel (DSP Israel), pursuant to which Mr. Ayalon was to serve as our President and Chief Executive Officer. The term of the agreement is indefinite. Effective January 1, 2003, Mr. Ayalon s annual salary was increased to $350,000, subject to adjustment from time to time. Mr. Ayalon is also entitled to an annual bonus, the amount of which is determined in the sole discretion of the board. The agreement may be terminated by us or Mr. Ayalon, without cause, upon a six-month advance written notice. Mr. Ayalon s employment agreement was amended in November 1997 to provide for the following: (i) Mr. Ayalon s base compensation shall be fixed at the commencement of each year, but shall not be subject to reduction during the term of the agreement, (ii) if Mr. Ayalon terminates the agreement without good reason or if we terminate the agreement for cause, then no further payments shall be made to Mr. Ayalon pursuant to the agreement and he shall be subject to a one-year prohibition against competition in addition to the customary prohibitions against disclosure of trade secrets, (iii) upon our change of control or if the agreement is terminated by Mr. Ayalon for good reason or by us without cause, then all rights of Mr. Ayalon under the agreement would continue for two years and all options held by Mr. Ayalon shall accelerate and immediately vest and be exercisable in whole or in part at any time during the remaining two-year term of the agreement, and (iv) in the event of death or permanent disability of Mr. Ayalon, all options shall accelerate and immediately vest. The board further amended Mr. Ayalon s agreement in November 1999 to provide that if Mr. Ayalon terminates the agreement voluntarily at any time, provided that he gives a 12-months advance written notice, then all rights of Mr. Ayalon under the agreement would continue during the notice period and for two years and all options held by Mr. Ayalon shall be fully vested six months after the date of the notice. Additionally, these amendments provide that all vested options

held by Mr. Ayalon upon the date of his cessation of employment with us for any reason shall be exercisable for a period of two years.

In February 2006, Mr. Simchony entered into an employment agreement with DSP Israel, pursuant to which Mr. Simchony was to serve as our President. Pursuant to the Agreement, Mr. Simchony is entitled to an annual salary of $220,000, subject to adjustment from time to time. Mr. Simchony also is entitled to an annual bonus, the amount of which is determined in the sole discretion of the board. Mr. Simchony is employed at will. However, if we wish to terminate his employment but fails to provide him with a three-month advance written notice, Mr. Simchony would be entitled to receive an amount equal to three-months of his then-effective salary. Further, if Mr. Simchony s employment is terminated for specified reasons (as defined in the employment agreement), in accordance with Israeli law, he would be entitled to a severance pay of one month for each year of employment. Mr. Simchony s employment agreement does not provide for any additional compensation in the event of termination of his employment or the change in control of our company.

In May 1999, Mr. Edan entered into an employment agreement with DSP Israel, pursuant to which Mr. Edan was to serve as our Vice President of Operations. As of October 2002, Mr. Edan became our Chief Operating Officer and his annual salary was increased to $160,000, subject to adjustment from time to time. The term of the agreement is indefinite. Mr. Edan also is entitled to an annual bonus, the amount of which is determined in the sole discretion of the board. The agreement may be terminated by us or Mr. Edan upon a 90-days advance written notice. However, we have the right to terminate Mr. Edan s employment without prior notice. In such a case, Mr. Edan shall be paid the amount due to him under the prior notice period at the rate of his then current salary for such period. In July 2003, we agreed to amend all of Mr. Edan s outstanding option agreements to provide that in the event of his termination by us without cause, all of his options would vest upon termination and could be exercised for a period of two years following termination. Also, in the event Mr. Edan s employment was terminated because of his death or permanent disability, all of his options would accelerate and immediately vest.

In June 2002, in connection with Mr. Levy s initial employment as our Controller, he entered into an employment agreement with DSP Israel. No further agreement was entered into with Mr. Levy when he became our Chief Financial Officer. The agreement currently provides for a fixed monthly salary of NIS 45,000 (approximately U.S. $10,000), subject to adjustment from time to time. Mr. Levy also is entitled to an annual bonus, the amount of which is determined in the sole discretion of the board. Mr. Levy is employed at will. However, if we wish to terminate his employment but fails to provide him with a one-month advance written notice, Mr. Levy would be entitled to receive an amount equal to one-months of his then-effective salary. Further, if Mr. Levy s employment is terminated for specified reasons (as defined in the employment agreement), in accordance with Israeli law, he would be entitled to a severance pay of one month for each year of employment. Mr. Levy s employment agreement does not provide for any additional compensation in the event of termination of his employment or the change in control of our company.

In July 2003, Mr. Fogel entered into an employment agreement with DSP Israel, pursuant to which Mr. Fogel was to serve as our Senior Vice President and Chief Technology Officer. Mr. Fogel became an executive officer in January 2005. The term of the agreement is indefinite. Effective July 2003, Mr. Fogel s annual salary is $147,000, subject to adjustment from time to time. Mr. Fogel also is entitled to an annual bonus, the amount of which is determined in the sole discretion of the board. The agreement may be terminated by us or Mr. Fogel upon two-month advance written notice. However, if we wish to terminate his employment but fails to provide him with a two-month advance written notice, Mr. Fogel would be entitled to receive an amount equal to two-months of his then-effective salary. Further, if Mr. Fogel s employment is terminated for specified reasons (as defined in the employment agreement), in accordance with Israeli law, he would be entitled to a severance pay of one month for each year of employment. Mr. Fogel s employment agreement does not provide for any additional compensation in the event of termination of his employment or the change in control of our company.

Potential Payments Upon Termination or Change of Control

The following table sets forth the amount of compensation to each of Messrs. Ayalon, Edan, Simchony, Levy and Fogel in the event termination of such executive officer s employment or a change in control of our company occurred as of December 31, 2006.

Name: Eliyahu Ayalon	Termination for Cause ($)	Voluntary Termination by Employee After Provision of Requisite Notice ($)	Termination upon Death of Employee ($)	Termination w/o Cause or for Good Reason ($)	Upon a Change in Control ($)
Base Salary		951,801		951,801	951,801
Vested and Unvested Options (1)					
Accrued Vacation Pay	12,014	12,014	12,014	12,014	12,014
Total	12,014	963,815	12,014	963,815	963,815

(1) As of December 29, 2006 (the last trading day of fiscal 2006), Mr. Ayalon had no in-the-money options outstanding.

Name: Boaz Edan	Termination for Cause ($)	Termination by Company After Provision of Requisite Notice ($)	Termination by Company w/o Provision of Requisite Notice ($)	Termination upon Death of Employee ($)	Termination w/o Cause ($)
Base Salary			40,000		
Vested and Unvested Options (1)	223,910(2)	223,910(2)	223,910(2)	269,941(3)	269,941(3)
Accrued Vacation Pay	732	732	732	732	732
Total	224,642	224,642	264,642	224,642	224,642

(1) The value realized is based on the difference between the exercise price of the stock options and the closing price of our common stock on December 29, 2006 (the last trading day of fiscal 2006).
(2) The value realized includes only the vested stock options.
(3) The value realized includes vested options and unvested stock options upon acceleration.

Name: Tal Simchony	Termination for Cause ($)	Termination After Provision of Requisite Notice ($)	Termination w/o Provision of Requisite Notice ($)	Termination upon Death of Employee ($)
Base Salary			55,000	
Vested Options (1)				
Accrued Vacation Pay	9,062	9,062	9,062	9,062
Total	9,062	9,062	64,062	9,062

(1)

Mr. Simchony had no vested stock options as of December 31, 2006, and he does not receive any acceleration of his stock options upon termination of his employment.

Name: Dror Levy	Termination for Cause ($)	Termination After Provision of Requisite Notice ($)	Termination w/o Provision of Requisite Notice ($)	Termination upon Death of Employee ($)
Base Salary			10,651	
Vested Options (1)	23,926	23,926	23,926	23,926
Accrued Vacation Pay	9,945	9,945	9,945	9,945
Total	33,871	33,871	44,522	33,871

(1) The value realized is based on the difference between the exercise price of the stock options and the closing price of our common stock on December 29, 2006 (the last trading day of fiscal 2006). Mr. Levy does not receive any acceleration of his stock options upon termination of his employment.

Name: Eli Fogel	Termination for Cause ($)	Termination After Provision of Requisite Notice ($)	Termination w/o Provision of Requisite Notice ($)	Termination upon Death of Employee ($)
Base Salary			26,578	
Vested Options				
Accrued Vacation Pay	14,232	14,232	14,232	14,232
Total	14,232	14,232	40,810	14,232

(1) The value realized is based on the difference between the exercise price of the stock options and the closing price of our common stock on December 29, 2006 (the last trading day of fiscal 2006). Mr. Fogel does not receive any acceleration of his stock options upon termination of his employment.

DIRECTOR COMPENSATION

We use a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on our board. In setting director compensation, we consider the significant amount of time that directors expend in fulfilling their duties to the company as well as the skill-level we require of members of our board. We do not currently have a minimum share ownership requirement for our directors.

Cash Compensation Paid to Board Members

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.

Stock Option Program

Each of our non-employee 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 to purchase 30,000 shares of our common stock on the date on which he first becomes a director (the First Option). Thereafter, each non-employee director is granted a subsequent option to purchase 15,000 shares of our common stock 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 to purchase 15,000 shares of our common stock (a Committee Option) is granted on January 1 of each year to each non-employee director for each committee of the board on which he shall have served as a chairperson for at least six months.

The following table sets forth the compensation paid to each of our non-employee directors during fiscal year 2006.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($) (1)	Total ($)
Zvi Limon (2)	40,000		181,979	221,979
Yair Seroussi (3)	39,000		90,990	129,990
Yair Shamir (4)	40,000		181,979	221,979
Louis Silver (5)	34,000		181,979	215,979
Patrick Tanguy (6)	39,000		90,990	129,990

(1) Represent the fair value of the stock option as of the date it was granted, computed in accordance with SFAS 123(R), disregarding adjustments for forfeiture assumptions. The amounts shown above represent the expenses recognized pursuant to SFAS 123(R) in 2006 only.

(2) On January 1, 2006, Mr. Limon was granted a Subsequent Option (15,000) and a Committee Option (15,000), each at an exercise price of $25.06 per share under the 1993 Director Stock Option Plan. As of December 31, 2006, Mr. Limon had outstanding stock options to purchase 219,317 shares of our common stock.

(3) On January 1, 2006, Mr. Seroussi was granted a Subsequent Option (15,000) at an exercise price of $25.06 per share under the 1993 Director Stock Option Plan. As of December 31, 2006, Mr. Seroussi had outstanding stock options to purchase 85,303 shares of our common stock.

(4) On January 1, 2006, Mr. Shamir was granted a Subsequent Option (15,000) and a Committee Option (15,000), each at an exercise price of $25.06 per share under the 1993 Director Stock Option Plan. As of December 31, 2006, Mr. Shamir had outstanding stock options to purchase

112,651 shares of our common stock.

(5) On January 1, 2006, Mr. Silver was granted a Subsequent Option (15,000) and a Committee Option (15,000), each at an exercise price of $25.06 per share under the 1993 Director Stock Option Plan. As of December 31, 2006, Mr. Silver had outstanding stock options to purchase 147,507 shares of our common stock.

(6) On January 1, 2006, Mr. Tanguy was granted a Subsequent Option (15,000) at an exercise price of $25.06 per share under the 1993 Director Stock Option Plan. As of December 31, 2006, Mr. Tanguy had outstanding stock options to purchase 123,256 shares of our common stock.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We have entered into indemnification agreements with each of our directors and executive officers. Such agreements require us to indemnify such individuals to the fullest extent permitted by Delaware law.

All transactions between us and our officers, directors, principal stockholders and affiliates have been and will be approved by a majority of our board of directors, including a majority of our disinterested, non-employee directors on the board, and have been or will be on terms no less favorable to us than could be obtained from unaffiliated third parties.

Review, Approval or Ratification of Transactions with Related Persons

We have adopted a written policy regarding related person transactions which is incorporated in the Charter of the Audit Committee. Pursuant to this policy, our Audit Committee must review and approve any such transactions.

PROPOSAL NO. 2

RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

Our audit committee has selected Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global) as our auditors for the current fiscal year, subject to ratification by our stockholders at the annual meeting. We expect a representative of Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global) to be present at the annual meeting to respond to appropriate questions and to make a statement if he or she so desires.

Neither our bylaws nor other governing documents or law require stockholder ratification of the selection of Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global) as our independent auditors. However, the audit committee of the board of directors is submitting the selection of Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global) to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the audit committee of the board of directors will reconsider whether or not to retain that firm. Even if the selection is ratified, the audit committee of the board of directors in its discretion may direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

In connection with the audit of the 2006 financial statements, we entered into an engagement agreement with Kost Forer Gabbay & Kasierer which set forth the terms by which Kost Forer Gabbay & Kasierer will perform audit services for us. That agreement is subject to alternative dispute resolution procedures and an exclusion of punitive damages.

Required Vote

The affirmative vote of the holders of a majority of the shares of our common stock present or represented at the annual meeting is required to approve the ratification of the selection of Kost Forer Gabbay & Kasierer as our independent auditors for fiscal year 2007. Abstentions will have the same effect as no votes on this proposal, whereas broker non-votes will have no effect.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE SELECTION OF KOST FORER GABBAY AND KASIERER.

Report of the Audit Committee of the Board of Directors

Notwithstanding anything to the contrary set forth in any of the Company s previous filings under the Securities Act of 1933, as amended (the Securities Act) or the Exchange Act of 1934, that might incorporate future filings, including this proxy statement, with the Securities and Exchange Commission, in whole or in part, the following report shall not be deemed to be incorporated by reference into any such filings, nor shall the following report be deemed to be incorporated by reference into any future filings under the Securities Act or the Exchange Act.

The audit committee is directly responsible for the appointment, compensation, retention and oversight of the Company s independent auditors. Additionally, the audit committee must approve all audit and non-audit services performed by the Company s independent auditors. Furthermore, the audit committee is responsible for reviewing and evaluating the Company s accounting principles and the Company s system of internal accounting controls. Management is responsible for the financial reporting process, including the system of internal controls and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. The Company s independent auditors, Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, are responsible for auditing those financial statements. However, the members of the audit committee are not professionally engaged in the practice of accounting or auditing and are not experts in the fields of accounting or auditing. The audit committee relies, without independent verification, on the information provided to the committee and on the representations made by management and the independent auditors.

The audit committee hereby reports as follows:

1. The audit committee has reviewed and discussed the audited financial statements with the Company s management and Kost Forer Gabbay & Kasierer, the Company s independent auditors.

2. The audit committee has discussed with Kost Forer Gabbay & Kasierer (a) their judgments as to the quality of the Company s accounting policies, and (b) the matters required to be discussed with the committee under auditing standards generally accepted in the United States, including Statement on Auditing Standards No. 61, Communication with Audit Committees.

3. The audit committee met with management periodically during the year to consider the adequacy of the Company s internal controls and the quality of its financial reporting and discussed these matters with the Company s independent auditors and with appropriate Company financial personnel and internal auditors.

4. The audit committee discussed with the Company s senior management, Kost Forer Gabbay & Kasierer and internal auditors the process used for the Company s Chief Executive Officer and Chief Financial Officer to make the certifications required by the Securities and Exchange Commission and the Sarbanes-Oxley Act of 2002 in connection with the Annual Report on Form 10-K and other periodic filings with the Commission.

5. The audit committee has received the written disclosures and the letter from Kost Forer Gabbay & Kasierer required by Independence Standards Board Standard No. 1 (Independence Discussions with audit committees). The audit committee considered whether the audit and non-audit services provided by Kost Forer Gabbay & Kasierer were compatible with maintaining its independence from the Company. Based on discussions with Kost Forer Gabbay & Kasierer, the audit

committee determined that the audit and non-audit services provided to the Company by Kost Forer Gabbay & Kasierer were compatible with maintaining the independence of Kost Forer Gabbay & Kasierer.

6. Based on the reviews and discussions referred to in paragraphs (1) through (5) above, the audit committee recommended to the Company s board of directors, and the board approved, the audited financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, that was filed with the Securities and Exchange Commission on March 16, 2007.

7. The audit committee has also recommended the selection of Kost Forer Gabbay & Kasierer and, based on the committee s recommendation, the board of directors has selected Kost Forer Gabbay & Kasierer as the Company s independent auditors for the fiscal year ending December 31, 2007. The board of directors is submitting the selection of Kost Forer Gabbay & Kasierer to the stockholders for ratification.

Submitted by the audit committee:

Zvi Limon

Yair Seroussi

Yair Shamir

Patrick Tanguy

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

Kost Forer Gabbay & Kasierer performed services for us in fiscal years 2005 and 2006 related to financial statement audit work, quarterly reviews, Forms S-8 reviews, tax services, special projects and other ongoing consulting projects. Fees paid to Kost Forer Gabbay & Kasierer in fiscal years 2005 and 2006 were as follows:

	2005	2006
Audit Fees (1)	$ 172,000	$ 196,500
Audit-Related Fees (2)	$ 16,000	$ 15,500
Tax Fees (3)	$ 31,000	$ 24,000
All Other Fees (4)	$ 7,000	$ 500

(1) Audit fees represent fees for the audit of consolidated financial statements for the fiscal years ended December 31, 2006 and December 31, 2005 and the review of financial statements included in our quarterly reports on Form 10-Q.

(2) Audit-related fees represent fees for professional services provided in connection with the audit of our annual financial statements and review of our quarterly financial statements, advice on accounting matters that arose during the provision of the audit services.

(3) Tax fees represent fees for professional services provided in connection with the preparation of our Israeli tax returns and advisory services for other tax compliance matters.

(4) All other fees represent fees for professional services associated with the approved enterprise status of our Israeli subsidiary.

The audit committee approved 100% of the above set forth fees in 2005 and 2006.

Audit and Non-Audit Services Pre-Approval Policy

Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by Kost Forer Gabbay & Kasierer, our independent auditors, must be approved in advance by the audit committee to assure that such services do not impair the auditors   independence from the company. In January 2004, the audit committee adopted an audit and non-audit services pre-approval policy which sets forth the procedures and conditions pursuant to which audit and non-audit services to be performed by the independent auditors are to be pre-approved. Pursuant to the policy, certain services or category of services described in detail in the policy may be pre-approved generally on an annual basis together with pre-approved maximum fee levels for such services. The services eligible for annual pre-approval consist of audit services, audit-related services, tax services and other services. If not pre-approved on an annual basis, proposed services must otherwise be separately approved prior to being performed by the independent auditors. The audit committee may also pre-approve particular services on a case-by-case basis. In addition, any services that receive annual pre-approval but exceed the pre-approved maximum fee level also will require separate approval by the audit committee prior to being performed. The audit committee may delegate authority to pre-approve audit and non-audit services to any member of the audit committee, but may not delegate such authority to management. Our independent auditors and Chief Financial Officer are required to periodically report to the audit committee regarding the extent of services provided by the independent auditors in accordance with the pre-approval policy and the fees for the services performed to date.

STOCKHOLDER PROPOSALS

Requirements for Stockholder Proposals to Be Brought Before an Annual Meeting and Considered for Inclusion in our Proxy Materials. Pursuant to Rule 14a-8 under the Exchange Act and the Company s bylaws, stockholder proposals intended for consideration by the Company for presentation and inclusion in its proxy materials for the annual meeting of stockholders to be held in 2008 must be received by Dror Levy, Secretary, DSP Group, Inc., 3120 Scott Boulevard, Santa Clara, California 95054, no later than December 12, 2007 in order to be considered for inclusion in our proxy materials for that meeting.

Discretionary Authority. The proxies to be solicited by our board of directors for the 2008 annual meeting will confer discretionary authority on the proxy holders to vote on any stockholder proposal presented at such annual meeting if we fail to receive notice of such stockholder s proposal for the meeting by February 25, 2008.

OTHER MATTERS

Annual Report

Our annual report for the fiscal year ended December 31, 2006 has been mailed concurrently with the mailing of these proxy materials to all stockholders entitled to notice of, and to vote at, the annual meeting.

Form 10-K

Our annual report on Form 10-K for the fiscal year ended December 31, 2006 is included in the annual report for the fiscal year ended December 31, 2006, which is mailed concurrently with the mailing of these proxy materials. Upon written request to our Secretary, Dror Levy, at the address of our principal executive offices, the exhibits set forth on the exhibit index of the Form 10-K may be made available at a reasonable charge.

Householding of Annual Meeting Materials

In December 2000, the Securities and Exchange Commission adopted new rules that permit us to send a single set of annual reports and proxy statements to any household at which two or more stockholders reside if we believe they are members of the same family. Each stockholder will continue to receive a separate proxy card. Upon request to our Secretary, Dror Levy, at the address of our principal executive offices or by phone at (408) 986-4300, you may revoke your decision to household, and we will deliver a separate copy of the annual report or proxy statement, as applicable, to you at the shared address within 30 days of your request.

A number of brokerage firms have already instituted householding. If your family has multiple accounts of our stock, you may have received householding notification from your broker. Please contact your broker directly if you have questions, require additional copies of the proxy statement or annual report, or wish to revoke your decision to household, and thereby receive multiple reports.

Other Matters

Our board of directors knows of no other business which will be presented at the annual meeting. If any other business is properly brought before the annual meeting, it is intended that proxies in the enclosed form will be voted in respect thereof in accordance with the judgments of the proxy holders.

It is important that the proxies be returned promptly and that your shares are represented. Stockholders are urged to mark, date, execute and promptly return the accompanying proxy card in the enclosed envelope.

By Order of the Board of Directors,

/s/ Eliyahu Ayalon
Eliyahu Ayalon
Chief Executive Officer

April 2, 2007

Santa Clara, California

THIS PROXY IS SOLICITED ON BEHALF OF

THE BOARD OF DIRECTORS OF DSP GROUP, INC.

FOR THE 2007 ANNUAL MEETING OF STOCKHOLDERS

The undersigned stockholder of DSP GROUP, INC., a Delaware corporation (the Company), hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders and Proxy Statement, each dated April 2, 2007, the Company s Annual Report for the year ended December 31, 2006 and the Company s Annual Report on Form 10-K for the year ended December 31, 2006 and hereby appoints Eliyahu Ayalon and Dror Levy, or either of them, proxies, with full power to each of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the 2007 Annual Meeting of Stockholders of the Company to be held on Monday, May 14, 2007, at 10:00 a.m., local time, at Marriott Marquis, 1535 Broadway, New York City, New York, and at any postponement or adjournment thereof, and to vote all shares of common stock of the Company which the undersigned would be entitled to vote if then and there personally present, on the matters set forth below.

THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED FOR (1) THE ELECTION OF THE CLASS I DIRECTORS AND (2) THE RATIFICATION OF THE SELECTION OF KOST FORER GABBAY & KASIERER AS INDEPENDENT AUDITORS, AND AS SAID PROXIES DEEM ADVISABLE ON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING.

1. ELECTION OF THE DIRECTORS:

FOR the nominees listed below (except as indicated)	WITHHOLD AUTHORITY to vote for the nominees listed below

If you wish to withhold authority to vote for the following nominees, strike a line through such nominee s name listed below.

Eliyahu Ayalon

Zvi Limon

Louis Silver

2. PROPOSAL TO RATIFY THE SELECTION OF KOST FORER GABBAY & KASIERER AS THE COMPANY S INDEPENDENT AUDITORS FOR FISCAL 2007:

_________ FOR _________ AGAINST _________ ABSTAIN

The undersigned acknowledges receipt of the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement.

DATED: ____________________
________, 2007

(Signature)

(Signature)

This Proxy should be marked, dated and signed by the stockholder(s) exactly as his or her name appears hereon, and returned promptly in the enclosed envelope. Persons signing in a fiduciary capacity should so indicate. If shares are held by joint tenants or as community property, both should sign.