CEVA INC
Form 10-K
March 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2005

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period _____ to_____

Commission File Number: 000-49842

_____

CEVA, INC.

(Exact name of registrant as specified in its charter)

_____

Delaware	**77-0556376**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2033 Gateway Place, Suite 150,
San Jose, California 95110-1002
(Address of Principal Executive Offices)(Zip Code)

(408) 514-2900
(Registrant s telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value per share	**NASDAQ NATIONAL MARKET**

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ý Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

As of June 30, 2005, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $110,047,249 based on the closing sale price as reported on the National Association of Securities Dealers Automated Quotation System National Market System. Shares of common stock held by each officer, director, and holder of 5% or more of the outstanding common stock of the Registrant have been excluded from this calculation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at March 7, 2006
Common Stock, $0.001 par value per share	**19,126,449 shares**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 23, 2006 (the 2006 Proxy Statement) are incorporated by reference into Item 5 of Part II and Items 10, 11, 12, 13, and 14 of Part III.

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FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Annual Report contains forward-looking statements that involve risks and uncertainties, as well as assumptions that if they materialize or prove incorrect, could cause the results of CEVA to differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Forward-looking statements are generally written in the future tense and/or are preceded by words such as will, may, should, could, expect, suggest, believe, intend, plan, or other similar words. Forward-looking statements include the following:

- Our belief that Digital Signal Processing (DSP) is one of the fastest-growing sectors of the semiconductor industry;

- Our belief that the semiconductor intellectual property (SIP) is a relatively new and emerging trend that continues to gain momentum;

- Our belief that given the complexity of applications for DSPs, there is increasing industry shift away from the traditional approach of licensing standalone DSPs, and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications, and that we are well positioned to take full advantage of these trends;

- Our anticipation that our future products will enable true mobile multimedia integration into cellular handsets and the possible inclusion of technologies, such as WiFi and VoIP, into these products, and our belief that these features will provide the desired flexibility for wireless semiconductors;

- Our belief that our advances in video technology, high-end audio technologies and home entertainment applications will contribute to our growth in future periods;

- Our expectation that we typically launch each new core, platform or solution upgrade with a signed license agreement with a blue-chip customer; and

- Our anticipation that our current cash on hand, short term deposits and marketable securities, along with cash from operations, will provide sufficient capital to fund our operations for at least the next 12 months.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this report are based on information that is currently available to us and expectations and assumptions that we deem reasonable at the time the statements were made. We do not undertake any obligation to update any forward-looking statements in this report or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and

with the recognition that these forward-looking statements may not be complete or accurate at a later date.

Many factors may cause actual results to differ materially from those expressed or implied by the forward-looking statements contained in this report. These factors include, but are not limited to, those risks set forth in Item 1a: Risk Factors.

This report contains market data prepared by third parties, including Gartner-Dataquest, Forward Concepts Semico Research Corp and the Semiconductor Industry Association. Actual market results may differ from the projections of such organizations. This report includes trademarks and registered trademarks of CEVA. Products or service names of other companies mentioned in this Annual Report on Form 10-K may be trademarks or registered trademarks of their respective owners.

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The financial information in this annual report includes the results of CEVA, Inc. and its subsidiaries (the Company or CEVA). CEVA (formerly known as ParthusCeva) was formed through the combination of Parthus Technologies plc and CEVA in November 2002. For periods prior to November 1, 2002, the financial data of CEVA present the financial position, results of operations and cash flows of the licensing business and operations of DSP Group, Inc. (DSPG), which have been carved out from the financial statements of DSPG using the historical results of operations and historical bases of the assets and liabilities of the DSPG business that it comprises. The consolidated financial data for the years 2001-2002 reflect the assets, liabilities, results of operations, changes in stockholders equity and cash flows (the Company s Business) as if CEVA and its subsidiaries had been a separate entity for those periods presented. Unless otherwise indicated, the financial information in this annual report includes the results of the business of Parthus Technologies plc only for the period following the combination on November 1, 2002.

Our website address is www.ceva-dsp.com. Copies of our filings with the Securities and Exchange Commission (SEC) are made available on our website as soon as practicable after filing and are also available at the SEC s website, www.sec.gov.

PART I

Item 1. Business

Company Overview

Headquartered in San Jose, California, CEVA is the leading licensor of digital signal processor (DSP) cores, multimedia, GPS and storage platforms to the semiconductor industry. For more than twelve years, CEVA has been licensing DSP cores and platforms intellectual property (IP) to leading semiconductor and electronics companies worldwide.

We license a family of programmable DSP cores, DSP-based subsystems and application-specific platforms including multimedia, audio, Voice over Packet (VoP), GPS location, Bluetooth, Serial Attached SCSI and Serial ATA (SATA).

We license our technology as Intellectual Property (IP) to leading electronics companies, which in turn manufacture, market and sell application-specific integrated circuits (ASICs) and application-specific standard products (ASSPs) based on CEVA technology to systems companies for incorporation into a wide variety of end products. Our IP is primarily deployed in high volume markets, including wireless handsets (e.g. cellular baseband and multimedia solutions), portable multimedia (e.g. portable video players and portable audio players), home entertainment (e.g. DVD), storage markets (e.g. hard disk drives) and communications markets (e.g. high-speed serial storage).

Our revenue mix contains IP licensing fees, per-unit royalties and support fees. We have built a strong network of licensing partners who rely on our technology to deploy their silicon solutions. Today our technologies are widely licensed and power some of the world s leading wireless and consumer electronics brands including Atmel, Broadcom, Eo*N*ex, Freescale, Fujitsu, Hitachi, Infineon, Macronix, Marvell, Maxim, National Semiconductor, nVidia, Oki, Philips, Renesas, ROHM, Samsung, Sharp, Silicon Laboratories, Sony, Spreadtrum, STMicroelectronics, Thomson, VIA, Zoran and more. In 2005 our licensees shipped over 115 million CEVA-powered chips, an increase of 8% over 2004 shipments of 106 million units.

CEVA was created through the combination of the DSP IP licensing division of DSPG and Parthus Technologies plc in November 2002. We have over 200 employees worldwide, with research and development facilities in Israel, Ireland and the United Kingdom, and sales and support offices throughout Europe, Asia, Israel and the United States. CEVA is traded on both the NASDAQ (CEVA) and London Stock Exchange (CVA).

Industry Background

Digital Signal Processor(DSP) Cores

Digital Signal Processing (DSP) is one of the fastest-growing sectors of the semiconductor industry. DSP is fundamental to all communication (wireless, broadband, Voice over Internet Protocol (VoIP)), and to all digital multimedia processing (audio, video, image). For example, in wireless, DSP converts an analog signal, such as the human voice, to digital form, before being transferred through an air-interface, and converts that digital form back to an analog signal on the receiving side. DSPs power the communication and multimedia functions of a wide array of devices, including the baseband modems of cellular phones, digital multimedia signals for many devices including cellular phones, portable multimedia players, camcorders and digital still cameras. Digital Signal Processing techniques are also widely used in applications such as digital DVDs/DVRs, HDTVs, set-top boxes, and the hard disk drives used for PCs and consumer electronic devices.

As the number of electronic devices that require the processing of digital data has grown, so has the demand for reliable and ever more sophisticated DSP cores and associated algorithms built around them. Analyst firm Forward Concepts forecasts total DSP semiconductor shipments will grow at a compound annual growth rate (CAGR) of

18.9% from $7.8 billion in 2005 to $18.5 billion in 2009.

Semiconductor Intellectual Property (SIP)

The demand for wireless devices and multimedia applications has grown substantially in recent years. As consumers demand electronic products with more connectivity, portability and capability, semiconductor manufacturers face ever growing pressure to make smaller, feature-rich integrated circuits that are more reliable, less

expensive and have greater performance, all in the face of decreasing product lifecycles and constrained battery power.

While semiconductor manufacturing processes have advanced significantly to allow a substantial increase in the number of circuits placed on a single chip, design capabilities resources have not kept pace with the advances in this technology resulting in a growing design gap between their increasing manufacturing potential and restrained design capabilities. To address this design gap, many semiconductor designers and manufacturers are increasingly choosing to license proven intellectual property (IP), such as processor cores (including DSPs), memory and application-specific platforms, from third party SIP companies rather than to develop those technologies in-house.

CEVA Business

CEVA addresses the requirements of the embedded communications and multimedia markets by designing and licensing programmable DSP cores, DSP-based subsystems, application-specific platforms, and range of software components which enable the rapid design of DSP-based chips or application-specific solutions for developing a wide variety of applications. Our offerings include a family of programmable DSP cores with a range of cost, power-efficiency and performance points; DSP-based subsystems (the essential hardware components integrated with the DSP core to form a System-on-Chip (SoC) design); and a portfolio of application platforms, including multimedia, audio, Voice over Packet (VoP), location-based GPS, Bluetooth, Serial Attached SCSI and Serial ATA (SATA). Our services division assists our customers in the deployment of their CEVA-based solutions. In addition we offer design services to our customers.

Given the complexity of applications for DSPs, there is increasing industry shift away from the traditional approach of licensing standalone DSPs, and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications. With more complex designs and shorter design cycles it is no longer cost efficient and becoming progressively more difficult for most semiconductor companies and designers to develop the technology in-house. Therefore, companies increasingly rely on licensing other intellectual property, such as DSP cores, from third parties like CEVA. Such business models also enable semiconductor companies to further enhance their open-architecture-based offerings with complementary products, available through a third-party community of developers, such as CEVAnet, CEVA s third-party network.

IP Business Model

Our objective is that our CEVA DSP cores become the DSP-of-choice in the embedded DSP market. To enable this goal, we have and continue to license on a worldwide basis to semiconductor and system OEM companies that design, manufacture and source CEVA-based solutions combined with their own differentiating technology. We believe our business model offers us some key advantages. By not focusing on manufacturing or selling of silicon products, we are free to widely license our technology, and free to focus most of our resources on research and development and DSP technologies. By choosing to license the programmable DSP core, manufacturers can achieve the advantage of creating their own differentiated solutions, and develop their own unique product roadmaps. Through our extensive licensing, we have established a worldwide community developing CEVA-based solutions, and therefore we can leverage their strengths, customer relationships, proprietary technology advantages, and existing sales and marketing infrastructure. In addition, as our intellectual property is widely licensed and deployed, system OEM companies can obtain CEVA-based chips from a wide range of suppliers, thus reducing dependence on any one supplier, fostering price competition which thereby helps contain the cost of CEVA-based products.

We operate a licensing and per-unit royalty business model. We typically charge a license fee for access to our technology, and a royalty fee for each unit of silicon which incorporates our technology. License fees are invoiced in accordance with contract terms. Royalties are invoiced one quarter in arrears and are generally a percentage of the sales price of the CEVA-based silicon product or a fixed unit rate.

Strategy

We believe the industry is indicating a clear shift in customer preference away from the traditional approach of licensing standalone DSPs, and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications. We believe that the growth in the demand for these platforms will drive demand for our technology. As CEVA offers expertise developing these complete solutions in a number of key growth markets including mobile multimedia, audio and GPS, we believe we are well positioned to take full advantage of these major industry shifts. To do so we intend to:

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Continue to develop and enhance our range DSP Cores and associated subsystem. We seek to enhance our existing family of DSP cores and SoC platforms with additional features, performance and capabilities.

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Continue to develop and enhance our range of complete and highly-integrated application-specific platforms. We intend to continue developing our integrated IP solutions which combine application-specific software and dedicated logic such as video, audio and VOIP built around our DSP cores, and deliver to our licensing partners as a complete and verified system solution.

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Capitalize on our relationships and leadership. We seek to expand our worldwide community of semiconductor and system OEM licensees who are developing CEVA-based solutions.

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Capitalize on our IP licensing and royalty business model. We seek to maximize the advantages of our IP model which we believe is the best vehicle for pervasive adoption of our technology. Furthermore, by not having to focus on manufacturing or selling of silicon products, we are free to focus most of our resources on research and development.

Products

We are the leading licensor of DSP cores and communication solutions to the semiconductor industry. We offer a family of programmable DSP cores, associated sub systems platforms and a portfolio of application platforms including multimedia, audio, Voice over Packet (VoP), GPS location, Bluetooth, Serial Attached SCSI and Serial ATA (SATA). Our services division assists our customers in the deployment of their CEVA-based solutions.

The diagram below illustrates how our portfolio of cores, system-platforms and systems-solutions integrate into a typical system-on-chip.

CEVA DSP Cores

We market a family of synthesizable programmable DSP cores, each delivering a different balance of performance, power dissipation and cost, allowing customers to select a core ideally suited to their target application. The ability to match processing power to the application is an important consideration when designers select a DSP supplier. Our family of cores is largely software compatible, meaning that software from one core can be applied to another which significantly reduces investment in code development, tools and designer training.

Our current portfolio of programmable DSP cores includes:

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CEVA-X CEVA-X is a scalable VLIW-SIMD DSP architecture delivering very high levels of performance at low power consumption. Uniquely, CEVA-X is designed as a multipurpose architecture allowing multiple derivative cores with the optimal performance/price/power point requirements to multiple markets such as 2.5G/3G multimedia phones, PDAs, digital cameras and camcorders, DTV, Set-top boxes and HD-DVD. CEVA-X combines extendibility the architecture can be extended with user-defined instruction sets with scalability, supporting between 2 to 8 MAC units as well as additional computational resources and memory bandwidth. CEVA-X enables licensees to efficiently develop software using high-level languages such as C and C++ which reduces the cost of development.

CEVA-X1620, the first implementation of the CEVA-X architecture family, is a 16/32 bit data width, dual MAC DSP with four 40-bit arithmetic units. The CEVA-X1620 can run up to 8 instructions simultaneously and up to 20 SIMD operations at any given cycle. Demonstration CEVA-X1620 silicon runs at 400Hz (TSMC 0.13µ). CEVA-X1620 is complemented by a Development Platform and Software Development Kit (SDK). All components of CEVA-X tools are developed in-house by CEVA to deliver optimal performance.

CEVA-X Markets: 3G wireless, portable multimedia video & audio processing, and home entertainment (Digital TV,HDTV, PVR, HD-DVD).

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CEVA-Teak CEVA-Teak is a 16-bit fixed-point general-purpose DSP core. Its dual MAC architecture features high-performance and bandwidth for complex signal processing implementations. Its capabilities to run up to 4 instructions simultaneously while using only a single 16-bit instruction word make it ideal for portable multimedia and wireless communication markets.

CEVA-Teak Markets: 2.5/3G wireless, portable multimedia, portable audio players, digital still cameras, and VoIP.

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CEVA-TeakLite-II CEVA-TeakLite-II is a single Multiply-Accumulate (MAC) 16-bit fixed point DSP core. The core extends the architecture of CEVA-TeakLite and CEVA-Oak, the most established and successful DSP cores to date in CEVA s DSP family. CEVA-TeakLite-II achieves a performance increase compared to its predecessor core, and delivers higher-level of integration in a small silicon die size. CEVA-TeakLite-II is positioned to meet high volume, but very cost sensitive markets such as 2G/2.5G wireless handsets, portable media players, hard disk drives, optical drives, and digital cordless phones. CEVA-TeakLite-II is fully compatible to both CEVA-TeakLite and CEVA-Oak DSPs at assembly and binary levels, which reduces our customers software development costs.

CEVA-TeakLite-II Markets: 2/2.5G wireless, portable audio players, VoIP phones, and hard disk drives.

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CEVA-TeakLite CEVA-TeakLite is a single Multiply-Accumulate (MAC) 16-bit fixed point DSP core. The TeakLite core is the most established and successful DSP core in CEVA s DSP family with over 600 million chips powered by CEVA-TeakLite shipped to date. CEVA-TeakLite is positioned to meet high volume, but very cost sensitive markets such as 2G/2.5G wireless handsets, portable audio players, hard disk drives, optical drives, and home entertainment and communication devices. CEVA-TeakLite is fully compatible to the legacy CEVA-Oak DSP at assembly and binary levels which reduces our customers software development costs.

CEVA-TeakLite Markets: 2/2.5G wireless, portable audio players, VoIP phones, hard disk drives, and hearing aids.

We deliver our technology in two ways: either in the form of a mask-level chip layout (called a hard core), or in the form of a hardware description language definition (known as a soft core or a synthesizable core). All CEVA DSP cores are soft cores that can be manufactured on any process using any physical library, and all are accompanied by a complete set of tools and an integrated development environment. An extensive third-party network supports CEVA DSP cores with a wide range of complementing software and platforms. In addition, we provide the necessary Development Boards, Software Development Tool kits and software debug tools, which facilitate system design, debug and software development.

CEVA Sub System Platforms

Designers today face escalating design costs and shrinking design timelines combined with ever decreasing probability of right-first-time silicon. To further reduce the cost, complexity and associated risk in bringing products to market, CEVA has developed a range of sub system platforms which combine selected hardware peripherals which are essential to designers deploying CEVA DSP cores. Our sub system platforms contain a collection of peripherals such as on-chip data and program memory controllers, high-performance DMA controller, Buffered Time Division Multiplexing Port (BTDMP), high-throughput Host Processor Interface (HPI), and Power management unit. These hardware platforms are designed to be easily integrated into existing System-on-Chips (SoCs), providing standard protocols and interfaces such as AHB and APB bridges for Host-DSP efficient communications.

Our family currently includes four System-on-Chip (SoC) platforms:

- **CEVA-XS1100** a low-power, highly-integrated SoC platform, designed to ease the development and integration process and further reduce development costs and time-to-market for CEVA-X DSP-based 3G wireless baseband designs. The CEVA-XS1100 exploits multiple innovative power-saving techniques such as system modules active only when needed, level-two memory architecture and caching, adjustable DSP system speed, decentralized interconnect topology and selective hardware/software wake-up events. The CEVA-XS1100 includes a complete set of DSP peripherals and interfaces, such as an Interrupt Controller, Power Management Unit, Timers and General Purpose I/Os, and provides easy means of connectivity to other systems present on chip.

  CEVA-XS1100 Markets: 3G Wireless Modems.

- **CEVA-XS1200** a low-power, highly-integrated SoC platform, designed to ease the development and integration process and further reduce development costs and time-to-market for CEVA-X DSP-based designs. The CEVA-XS1200 platform is based on the CEVA-XS1100 system platform and enhanced with a programmable 3D DMA co-processor and glue-less TDM ports. This provides designers with the ability to target high-performance applications, such as Multimedia, Communications, VoIP, Storage and more.

  CEVA-XS1200 Markets: 3G wireless applications, portable multimedia players, home entertainment and high fidelity audio systems, and VoIP multi channel applications.

- **Xpert-TeakLite-II** a complete, low power, low cost, programmable DSP subsystem, designed for the embedded application markets. It includes configurable cached program memory, and direct program and data memories, high performance Direct Memory Access (DMA) controller, Buffered Time Division Multiplexing Port (BTDMP), Host processor interface unit (PIU), standard AMBA bridges (AHB & APB), optional Ethernet MAC, and more.

  Xpert-TeakLite-II Markets: 2G/2.5G wireless applications, portable multimedia players, consumer/professional audio, and VoIP, VoCable, VoDSL and VoFTTH applications.

- **Xpert-Teak** a complete DSP subsystem for low-power, low-cost SoC designs targeted at applications such as wireless baseband and portable multimedia markets. Xpert-Teak includes multiple hardware peripherals and incorporates on-chip data and program memories, high-performance DMA controller, Buffered Time Division

Multiplexing Port (BTDMP), high-throughput Host Processor Interface (HPI), and other peripherals.

Xpert-Teak Markets: 2/2.5G wireless applications, image and video processing, consumer/professional audio, and VoIP, VoCables andVoDSL applications.

CEVA Application Platforms

CEVA Application Platforms consist of a family of application-specific full system solutions. Platforms typically integrate a CEVA DSP core, hardware subsystem and application-specific (e.g. video processing) software and logic. Our family of platforms spans multimedia (audio, video, image), voice (VoIP) location (GPS), Bluetooth and high-speed serial communications (SATA, SAS). CEVA IP Platforms fundamentally reduce the complexity, cost of ownership, and time-to-market for products developed utilizing the platforms.

- **CEVA-Audio** a high performance, low-power audio platform for consumer devices. CEVA-Audio is a fully synthesizable soft IP, operating at up to 200MHz, and built around a small DSP core and cache memory subsystem. With overall die size of less than two square mm, and 0.1 mW/MHz for stereo MP3 decoder (using TSMC 0.13u G process), it supports all of the industry standard audio and speech codecs, including MP3, WMA, AAC, HE-AAC, Ogg Vorbis, BSAC, NB-AMR and WB-AMR.

  CEVA-Audio Markets: portable audio players, cellular handsets and home entertainment systems.

- **CEVA Mobile-Media2000** a flexible, integrated software based solution, combining audio, video, voice and imaging functions at extremely low power consumption and at a small die size. Programmable for a wide range of multimedia standards, resolutions and frame rates, the CEVA Mobile-Media2000 solution allows licensees to re-target a single silicon platform for any multimedia processing requirements, thus negating the need for costly, time-consuming silicon re-spins.

  CEVA Mobile-Media2000 solution is a hardware and software solution. The hardware part includes the high performance CEVA-X1620 DSPcore, the CEVA-XS1200 subsystem platform. The software part is a collection of industry standard video and audio codes such as H.264 decoder and encoder, MPEG4 decoder and encoder, MP3 AMR and more. The video codes of MobileMedia2000 make use of CEVA-patented FST technology that allow high resolution video (DVD quality) to be processed fully in software over a low cost and low power DSP.

  Mobile-Media2000 Markets: high-end feature phones, smartphones and portable multimedia devices.

- **CEVA-VoP** is a complete platform enabling a wide range of cost-sensitive Voice over Internet Protocol (VoIP) products targeting residential and enterprise telecom markets. Based on CEVA's XpertTeakLite-II™, the CEVA-VoP platform is a complete hardware and software solution that can be deployed as a subsystem in an integrated networking and VoP SoC. The platform integrates the widely adopted, programmable CEVA-TeakLite-II™ DSP core, with added hardware peripherals capable of handling multiple, simultaneous, packet-voice channels on a single core. The solution includes all required DSP software, such as speech compression and decompression, echo cancellation, telephony functions, and signaling/networking. The software is open, allowing design licensees to add proprietary algorithms and broaden the use of the design for other markets or applications.

  CEVA-VoP Markets: residential and consumer Voice over Packet (e.g. VoIP).

- **CEVA-GPS** a complete GPS platform delivering precise location information (less than five meters within five seconds) to any device, including mobile phones, personal digital assistants (PDAs) and GPS-enabled vehicles, anywhere in the world. The highly integrated solution incorporates GPS logic and GPS software stacks. The solution supports all cellular air interfaces standards (CDMA, GSM/GPRS/EDGE, WCDMA/UMTS, Flash OFDM).

  CEVA-GPS Markets: Wireless handsets, personal digital assistants (PDAs), telematics and automotive.

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CEVA-Bluetooth a flexible, silicon-proven Bluetooth platform containing all the required deliverables for OEM, semiconductor, ASIC, and fabless customers to rapidly design Bluetooth® technology into their ASICs and ASSPs. The platform is designed to accelerate Bluetooth deployment and reduce time-to-certification and time-to-revenue. It complies fully with Bluetooth version 1.2 and implements all mandatory and optional features. The complete solution includes: Bluetooth baseband RTL, Bluetooth protocol stack and full Bluetooth profile support.

CEVA-Bluetooth Markets: Wireless handsets, smartphones/PDAs, cordless phones, wireless PBX, and Bluetooth headsets.

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CEVA-SATA a complete, verified Serial ATA licensable solution combining a SATA 1.5Gbps PHY or SATA 3.0Gbps PHY with a Link/Transport/Command Protocol stack, and is fully compliant to the Serial ATA Revision 2.5 specification. The SATA PHY is supplied in the form of a GDSII hard macro with simulation models and physical views. The SATA Protocol (PHY Control, Link, Transport and Command/DMA layers) is delivered in the form of an RTL package, and supported by a comprehensive test bench environment plus physical design scripts for realization on the target semiconductor processes.

CEVA-SATA Markets: Storage, set-top boxes, PVR, and HD-DVD.

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CEVA-SAS a complete hardware/software solution for integrating SAS into a storage IC, spanning from an API interface at the customer s RAID stack software down to the physical serial interface at the wire. The solution is offered in a flexible integration format that allows customers to license the entire solution or just the protocol or PHY elements. The comprehensive list of features includes support for both Initiator and Target modes, SCSI SBC-2 End-to-End Protection (DIF), Narrow/Wide Ports, Scalable Context Management, Enhanced Open/Close/Retry Connection Management. Further, employing the mature and die-efficient CEVA-TeakLite-II DSP core for executing the associated embedded software, CEVA-SAS delivers a highly optimized solution for integration, with significant work offloaded from the IO Processor.

CEVA-SAS Markets: High end enterprise storage.

CEVA Services

CEVA Services is the consulting and integration services division of CEVA that helps customers move efficiently and effectively from IP to silicon and provides support services. Exploiting our unique knowledge in signal processing and communications, our services division helps to reduce the cost and time-to-market for customers advanced SoC solutions for wireless, digital multimedia, communications and storage markets. Hard IP is the incorporation of intellectual property into reference designs (either as silicon chips or printed circuit boards).

Principal Markets

We target our portfolio of DSP cores, system and application platforms at eight principal markets:

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Wireless Handsets

CEVA is the world s leading licensor of DSP technology to the wireless industry. Hundreds of millions of cellphones have deployed CEVA technology. Today six (6) of the world s top ten wireless handset companies utilize the ultra power efficient high-performance CEVA DSP cores. With complete solutions spanning Modem and Application Processing platforms, GPS and Bluetooth technologies, the portfolio of CEVA IP greatly accelerate time-to-market, functionality and performance of next generation handsets.

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Portable Multimedia Players

CEVA s portable multimedia solutions integrate a DSP core, system platform and comprehensive software codecs that support all industry audio, video and imaging standards in a silicon proven platform. Architected for ultra low-power, minimal memory requirements and highest levels of resolution, the solutions offer the industries only complete software programmable multimedia platform.

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Portable Audio

CEVA offers a complete, highly-integrated, low-power, low-cost audio platform for consumer devices, including wireless handsets, portable audio players and home entertainment systems. CEVA-Audio™ combines several CEVA-developed technologies including CEVA-TeakLite-II™, the new and enhanced version of the widely-adopted

CEVA-TeakLite™ DSP core, a cache memory subsystem, audio peripherals, a comprehensive set of audio codecs and complete tool chain support.

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Home Entertainment

CEVA is a leader in application and multimedia solutions targeting a broad range of digital and home entertainment products such as set-top boxes, Digital TVs and audio receivers. CEVA enables the home entertainment industry with a range of DSP cores providing storage, automotive, telecom networking and location solutions.

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Storage

CEVA technologies are incorporated annually in tens of millions of disk drives, DVD players and recorders. CEVA technologies are chosen for a combination of high-performance with small die size and low power consumption. CEVA storage offerings include DSP cores for magnetic and optical drive controllers as well as high speed serial comms, including SATA and SAS (system interconnects through physical and transport and link layers).

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Automotive

Innovation in today s vehicles is principally driven by microelectronics spanning diverse areas such as navigation, wireless communication, handsfree systems, multimedia entertainment and digital radio. CEVA provides a portfolio of connectivity, multimedia, GPS and Blueotth solutions, powered by CEVA DSPs, for next generation telematic applications.

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Telecom/Networking

CEVA provides Networking and Telecommunications semiconductor vendors a broad range of solutions targeting IP-phones, Residential Gateways and high-speed serial communication. Complete VoIP, Giga Ethernet and Serdes silicon verified solutions from CEVA are architected to reduce the cost and time-to-market for Telecom and Networking products.

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Location

Leveraging over twenty (20) years experience, CEVA markets the world s most advanced GPS solution in the industry. CEVA GPS solution is defined by its unique deep indoor tracking sensitivity, pinpoint accuracy and near instant time-to-first-fix. CEVA s Location Solution supports all wireless interfaces including both synchronous and asynchronous networks, and supported by silicon and reference designs.

Customers and Geographical Areas

We have licensed our DSP cores, DSP-based subsystems and application-specific platforms to leading semiconductor companies throughout the world. These companies incorporate our IP into application-specific chips or custom-designed chips that they manufacture, market and sell to original equipment manufacturers (OEMs) of a variety of electronic products. We also license our DSP cores and DSP-based subsystems and application-specific platforms to OEMs directly. Included among our licensees are the following customers; Atmel, Broadcom, Eo*N*ex, Freescale, Fujitsu, Hitachi, Infineon, Macronix, Marvell, Maxim, National Semiconductor, nVidia, Oki, Philips, Renesas, ROHM, Samsung, Sharp, Silicon Laboratories, Sony, Spreadtrum, STMicroelectronics, Thomson, VIA, Zoran and more. The majority of our licenses have royalty components, of which twenty three (23) were producing royalty revenues at the end of 2005. One customer accounted for 10% of our total revenues in 2005. The identity of our greater-than-10% customers varies from period to period, and we do not believe that we are materially dependent on any one specific customer. Information on the geographic breakdown of our revenues and location of our long-lived assets is contained in Note 8 to our consolidated financial statements, which appear elsewhere in this annual report.

Sales and Marketing

We license our technology through a direct sales force. As of December 31, 2005, we had 20 employees in sales and marketing. We have sales offices and representation in 13 locations worldwide.

Maintaining close relationships with our customers is a central part of our strategy. We typically launch each new core, platform or solution upgrade with a signed license agreement with a blue-chip customer, which helps ensure that we are clearly focused on viable applications that meet broad industry needs. Staying close to our customers and

strengthening these relationships is a significant part of our strategy. It allows us to create a roadmap for the future development of existing cores and application platforms, and it helps us to anticipate the next potential applications for the market. We seek to use these relationships to deliver new products in a faster time to market.

We use a variety of marketing initiatives to stimulate demand and brand awareness in our target markets. These marketing efforts include contacts with industry analysts, presenting at key industry trade shows and conferences and posting information on our website. Our marketing group runs competitive benchmark analyses to help us maintain our competitive position.

Technical Support

We offer technical support services through our offices in Israel, Ireland, the United Kingdom, Asia Pacific and the United States. Our technical support services include:

- assistance with implementation, responding to customer-specific inquiries, training and, when and if they become available, distributing updates and upgrades of our products;

- application support, consisting of providing general hardware and software design examples, ready-to-use software modules and guidelines to our licensees to assist them in using our technology; and

- design services, consisting of creating customer-specific implementations of our DSP cores and application platforms.

We believe that our technical support services are key factors in our licensees ability to embed our cores and platforms in their designs and products. Our technology is highly complex, combining sophisticated DSP cores architecture, integrated circuit designs and development tools. Effective customer support is critical in helping our customers to implement our solutions and helps to shorten the time to market for their applications. Our support organization is made up of experienced engineers and professional support personnel. We conduct detailed technical training for our licensees and their customers and meet with them on a regular basis to closely track the implementation of our technology.

Research and Development

Our research and development team is focused on improving and enhancing our existing products as well as developing new products to broaden our offering and market opportunity. These efforts are largely driven by current and anticipated customer needs.

Our research and development and customer technical support teams consist of 158 engineers working in six development centers located in Israel, Ireland, and the United Kingdom. This team consists of engineers who possess significant experience in developing DSP cores and solutions. In addition, we engage third party contractors with specialized skills sets as required to support our research and development. Our research and development expenses, net of related research grants, were approximately $17 million in 2003 and 2004 and approximately $20 million in 2005.

We encourage our research and development personnel to maintain active roles in the various international organizations that develop and maintain standards in the electronics and related industries. This involvement allows us to influence the development of new standards; keeps us informed as to important new developments regarding standards; and allows us to demonstrate our expertise to existing and potential customers who also participate in these standards-setting bodies.

Competition

The markets in which we operate are intensely competitive. They are subject to rapid change and are significantly affected by new product introductions. We compete with other suppliers of licensed DSP cores and solutions. We believe that the principal competitive elements in our field are processor performance, overall system cost, power

consumption, flexibility, reliability, software availability, ease of implementation, customer support and reputation gained in over 12 years of successful DSP deployment. We believe that we compete effectively in each of these areas, but can offer no assurance that we will have the financial resources, technical expertise, and marketing or support capabilities to compete successfully in the future.

The market is dominated by large, fully integrated semiconductor companies that have significant brand recognition, a large installed base and a large network of support and field application engineers. We face direct and indirect competition from:

- Intellectual Property vendors that offer programmable DSP cores;
- Intellectual Property vendors of general purpose processors with DSP extensions;
- internal design groups of large chip companies that develop proprietary DSP solutions for their own application-specific chips; and
- semiconductor companies that offer off-the-shelf programmable DSP chips.

We face direct competition mainly from various private intellectual property companies such as StarCore, a venture formed by Infineon Technologies, Agere Systems and Freescale. In addition, some large chip manufacturing companies such as ZSP, a division of LSI Logic, make their proprietary DSP technology available for license to create a second source for their technology.

In recent years, we have also faced competition from companies that offer microcontroller/microprocessor intellectual property. These companies products are used for control and system functions in various applications, including personal digital assistants and video games. Embedded systems typically incorporate both microprocessors responsible for system management and a programmable DSP that is responsible for communication and video/audio/voice compression. Recently, companies such as ARC, ARM Holdings, MIPS, and Tensilica have added a DSP extension to their products in addition to the microcontroller functions, which may successfully compete with our designs in applications that involve low-to-moderate DSP performance requirements.

With respect to certain large potential customers, we also compete with internal engineering teams, which may design programmable DSP core products in-house. These companies, which include Fujitsu, Philips and Renesas, both license our designs for some applications and use their own proprietary cores for other applications. In the future, such companies may also choose to license their proprietary DSP cores to third parties and, as a result, become direct competitors.

We also compete indirectly with several general-purpose semiconductor companies, such as , Analog Devices, Freescale and Texas Instruments. OEMs may prefer to buy general-purpose chips from large, established semiconductor companies rather than license our products. In addition, these companies are major competitors of many of the semiconductor companies that license our technologies. It is also possible that in the future these companies may choose to license their proprietary DSP cores to third parties and compete directly with us.

Aside from the in-house research and development groups, we do not compete with any individual company across the range of our market offerings. Within particular market segments, however, we do face competition to a greater or lesser extent from other industry participants. For example, in the following specific areas we compete with the companies indicated:

- in the GPS market with Global Locate, SiRF, e Ride and Snaptrack;
- in the multimedia market with ARM, Hantro, StarCore LLC and Sci-Worx;
- in the serial storage technology area with ARM, Synopsys and Silicon Image;
- in Voice-over-IP applications with MIPS Technologies, ARM, LSI Logic and StarCore LLC; and
- in Audio applications with ARM, Tensilica and Arc.

Proprietary Rights

Our success and ability to compete are dependent on our ability to develop and maintain the proprietary aspects of our intellectual property and to operate without infringing the proprietary rights of others. We rely on a combination of patent, trademark, trade secret and copyright laws and contractual restrictions to protect the proprietary aspects of our technology. These legal protections afford only limited protection of our technology. We also seek to limit disclosure of our intellectual property and trade secrets by requiring employees and consultants with access to our proprietary information to execute confidentiality agreements with us and by restricting access to our source code and other intellectual property. Due to rapid technological change, we believe that factors such as the technological and creative skills of our personnel, new product developments and enhancements to existing products are more important than specific legal protections of our technology in establishing and maintaining a technology leadership position.

We have an active program to protect our proprietary technology through the filing of patents. Our patents relate to our DSP cores, DSP subsystems and Platform technologies. We hold thirty nine (39) patents in the United States and twelve (12) patents in the EMEA (Europe, Middle East and Africa) region with expiration dates between 2013 and 2023. We have twenty two (22) patent applications pending in the United States, ten (10) pending patent applications in the EMEA region and six (6) pending patent applications in Asia Pacific (APAC).

We actively pursue foreign patent protection in other countries where we feel it is prudent to do so. Our policy is to apply for patents or for other appropriate statutory protection when we develop valuable new or improved technology. The status of patents involves complex legal and factual questions, and the breadth of claims allowed is uncertain. Accordingly, we cannot be assured that any patent application filed by us will result in a patent being issued, or that our issued patents, and any patents that may be issued in the future, will afford adequate protection against competitors with similar technology; nor can we be assured that patents issued to us will not be infringed or that others will not design around our technology. In addition, the laws of certain countries in which our products are or may be developed, manufactured or sold may not protect our products and intellectual property rights to the same extent as the laws of the United States. We can provide no assurance that our pending patent applications or any future applications will be approved or will not be challenged by third parties, that any issued patents will effectively protect our technology, or that patents held by third parties will not have an adverse effect on our ability to do business.

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. Questions of infringement in the semiconductor field involve highly technical and subjective analyses. Litigation may in the future be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. We cannot assure you that we would be able to prevail in any such litigation, or be able to devote the financial resources required to bring such litigation to a successful conclusion.

In any potential dispute involving our patents or other intellectual property, our licensees could also become the targets of litigation. We are generally bound to indemnify licensees under the terms of our license agreements. Although our indemnification obligations are generally subject to a maximum amount, these obligations could nevertheless result in substantial expenses. In addition to the time and expense required for us to indemnify our licensees, a licensee s development, marketing and sale of products embodying our solutions could be severely disrupted or shut down as a result of litigation.

We also rely on trademark, copyright and trade secret laws to protect our intellectual property. We have applied for the registration in the United States of our trademark in the name CEVA and the related CEVA logo, and currently market our DSP cores and other technology offerings under this trademark.

Employees

The table below presents the number of employees of CEVA as of December 31, 2005, by function and geographic location.

	Number
Total employees	**209**
Function	
Research and development	149
Sales and marketing	20
Technical support	9
Administration	31
Location	
Israel	104
Ireland	55
United Kingdom	23

United States	15
Elsewhere	12

Our employees are not represented by any collective bargaining agreements, and we have never experienced a work stoppage. We believe our employee relations are good.

A number of our employees are located in Israel. Certain provisions of Israeli law and of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (the Israeli federation of employers organizations) apply to our Israeli employees.

In 2004, we finalized and adopted a new Code of Business Conduct and Ethics regarding the standards of conduct of our directors, officers and employees and the Code is available on our website at www.ceva-dsp.com.

Corporate History

Our company was incorporated in Delaware on November 22, 1999 under the name DSP Cores, Inc. It changed its name to ParthusCeva, Inc. in November 2002 and to CEVA, Inc. in December 2003. Further details are contained in Item 7.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available, free of charge, on our website at www.ceva-dsp.com, as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission and are also available of the SEC s website at www.sec.gov.

Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Item 1a. Risk Factors

We caution you that the following important factors, among others, could cause our actual future results to differ materially from those expressed in forward-looking statements made by or on behalf of us in filings with the Securities and Exchange Commission, press releases, communications with investors and oral statements. Any or all of our forward-looking statements in this annual report, and in any other public statements we make, may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make in our reports filed with the Securities and Exchange Commission.

The markets in which we operate are highly competitive, and as a result we could experience a loss of sales, lower prices and lower revenue.

The markets for the products in which our technology is incorporated are highly competitive; for example, semiconductor customers may choose to adopt a multi-chip, off-the-shelf chip solution versus licensing or using highly integrated chips that embed our technologies. Aggressive competition could result in substantial declines in the prices that we are able to charge for our intellectual property. Many of our competitors are large companies that have significantly greater financial and other resources than we have. The following factors may have an impact on our competitiveness:

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Microprocessor IP providers, such as ARM , MIPS , Tensilica , ARC, recently began to offer DSP extensions to their IP.

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SATA IP market is highly standardized with several vendors offering similar products, leading to price pressure for both licensing and royalty revenue.

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Our video solution is software based and competes with hardware implementation offered by companies such as Hantro and other software solution offered by Hantro, Sci Works offered by ARM and StarCore cores.

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Our GPS solution competes with IP offerings from companies such as SiRF, eRIDe, UnAV. Theses companies offer chips in addition to IP which could provide customers with shorter time to market through a discrete chip-set solution which can later be integrated with the rest of the chips.

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We also lack RF design expertise needed for further development of GPS applications.

In addition, we may face increased competition from smaller, niche semiconductor design companies in the future. Some of our customers may also decide to satisfy their needs through in-house design. We compete on the basis of price, product quality, design cycle time, reliability, performance, customer support, name recognition and reputation, and financial strength. Our inability to compete effectively on these basis could have a material adverse effect on our business, results of operations and financial condition.

Our quarterly operating results fluctuate from quarter to quarter due to a variety of factors, including our lengthy sales cycle, and may not be a meaningful indicator of future performance.

In some quarters our operating results could be below the expectations of securities analysts and investors, which could cause our stock price to fall. Factors that may affect our quarterly results of operations in the future include, among other things:

- the timing of the introduction of new or enhanced technologies by us and our competitors, as well as the market acceptance of such technologies;
- the timing and volume of orders and production by our customers, as well as fluctuations in royalty revenues resulting from fluctuations in unit shipments by our licensees;
- our lengthy sales cycle;
- the gain or loss of significant licensees;
- delays in the commercialization of end products that incorporate our technology;
- changes in our pricing policies and those of our competitors; and
- restructuring, asset impairment and related charges.

We rely significantly on revenue derived from a limited number of customers.

We expect that a limited number of customers, varying in identity from period-to-period, will account for a substantial portion of our revenues in any period. Our five largest customers accounted for 36% of total revenues in 2005, 46% in 2004 and 39% in 2003. Our five largest customers paying per unit royalties accounted for 73% of total royalty revenues in 2005, 67% in 2004 and 87% in 2003. Moreover, license agreements for our DSP cores have not historically provided for substantial ongoing license payments. Significant portions of our anticipated future revenue, therefore, will likely depend upon our success in attracting new customers or expanding our relationships with existing customers. Our ability to succeed in these efforts will depend on a variety of factors, including the performance, quality, breadth and depth of our current and future products, as well as our sales and marketing skills. In addition, some of our licensees may decide to satisfy their needs through in-house design and production. Our failure to obtain future customer licenses would impede our future revenue growth and could materially harm our business.

We depend on market acceptance of third-party semiconductor intellectual property.

The semiconductor intellectual property (SIP) industry is a relatively new and emerging trend. Our future growth will depend on the level of acceptance by the market of our third-party licensable intellectual property model, the variety of intellectual property offerings available on the market, and a shift in customer preference away from the traditional approach of licensing standalone DSPs, and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications. These trends that will enable our growth are largely beyond our control. Semiconductor customers may choose to adopt a multi-chip, off-the-shelf chip solution versus licensing or using highly integrated chips that embed our technologies. Semiconductor customers may also decide to design programmable DSP core products in-house rather than license them from us. If the market shifts and third-party SIP is no longer desired by our customers, our business, results of operations and financial condition could be materially harmed.

Because our IP solutions are components of end products, if semiconductor companies and electronic equipment manufacturers do not incorporate our solutions into their end products or if the end products of our customers do not achieve market acceptance, we may not be able to generate adequate sales of our products.

We do not sell our IP solutions directly to end-users; we license our technology primarily to semiconductor companies and electronic equipment manufacturers, who then incorporate our technology into the products they sell. As a result, we rely upon our customers to incorporate our technology into their end products at the design stage. Once our customer incorporates a competitor s technology into its end product, it become significantly more difficult for us to sell our technology to that customer because changing suppliers involves significant cost, time, effort and risk for the customer. As a result, we may incur significant expenditures on the development of a new

technology without any assurance that our customer will select our technology for incorporation into its own product and without this design win, it becomes significantly difficult to sell our IP solutions. Moreover, even after our customer agrees to incorporate our technology into its end products, the design cycle is long and may be delayed due to factors beyond our control which may result in the end product incorporating our technology not to reach the market until long after the initial design win with the our customer. From initial product design-in to volume production, many factors could impact the timing and/or amount of sales actually realized from the design-in. These factors include, but are not limited to, changes in the competitive position of our technology, our customers financial stability, and our ability to ship products according to our customers schedule.

Further, because we do not control the business practices of our customers, we do not influence the degree to which they promote our technology or set the prices at which they sell products incorporating our technology. We cannot assure you that our customers will devote satisfactory efforts to promote our IP solutions. In addition, our unit royalties from licenses are totally dependent upon the success of our customers in introducing products incorporating our technology and the success of those products in the marketplace. The primary customers for our products are semiconductor design and manufacturing companies, system OEMs and electronic equipment manufacturers, particularly in the telecommunications field. These industries are highly cyclical and have been subject to significant economic downturns at various times. These downturns are characterized by production overcapacity and reduced revenues, which at times may encourage semiconductor companies or electronic product manufacturers to reduce their expenditure on our technology. If we do not retain our current customers and continue to attract new customers, our business may be harmed.

We depend on a limited number of key personnel who would be difficult to replace.

Our success depends to a significant extent upon certain of our key employees and senior management; the loss of the service of these employees could materially harm our business. Competition for skilled employees in our field is intense. We cannot assure you that in the future we will be successful in attracting and retaining the required personnel.

The sales cycle for our IP solutions is lengthy, which makes forecasting of our customer orders and revenues difficult.

The sales cycle for our IP solutions is lengthy, often lasting more than a year. Our customers generally conduct significant technical evaluations, including customer trials, of our technology as well as competing technologies prior to making a purchasing decision. In addition, purchasing decisions may also be delayed because of a customer s internal budget approval process. Because of the lengthy sales cycle and the size of customer orders, if orders forecasted for a specific customer for a particular period do not occur in that period, our revenues and operating results for that particular quarter could suffer. Moreover, a portion of our expenses related to an anticipated order is fixed and difficult to reduce or change, which may further impact our operating results for a particular period.

We may dispose of or discontinue existing product lines and technology developments, which may adversely impact our future results.

On an ongoing basis, we evaluate our various product offerings and technology developments in order to determine whether any should be discontinued or, to the extent possible, divested. For example, in connection with our reorganization and restructuring plans in 2003 and 2005, we ceased manufacturing of our hard IP products and certain non-strategic technology areas. We cannot guarantee that we have correctly forecasted, or will correctly forecast in the future, the right product lines and technology developments to dispose or discontinue or that our decision to dispose of or discontinue various investments, products lines and technology developments is prudent if market conditions change. In addition, there are no assurances that the discontinuance of various product lines will reduce our operating expenses or will not cause us to incur material charges associated with such decision. Furthermore, the discontinuance of existing product lines entails various risks, including the risk that we will not be able to find a purchaser for a

product line or the purchase price obtained will not be equal to the book value of the assets for the product line. Other risks include managing the expectations of, and maintaining good relations with, our customers who previously purchased products from our disposed or discontinued product lines, which could prevent us from selling other products to them in the future. We may also incur other liabilities and costs associated with our disposal or discontinuance of product lines.

Our restructuring efforts in 2003 and 2005 could disrupt the operation of our business, distract our management from focusing on revenue-generating efforts, result in the erosion of employee morale, and impair our ability to respond rapidly to growth opportunities in the future.

We implemented reorganization and restructuring plans in 2003 and 2005, including personnel reduction of 9 people in 2005 and 40 people in 2003. The employee reductions and changes in connection with our restructuring activities could result in an erosion of morale, and affect the focus and productivity of our remaining employees, including those directly responsible for revenue generation, which in turn may adversely affect our revenue in the future. Additionally, employees directly affected by the reductions may seek future employment with our business partners, customers or competitors. Such matters could divert the attention of our employees, including management, away from our operations, harm productivity, harm our reputation and increase our expenses.

Because our IP solutions are complex, the detection of errors in our products may be delayed, and if we deliver products with defects, our credibility will be harmed, the sales and market acceptance of our products may decrease and product liability claims may be made against us.

Our IP solutions are complex and may contain errors, defects and bugs when introduced. If we deliver products with errors, defects or bugs, our credibility and the market acceptance and sales of our products could be significantly harmed. Furthermore, the nature of our products may also delay the detection of any such error or defect. If our products contain errors, defects and bugs, then we may be required to expend significant capital and resources to alleviate these problems. This could result in the diversion of technical and other resources from our other development efforts. Any actual or perceived problems or delays may also adversely affect our ability to attract or retain customers. Furthermore, the existence of any defects, errors or failure in our products could lead to product liability claims or lawsuits against us or against our customers. A successful product liability claim could result in substantial cost and divert management s attention and resources, which would have a negative impact on our financial condition and results of operations.

Our operating results may fluctuate significantly due to the cyclicality of the semiconductor industry, which could adversely affect the market price of our stock.

Our primary operations are in the semiconductor industry, which is cyclical and subject to rapid technological change and evolving industry standards. From time to time, the semiconductor industry has experienced significant downturns such as the one we experienced during the 2000 and 2001 periods and from which the industry is slowly recovering. These downturns are characterized by diminished product demand, excess customer inventories, accelerated erosion of prices and excess production capacity. These factors could cause substantial fluctuations in our revenues and in our results of operations. The downturn we inexperienced during the 2000 and 2001 periods was, and future downturns in the semiconductor industry may be, severe and prolonged. Also the slow recovery from the downturn during the 2000 and 2001 periods and the failure of this industry to fully recover or any future downturn could seriously impact our revenue and harm our business, financial condition and results of operations. The semiconductor industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to ship products in future periods. Our financial results may vary significantly as a result of the general conditions in the semiconductor industry, which could cause our stock price to decline.

Our success will depend on our ability to successfully manage our geographically dispersed operations.

Most of our employees are located in Israel and Ireland. Accordingly, our ability to compete successfully will depend in part on the ability of a limited number of key executives located in geographically dispersed offices to integrate management, address the needs of our customers and respond to changes in our markets. If we are unable to effectively manage and integrate our remote operations, our business may be materially harmed.

Our operations in Israel may be adversely affected by instability in the Middle East region.

One of our principal research and development facilities is located in, and our executive officers and some of our directors are residents of, Israel. Although substantially all of our sales currently are being made to customers outside Israel, we are nonetheless directly influenced by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel could significantly harm our business, operating results and financial condition.

In addition, certain of our officers and employees are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called to active military duty at any time. Although we have operated effectively under these requirements since our inception, we cannot predict the effect of these obligations on the company in the future. Our operations could be disrupted by the absence, for a significant period, of one or more of our key officers or key employees due to military service.

Our research and development expenses may increase if the grants we currently receive from the Israeli and Irish governments are reduced or withheld.

We currently receive research grants from programs of the Chief Scientist of Israel and under the funding programs of Enterprise Ireland and Invest Northern Ireland. We received an aggregate of $574,000, $346,000 and $2.0 million in 2005, 2004 and 2003, respectively. To be eligible for these grants, we must meet certain development conditions and comply with periodic reporting obligations. Although we have met such conditions in the past, should we fail to meet such conditions in the future our research grants may be repayable, reduced or withheld. The repayment or reduction of such research grants may increase our research and development expenses which in turn may reduce our operating income.

We are exposed to fluctuations in currency exchange rates.

A significant portion of our business is conducted outside the United States. Although most of our revenue is transacted in U.S. Dollars, we may be exposed to currency exchange fluctuations in the future as business practices evolve and we are forced to transact business in local currencies. Moreover, a portion of our expenses in Israel and Europe are paid in Israeli currency (NIS) and Euros, which subjects us to the risks of foreign currency fluctuations. Our primary expenses paid in NIS and Euro are employee salaries and lease payments on our Israeli and Dublin facilities. In the future, we may use derivative instruments in order to minimize the effects of currency fluctuations, but any hedging positions may not succeed in minimizing our foreign currency fluctuation risks.

Because we have significant international operations, we may be subject to political, economic and other conditions relating to our international operations that could increase our operating expenses and disrupt our revenues and business.

Approximately 65% of our total revenues in 2005 are derived from license agreements with customers located outside of the United States. We expect that international customers will continue to account for a significant portion of our revenue for the foreseeable future. As a result, the occurrence of any negative international political, economic or geographic events could result in significant revenue shortfalls. These shortfalls could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;
- fluctuations in the exchange rate for the United States dollar;
- imposition of tariffs and other barriers and restrictions;
-

burdens of complying with a variety of foreign laws;

-

political and economic instability; and

-

changes in diplomatic and trade relationships.

If we are unable to meet the changing needs of our end-users or to address evolving market demands, our business may be harmed.

The markets for programmable DSP cores and application IP are characterized by rapidly changing technology, emerging markets and new and developing end-user needs, requiring significant expenditure for research and development. We cannot assure you that we will be able to introduce systems and solutions that reflect prevailing industry standards on a timely basis, to meet the specific technical requirements of our end-users or to avoid significant losses due to rapid decreases in market prices of our products, and our failure to do so may seriously harm our business. For example, we have already licensed our multimedia solutions; however, this technology has not yet been deployed by our licensees to their end markets and may be subject to further modifications to address

evolving market demands. In addition, the reduction in the number of our employees in connection with our recent restructuring efforts could adversely affect our ability to attract or retain customers who require certain research and development capabilities from their IP providers.

We may seek to expand our business through acquisitions that could result in diversion of resources and extra expenses.

We may pursue acquisitions of businesses, products and technologies, or establish joint venture arrangements in the future that could expand our business. The negotiation of potential acquisitions or joint ventures, as well as the integration of acquired or jointly developed businesses, technologies or products could cause diversion of management s time and our resources. We may not be able to successfully integrate acquired businesses or joint ventures with our operations. If we were to make any acquisition or enter into a joint venture, we may not receive the intended benefits of the acquisition or joint venture. If future acquisitions or joint ventures disrupt our operations, or if we have difficulty integrating the businesses or technologies we acquire, our business, financial condition and results of operations could suffer.

We may not be able to adequately protect our intellectual property.

Our success and ability to compete depend in large part upon the protection of our proprietary technologies. We rely on a combination of patent, copyright, trademark, trade secret, mask work and other intellectual property rights, confidentiality procedures and licensing arrangements to establish and protect our proprietary rights. These agreements and measures may not be sufficient to protect our technology from third-party infringement or to protect us from the claims of others. As a result, we face risks associated with our patent position, including the potential need to engage in significant legal proceedings to enforce our patents, the possibility that the validity or enforceability of our patents may be denied, the possibility that third parties will be able to compete against us without infringing our patents and the possibility that our products may infringe patent rights of third parties.

Our trade names or trademarks may be registered or utilized by third parties in countries other than those in which we have registered them, impairing our ability to enter and compete in these markets. If we were forced to change any of our brand names, we could lose a significant amount of our brand equity.

Our business will suffer if we are sued for infringement of the intellectual property rights of third parties or if we cannot obtain licenses to these rights on commercially acceptable terms.

Although we are not currently involved in any litigation, we are subject to the risk of adverse claims and litigation alleging infringement of the intellectual property rights of others. There is a large number of patents held by others, including our competitors, pertaining to the broad areas in which we are active. We have not, and cannot reasonably, investigate all such patents. From time to time, we have become aware of patents in our technology areas and have sought legal counsel regarding the validity of such patents and their impact on how we operate our business, and we will continue to seek such counsel when appropriate in the future. Claims against us may require us to enter into license arrangements or result in protracted and costly litigation, regardless of the merits of these claims. Any necessary licenses may not be available or, if available, may not be obtainable on commercially reasonable terms. If we cannot obtain necessary licenses on commercially reasonable terms, we may be forced to stop licensing our technology, and our business would be seriously harmed.

Our business depends on our customers and their suppliers obtaining required complementary components.

Some of the raw materials, components and subassemblies included in the products manufactured by our OEM customers are obtained from a limited group of suppliers. Supply disruptions, shortages or termination of any of these sources could have an adverse effect on our business and results of operations due to the delay or discontinuance of orders for products containing our IP, especially our DSP cores, until those necessary components are available.

The future growth of our business depends in part on our ability to license to system OEMs and small-to-medium-sized semiconductor companies directly and to expand our sales geographically.

Historically, a substantial portion of our licensing revenues has been derived in any period from a relatively small number of licensees. Because of the substantial license fees we charge, our customers tend to be large semiconductor companies or vertically integrated system OEMs. Part of our current growth strategy is to broaden

the adoption of our products by small and mid-size companies by offering different versions of our products, targeted at these companies. In addition we plan to continue expanding our sales to include additional geographic areas. Asia, in particular, is a region we have targeted for growth. If we are unable to develop and market effectively our intellectual property through these models, our revenues will continue to be dependent on a smaller number of licensees and a less geographically dispersed pattern of licensees, which could materially harm our business and results of operations.

We will be exposed to risks relating to evaluations of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002.

We have spent and are spending a substantial amount of management time and resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and the NASDAQ Stock Exchange rules. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires management s annual review and evaluation of our internal control systems, and attestations as to the effectiveness of these systems by our independent public accounting firm. We have expended and expect to continue to expend significant resources and management time documenting and testing our internal control systems and procedures. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to maintain an effective internal control environment could have a material adverse effect on the market price of our stock.

Newly adopted accounting standard that requires companies to expense stock options based on fair market value will result in a decrease in our earnings and our stock price may decline.

The Financial Accounting Standards Board issued in December 2004 FASB 123(R) which revised the previously proposed accounting standard that will eliminate the ability to account for employees share-based compensation transactions using the intrinsic method that we currently use and generally would require that such transactions be accounted for using a fair-value-based method and recognized as an expense in our consolidated statement of income. We will be required to record compensation expense for the unvested portion of previously granted awards that remain outstanding on the date of adoption of the new accounting standard based on their fair market value. We are required to implement the new standard no later than January 1, 2006. Currently, we generally only disclose such expenses on a pro forma basis in the notes to our annual consolidated financial statements in accordance with accounting principles generally accepted in the United States. The adoption of this new accounting standard will have a significant impact on our results of operations as our reported earnings will decrease significantly. Our stock price could decline in response to the perceived decline in our reported earnings. Furthermore, if we reduce or alter our use of stock-based compensation to minimize the recognition of these expenses or if we are unable to introduce alternative methods of compensation, our ability to recruit, motivate and retain employees may be impaired, which could put us at a significant disadvantage in the employee marketplace relative to our competitors.

The Israeli tax benefits that we currently receive and the government programs in which we participate require us to meet certain conditions and may be terminated or reduced in the future, which could increase our costs.

We enjoy certain tax benefits in Israel, particularly as a result of the Approved Enterprise status of our facilities and programs. To maintain our eligibility for these tax benefits, we must continue to meet certain conditions, relating principally to adherence to the investment program filed with the Investment Center of the Israeli Ministry of Industry and Trade and to periodic reporting obligations. We believe that we will be able to continue to meet such conditions. Should we fail to meet such conditions in the future, however, these benefits would be cancelled and we would be subject to corporate tax in Israel at the standard rate of 34%-36% and could be required to refund tax benefits already received. In addition, we cannot assure you that these tax benefits will be continued in the future at their current levels or otherwise. The termination or reduction of certain programs and tax benefits (particularly benefits available to us as

a result of the Approved Enterprise status of our facilities and programs) or a requirement to refund tax benefits already received may seriously harm our business, operating results and financial condition.

Our corporate tax rate may increase, which could adversely impact our cash flow, financial condition and results of operations.

We have significant operations in Israel and the Republic of Ireland and a substantial portion of our taxable income historically has been generated there. Currently, some of our Israeli and Irish subsidiaries are taxed at rates substantially lower than the United States of America (U.S.) tax rates. Although there is no expectation of any changes to Israeli and Irish tax law, if our Israeli and Irish subsidiaries were no longer to qualify for these lower tax rates or if the applicable tax laws were rescinded or changed, our operating results could be materially adversely affected. In addition, because our Israeli and Irish operations are owned by subsidiaries of a U.S. corporation, distributions to the U.S. corporation, and in certain circumstances undistributed income of the subsidiaries, may be subject to U.S. tax. Moreover, if U.S. or other authorities were to change applicable tax laws or successfully challenge the manner in which our subsidiaries profits are currently recognized, our overall taxes could increase, and our business, cash flow, financial condition and results of operations could be materially adversely affected.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters are located in San Jose, California and we have principal offices in Herzeliya, Israel and Dublin, Ireland.

We lease land and buildings for our executive offices, engineering, sales, marketing, administrative and support operations and design centers. The following table summarizes information with respect to the principal facilities leased by us as of December 31, 2005:

Location	Term	Expiration	Area (sq. feet)	Principal Activities
San Jose, CA, U.S.	2 years	2007	9,450	Headquarters; sales; marketing; administration
Herzeliya, Israel	3 years	2007	15,800	Research and development; administration
Dublin, Ireland	25 years	2021/2025	26,600	Research and development; administration
Cork, Ireland	25 years	2025	10,000	Research and development
Limerick, Ireland	10 years	2010	4,000	Research and development
Belfast, Northern Ireland	15 years	2019	2,600	Research and development
Daventry, England	5 years	2009	2,120	Research and development

In connection with the re-alignment of our business described below, we have reviewed and continue to evaluate our property needs and to consider appropriate steps to most efficiently house our operations. We have made provisions in our financial statements for the under-utilized building operating lease obligations we anticipate. We believe that these facilities meet our current operating needs.

In the third quarter of 2005, we conducted exit negotiations with the landlord of one of our properties in Ireland. We consequently updated the accrual for this property to reflect an exit strategy, resulting in a net additional charge of $1.7 million in the third quarter. At December 31, 2005, exit negotiations had not concluded and we were required to update our accrual for this property on a sub-let basis. There was no additional charge to the income statement during the fourth quarter of 2005. However, if we are successful in surrendering our long term lease relating to this property, we would expect an associated cash outflow of approximately $3.2 million in 2006. Revisions to our estimates of this liability could materially impact our operating results and financial position in future periods if anticipated events and assumptions either change or do not materialize.

Item 3. Legal Proceedings

From time to time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. We are not a party to any legal proceedings, the adverse outcome of which, in management s opinion, would have a material adverse effect on our results of operations or financial position.

Item 4. Submission of Matters to a Vote of Security Holders

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Below are the names, ages and principal recent business experience of our current executive officers. All such persons have been appointed by our board of directors to serve until their successors are elected and qualified or until their earlier resignation or removal.

Gideon Wertheizer, age 49, has served as our Chief Executive Officer since May 2005. Mr. Wertheizer has twenty three (23) years of experience in the semiconductor and Silicon Intellectual Property (SIP) industries. He previously served as the Executive Vice President and General Manager of the DSP business unit at CEVA. Prior to joining CEVA in November 2002, Mr. Wertheizer held various executive positions at DSPG, including such roles as Executive VP Strategic Business Development, Vice President for Marketing and VP of VLSI design. Mr. Wertheizer holds a BsC for electrical engineering from Ben-Gurion University in Israel and executive MBA form Bradford University in the United Kingdom.

Yaniv Arieli, age 37, has served as our Chief Financial Officer since May 2005. Mr. Arieli served as President of U.S. Operations and Director of Investor Relations of DSP Group from August 2002, prior to which he served as DSP Group s DSP Cores Licensing Divisions Vice President of Finance, Chief Financial Officer and Secretary. Prior to joining DSP Group in 1997, Mr. Arieli served as an account manager and certified public accountant in Kesselman & Kesselman, a member of PricewaterhouseCoopers, a leading accounting firm. Mr. Arieli is a CPA and holds a B.A. in Accounting and Economics from Haifa University in Israel and an M.B.A. from Newport University and is also a member of the National Investor Relation Institute.

Issachar Ohana, age 40, has served as our Vice President, Worldwide Sales since November 2002. Prior to joining CEVA in November 2002, Mr. Ohana was with DSPG beginning in August 1994 as a VLSI design engineer. He was appointed Project Manager of DSPG s research and development in July 1995, Director of Core Licensing in August 1998, and Vice President Sales of the Core Licensing Division in May 2000. Mr. Ohana holds a B.Sc. in Electrical and Computer Engineering from Ben Gurion University in Israel and an MBA from University of Bradford in England.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock began trading on The NASDAQ National Market and the London Stock Exchange on November 1, 2002. Our common stock currently trades under the ticker symbol CEVA on NASDAQ and under the ticker symbol CVA on the London Stock Exchange. As of March 3, 2006, there were 8,483 holders on record of our common stock, some of whom are holders in nominee name for the benefit of different stockholders. The closing price of our common stock on The NASDAQ National Market on March 8, 2006 was $6.48 per share. The following table sets forth, for the periods indicated, the range of high and low closing prices per share of our common stock, as reported on The NASDAQ National Market.

	Price range of common stock	
	High	**Low**
2002		
Fourth Quarter (from November 1)	$ 7.01	$ 4.47
2003		
First Quarter	$ 5.89	$ 2.95
Second Quarter	$ 8.18	$ 3.18
Third Quarter	$ 10.23	$ 7.37
Fourth Quarter	$ 10.41	$ 7.37
2004		
First Quarter	$ 11.83	$ 8.64
Second Quarter	$ 10.01	$ 7.72
Third Quarter	$ 8.44	$ 6.65
Fourth Quarter	$ 9.11	$ 7.50
2005		
First Quarter	$ 9.00	$ 7.10
Second Quarter	$ 7.52	$ 5.80
Third Quarter	$ 5.91	$ 5.03
Fourth Quarter	$ 6.32	$ 5.07

We have never paid any cash dividends. We intend to retain future earnings, if any, to fund the development and growth of our business and currently do not anticipate paying cash dividends in the foreseeable future.

Information as of December 31, 2005 regarding options granted under our option plans and remaining available for issuance under those plans is contained in the definitive 2006 Proxy Statement and incorporated herein by reference.

2006 Annual Meeting of Stockholders

We anticipate that the 2006 annual meeting of our stockholders will be held on May 23, 2006.

Item 6. Selected Financial Data

CEVA was formed through the combination of Parthus Technologies plc and CEVA in November 2002. Prior to that date, our DSP cores licensing business was part of DSPG. With respect to periods prior to November 1, 2002, the financial data below have been prepared as if the separation of this business had been in effect throughout the relevant periods. The financial data show this business as an entity carved out from the consolidated financial statements of DSPG using the historical results of operations and historical bases of assets and liabilities of this business, which appear elsewhere in this Annual Report. The financial data below include the results of the business of Parthus Technologies plc only for the period following the combination on November 1, 2002.

The following selected financial data should be read in conjunction with, and are qualified by reference to, our consolidated financial statements and the related notes, as well as our Management s Discussion and Analysis of Financial Condition and Results of Operations , both appearing elsewhere in this Annual Report.

	Year ended December 31,				
	2001	2002	2003	2004	2005
	(in thousands)				
Consolidated Statement of Operations Data					
Revenues:					
Licensing and royalties	$ 20,959	$ 14,739	$ 29,795	$ 32,271	$ 30,755
Other revenue	4,285	4,457	7,041	5,402	4,881
Total revenues	25,244	19,196	36,836	37,673	35,636
Cost of revenues	1,251	2,168	6,061	5,178	4,217
Gross profit	23,993	17,028	30,775	32,495	31,419
Operating expenses:					
Research and development, net	5,095	8,414	17,382	17,276	20,153
Sales and marketing	2,911	3,356	6,058	6,965	6,577
General and administrative	2,839	3,557	6,109	5,863	5,742
Amortization of intangible assets		189	1,127	892	823
In-process research and development		15,771			
Reorganization, restructuring and severance charge		6,442	8,620		3,207
Impairment of assets			3,233		510
Total operating expenses	10,845	37,729	42,529	30,996	37,012
Operating income (loss)	13,148	(20,701)	(11,754)	1,499	(5,593)
Financial income (expense), net	462	(207)	63	796	1,820
Other income					1,507
Income (loss) before taxes on income	13,610	(20,908)	(11,691)	2,295	(2,266)
Taxes on income	3,255	1,014	300	645	
Net income (loss)	$ 10,355	$ (21,922)	$ (11,991)	$ 1,650	$ (2,266)
Basic and diluted net income (loss) per share	$ 1.15	$ (2.15)	$ (0.66)	$ 0.09	$ (0.12)

	December 31,				
	2001	2002	2003	2004	2005
	(in thousands)				
Consolidated Balance Sheet Data					
Working capital	$ 1,996	$ 58,318	$ 53,440	$ 57,960	$ 61,240
Total assets	12,197	135,182	119,433	119,163	115,749

Total long term liabilities	1,124	1,231	3,093	2,626	4,295
Total stockholders equity	$ 4,345	$ 110,072	$ 98,479	$ 102,549	$ 102,233

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion together with the consolidated financials statements and related notes appearing elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those included in such forward-looking statements. Factors that could cause actual results to differ materially include those set forth under Factors That Could Affect Our Operating Results , as well as those otherwise discussed in this section and elsewhere in this annual report. See Forward-Looking Statements and Industry Data .

Business Overview

The following discussion and analysis is intended to provide an investor with a narrative of our financial results and an evaluation of our financial condition and results of operations. The discussion should be read in conjunction with our consolidated condensed financial statements and notes thereto for the year ended December 31, 2005.

Our revenue mix contains IP licensing fees, per-unit royalties and support fees. We have built a strong customer base who rely on our technology to deploy their silicon solutions. We license our technology as IP to semiconductor companies who manufacture, market and sell DSP application-specific integrated circuits (ASICs) and

application-specific standard products (ASSPs) based on CEVA technology to systems companies for incorporation into a wide variety of end products. Our IP is primarily deployed in high volume markets, including wireless handsets (e.g. cellular baseband and multimedia solutions), portable multimedia (e.g. portable video players and portable audio players), home entertainment (e.g. DVD), storage (e.g. hard disk drives), automotive (e.g. global positioning systems (GPS)), Bluetooth handsfree communication car kits and telematics) and communication markets (e.g. high-speed serial storage). Our current primary focus is DSP cores and application-specific software (video, audio, imaging and voice) for the cellular handset market with sales of our DSPs and related technologies representing a majority of our total revenues for 2005.

Today our technologies are widely licensed and power some of the world s leading wireless and consumer electronics brands including Atmel, Broadcom, Eo*N*ex, Freescale, Fujitsu, Hitachi, Infineon, Macronix, Marvell, Maxim, National Semiconductor, nVidia, Oki, Philips, Renesas, ROHM, Samsung, Sharp, Silicon Laboratories, Sony, Spreadtrum, STMicroelectronics, Thomson, VIA, Zoran and more. In 2005 our licensees shipped over 115 million CEVA-powered chips, an increase of 8% over 2004 shipments of 106 million units.

CEVA is the leading licensor of DSP cores. In 2005, Gartner Dataquest reported CEVA s share of the licensable DSP market at 53%. With many of our customers committed to our DSP architecture, we have seen many customers choosing to re-license and upgrade their licenses for CEVA DSP cores. Our legacy CEVA-Oak DSP, the CEVA-Teak, CEVA-TeakLite and most recently, CEVA-TeakLite-II are all code-compatible, meaning customers can leverage their knowledge in developing products incorporating these DSP cores across a wide range of applications. In recent years, we have introduced a new DSP architecture, the CEVA-X DSP core. We recognized a need in the DSP market for a more powerful, programmable and scalable DSP in order to meet the industry shift towards more fully-featured and smaller form factor products. In addition, there has been an industry shift towards licensing this type of technology as opposed to developing it in-house, due to the design cycle time constantly shortening and the cost of ownership and maintenance of such architectures.

In recent times, the industry has indicated a clear shift in customer preference away from the traditional approach of licensing standalone DSPs, and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications. We believe that the growth in the demand for these platforms will drive demand for our technology. As CEVA offers expertise developing these complete solutions in a number of key growth markets, including mobile multimedia, audio and GPS, we believe we are well positioned to take full advantage of these major industry shifts.

However, we need to penetrate new markets and introduce new products to further expand our business. In that regard, the most important step we have taken is the initiation to penetrate the mobile multimedia market. We introduced our first multimedia platform for wireless handsets in 2004, Mobile-Media1000, and in 2005 we have announced and released a second generation mobile multimedia platform, the Mobile-Media2000, which targets a broad range of applications and devices. Our future growth is substantially dependent on our success in penetrating the Asian handset market and the general market deployment and acceptance of our software programmable multimedia products.

Nonetheless, our business operates in a highly competitive environment. Competition has historically increased pricing pressures for our products and decreased our average selling prices. In order to penetrate new markets and maintain our market share with our existing products, we may need to offer our products in the future at lower prices which may result in lower profits. Our future growth is dependent not only on the continued success of our existing products but also the successful introduction of new products. Moreover, we must continue to monitor and control our operating costs and to maintain our current level of gross margin in order to offset future declines in average selling prices. In addition, since our products are incorporated into end products of our OEM customers, our business is very dependent on their ability to achieve market acceptance of their end products in consumer electronic markets, which are similarly very competitive.

We operate in a changing market that challenges our continued business growth potential. For example, the success of our video products are highly dependent on the adoption of new services, such as mobile TV and high resolution streaming video, and the rate of adoption of GPS technology for handset applications is dependent on network operators introducing more GPS applications. In addition, our business may be affected by market conditions in the APAC region, specifically China, where we anticipate the most significant growth potential for our business. Our revenues are currently primarily generated from sales of chipsets used in cellular handsets. As a result, a decline in the market for the sale of cellular handsets would adversely affect our financial condition and operating results.

In view of the current market trends, our planned future products are anticipated to enable true mobile multimedia integration into cellular handsets and the possible inclusion of technologies, such as GPS, into these products. We believe that these pioneer solutions will allow us to provide the desired flexibility for wireless semiconductors. We cannot provide any assurances, however that these features will achieve market acceptance, and allow us to maintain our market share or provide for our future growth.

We believe that our introduction of additional features, such as advances in our video technology, high-end audio technologies and home entertainment applications will also contribute to our growth in future periods. In addition, we are taking several steps to penetrate additional markets, including China, Korea and Taiwan with our existing products. However, our ability to introduce new products and expand into new markets may not occur and may require us to substantially increase our operating expenses. As a result, our past operating results should not be relied upon as an indication of future performance.

Critical Accounting Policies, Estimates and Assumptions

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

-

Revenue Recognition

-

Allowances for Doubtful Accounts

-

Accounting for Income Taxes

-

Impairment of Goodwill and Other intangible assets

-

Reorganization, restructuring and severance charge

-

Foreign Currency

In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require management s judgment in its application. There are also areas in which management s judgment in selecting

among available alternatives would not produce a materially different result.

Revenue Recognition

Significant management judgments and estimates must be made and used in connection with the recognition of revenue in any accounting period. Material differences in the amount of revenue in any given period may result if these judgments or estimates prove to be incorrect or if management s estimates change on the basis of development of the business or market conditions. Management judgments and estimates have been applied consistently and have been reliable historically.

We generate our revenues from (1) licensing intellectual property, which in certain circumstances is modified to customer-specific requirements, (2) royalty income and (3) other revenues, which include revenues from support, training and consulting services. We licenses our IP to semiconductor companies throughout the world. These semiconductor companies then manufacture, market and sell custom-designed chips to original equipment manufacturers of a variety of electronic products. We also license our technology directly to OEMs, which are considered end users.

We account for our IP license revenues in accordance with Statement of Position 97-2, Software Revenue Recognition , as amended. Under the terms of SOP 97-2, revenues are recognized when: (1) collection is probable; (2) delivery has occurred; (3) the license fee is fixed or determinable; and (4) persuasive evidence of an arrangement exists and no further obligation exists. SOP 97-2 generally requires revenue earned on licensing arrangements involving multiple elements to be allocated to each element based on the relative fair value of the elements.

However, we have adopted SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions, for multiple element transactions. SOP 98-9 requires that revenue be recognized under the residual method when vendor specific objective evidence (VSOE) of fair value exists for all undelivered elements and VSOE does not exist for one of the delivered elements. The VSOE of fair value of the undelivered elements (technical support and training) is determined based on the renewal rate or on the price charged for the undelivered element when sold separately.

SOP 97-2 specifies that extended payment terms in a licensing arrangement may indicate that the license fees are not deemed to be fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer unless collection is not considered probable, then revenue is recognized as payments are collected from the customer, provided that all other revenue recognition criteria have been met. Our revenue recognition policy determines all arrangements that become due after 12 months as extended payments and revenue is recognized as each payment becomes due, provided that all other revenue recognition criteria have been met. SOP 97-2 specifies that if a company has a standard business practice of using extended payment terms in licensing arrangements and has a history of successfully collecting the license fees under the original terms of the licensing arrangement without making concessions, the company should recognize the license fees when all other SOP 97-2 revenue recognition criteria are met. We have concluded that certain arrangements in prior years with extended payment terms over twelve months meet these criteria.

Under certain circumstances revenue consists of license fees received under the terms of license agreements pursuant to which we modify our IP to that customer s specific requirements. Our IP consists of software and related documentation that enable a customer to produce integrated circuits and related technology and software. In general the time between the signing of such a license and final customer acceptance is between three and twelve months. Fees are payable upon completion of agreed upon milestones, such as delivery of specifications and technical documentation. Each license is designed to meet the specific requirements of the particular customer and can vary from rights to incorporate Company technology into a customer s own application-specific product to the complete design of a system on a chip . No upgrades or modifications to the licensed IP are provided. Following customer acceptance, we have no further obligations under the license agreement (other than pursuant to a separate service and support agreement).

Revenues from license fees that involve customization of the Company s IP to customer specific specifications are recognized in accordance with the principles set out in Statement of Position 81-1, Accounting for Performance of Construction Type and Certain Production Type Contracts , (SOP 81-1) using contract accounting on a percentage of completion method, in accordance with the Input Method . The amount of revenue recognized is based on the total project fees (including the license fee and the customization hours charged) under the agreement and the percentage of completion achieved. The percentage of completion is measured by monitoring progress using records of actual time incurred to date in the project compared to the total estimated project requirements, which corresponds to the costs related to earned revenues. Estimates of total project requirements are based on prior experience of customization, delivery and acceptance of the same or similar technology and are reviewed and updated regularly by management. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined, in the amount of the estimated loss on the entire contract. As December 31, 2005, no such losses were identified.

Estimated gross profit or loss from long-term contracts may change due to changes in estimates resulting from differences between actual performance and original forecasts. Such changes in estimated gross profit are recorded in results of operations when they are reasonably determinable by us, on a cumulative catch-up basis.

We believe that the use of the percentage of completion method is appropriate as we have both prior experience and the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged and

the manner and terms of settlement. In all cases we expect to perform our contractual obligations and our licensees are expected to satisfy their obligations under the contract.

When a sale of our IP is made to a third party who also supplies us with goods or services under separate agreements, we evaluate each of the agreements to determine whether they are clearly separable, and independent of one another and that reliable fair value exists for either the sales or purchase element in order to determine the appropriate revenue recognition.

Royalties from licensing the right to use the Company s IP are recognized when the related sales are made. The Company determines such sales by receiving confirmation of sales subject to royalties from licensees. Non-refundable payments on account of future royalties are recognized upon payment, provided that no future obligation exists. Prepaid royalties are recognized under the licensing revenue line.

Allowances for Doubtful Accounts

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a detailed review of all significant outstanding receivables. In determining the provision, we analyze our historical collection experience and current economic trends. We reassess these allowances each accounting period. Historically, our actual losses and credits have been consistent with these provisions. If actual payment experience with our customers is different than our estimates, adjustments to these allowances may be necessary resulting in additional charges to our statement of operations.

Accounting for Income Taxes

Significant judgment is required in determining our worldwide income tax expense provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of cost reimbursement arrangements among related entities, the process of identifying items of revenue and expense that qualify for preferential tax treatment and segregation of foreign and domestic income and expense to avoid double taxation. Although we believe that our estimates are reasonable, the final tax outcome of these matters may be different than that which is reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision and net income (loss) in the period in which such determination is made.

Deferred tax assets and liabilities are determined using enacted tax rates for the effects of net operating losses and temporary differences between the book and tax bases of assets and liabilities. We have provided a valuation allowance on the majority of our net deferred tax assets, which includes federal and foreign net operating loss carryforwards, because of the uncertainty regarding their realization. Our accounting for deferred taxes under Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes , involves the evaluation of a number of factors concerning the realizability of our deferred tax assets. In concluding that a valuation allowance was required, we primarily considered such factors as our history of operating losses and expected future losses in certain jurisdictions and the nature of our deferred tax assets. We provide valuation allowances in respect of deferred tax assets resulting principally from the carryforward of tax losses. We currently believe that it is more likely than not that the deferred tax regarding the carryforward of losses and certain accrued expenses will not be realized in the foreseeable future. In the event that we were to determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such determination. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance. In order for us to realize our deferred tax assets we must be able to generate sufficient taxable income in the tax jurisdictions in which the deferred tax assets are located.

We do not provide for U.S. Federal Income taxes on the undistributed earnings of our international subsidiaries because such earnings are re-invested and, in our opinion, will continue to be re-invested indefinitely. In addition, we operate within multiple taxing jurisdictions involving complex issues and we provide for tax liabilities on investment activity as appropriate.

In addition, we operate within multiple taxing jurisdictions and may be subject to audits in these jurisdictions. These audits can involve complex issues that may require an extended period of time for resolution. In management s opinion, adequate provisions for income taxes have been made.

Goodwill

Under SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and intangible assets with an identifiable useful life are no longer amortized but are subject to annual impairment tests based on estimated fair value in accordance with SFAS No. 142. We conduct our annual test of impairment for goodwill in October of each year. In addition we test for impairment periodically whenever events or circumstances occur subsequent to our annual impairment tests that indicate that the asset might be impaired. Indicators we considered important which

could trigger an impairment include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, a significant decline in our stock price for a sustained period and our market capitalization relative to net book value.

In October 2005, we engaged external consultants to assist us in the preparation of the annual goodwill impairment test. The first step of the goodwill impairment test compared the carrying value of the Company (the reporting unit) with its fair value on that date. Since the fair value of the reporting unit exceeded its carrying amount, no impairment was identified in 2005. In October 2004, we completed our annual goodwill impairment test and assessed the carrying value of goodwill as required by SFAS No. 142. Because the market capitalization exceeded the carrying value significantly, no impairment arose.

Other Intangible Assets

Other intangible assets represents costs of technology acquired from acquisitions which have reached technological feasibility. The costs of technology have been capitalized and are amortized to the Consolidated Statements of Operations over the period during which economic benefits are expected to accrue, currently estimated at five years. We are required to test our other intangible assets for impairment whenever events or circumstances indicate that the value of the assets may be impaired. Factors we consider important, which could trigger impairment include:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- significant decline in our market capitalization relative to net book value.

Where events and circumstances are present which indicate that the carrying value may not be recoverable, we will recognize an impairment loss. Such impairment loss is measured by comparing the fair value of the asset with its carrying value. The determination of the value of such intangible assets requires us to make assumptions regarding future business conditions and operating results in order to estimate future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions change in the future, we could be required to record additional impairment charges.

We recorded an impairment charge of $0.4 million in the second quarter of 2005 in respect of Bluetooth technology acquired in the combination with Parthus Technologies plc (Parthus) as the Company has decided to cease the development of this product line due to the minimal differentiation between competing solutions. We also recorded a $1 million impairment charge in 2003 in respect of certain technology acquired in the combination with Parthus; the

Parthus name, which we abandoned as part of our corporate re-branding; and steps connected with the realignment of our business, including the decision to cease Hard IP manufacturing and certain non-strategic technology areas. The impairment charges reflected the unamortized carrying value of the technology determined by an independent analysis on the combination with Parthus.

Reorganization, restructuring and severance charge

We had reorganization and restructuring plans in 2003 and 2005 which resulted in a total charge of $8.6 million and $3.2 million, respectively. We were required to make and are required to review certain estimates and assumptions in assessing the under-utilized building operating lease charges arising from the reduction in facility requirements. Management takes into account current market conditions and the ability of the Company to either exit the lease property or sub-let the property in determining the estimates and assumptions used.

In the third quarter of 2005, we conducted exit negotiations with the landlord of one of our properties in Ireland. We consequently updated the accrual for this property to reflect an exit strategy, resulting in a net additional charge of $1.7 million in the third quarter. At December 31, 2005, exit negotiations had not concluded and we were required to update our accrual for this property on a sub-let basis. Management revised their assumptions at December 31, 2005 in respect of future vacancy rates and sublet rents in light of current market conditions and their

discount rate based on projected interest rates applicable. There was no additional charge to the income statement during the fourth quarter of 2005. However, if we are successful in surrendering our long term lease relating to this property, we would expect an associated cash outflow of approximately $3.2 million in 2006. Revisions to our estimates of this liability could materially impact our operating results and financial position in future periods if anticipated events and assumptions either change or do not materialize.

If an exit strategy in respect of a leased property is appropriate, the under-utilized building operating lease charge is calculated taking into consideration the surrender value based on a multiple of annual outgoings given the underlying market conditions. Otherwise, the under-utilized building operating lease charge is calculated on a sub-let basis by taking into consideration (1) the committed annual rental charge associated with the vacant square footage, (2) an assessment of the sublet rents that could be achieved based on current market conditions, vacancy rates and future outlook, (3) the estimated periods that facilities would be empty before being sublet, (4) an assessment of the percentage increases in the primary lease rent and the sublease rent at each five-year rent review, and (5) the application of a discount rate of 4.75% over the remaining period of the lease. The Company expects to revise its assumptions quarterly, as appropriate in respect of future vacancy rates and sublet rents in light of current market conditions and the applicable discount rate based on projected interest rates.

Foreign Currency

The U.S. dollar is the functional and reporting currency for the Company. The majority of our revenues and a portion of our expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, a significant portion of our expenses are denominated in currencies other than the U.S. dollar, principally the euro and the Israeli NIS. Monetary assets and liabilities denominated in foreign currencies are remeasured into U.S. dollars at year end exchange rates while revenues and expenses are remeasured at rates approximating those ruling at the dates of the related transactions. Increases in the volatility of the exchange rates of the euro and the NIS versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur when translated into U.S. dollars. We review our monthly expected non-U.S. dollar denominated expenditure and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations and this has resulted in a foreign exchange gain of $37,000 and $109,000 in 2004 and 2005, respectively.

We incurred foreign exchange losses of approximately $687,000 in 2003 arising principally on euro liabilities as a result of the appreciation of the euro against the U.S. dollar. As a result of such currency fluctuations and the conversion to U.S. dollars for financial reporting purposes, we may experience fluctuations in our operating results on an annual and a quarterly basis going forward. We have not in the past, but may in the future, hedge against fluctuations in exchange rates. Future hedging transactions may not successfully mitigate losses caused by currency fluctuations. We expect to continue to experience the effect of exchange rate fluctuations on an annual and quarterly basis, and currency fluctuations could have a material adverse impact on our results of operations.

Recently issued accounting standards:

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Base Payment (FAS 123(R)) which revises the previously effective SFAS No. 123 and supersedes APB No. 25. FAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based upon their fair values, beginning with the first interim or annual period after December 15, 2005, with early adoption encouraged.

We have the option to choose either the modified prospective or modified retrospective method. We expect to adopt FAS 123(R) in the first quarter of 2006, using the modified prospective method of adoption which requires that compensation expense be recorded over the expected requisite service period of all unvested stock options and for any new grants thereof upon adoption of FAS 123(R). We are currently evaluating the impact FAS 123(R) will have on the Company, and based on our preliminary analysis, expect to incur additional compensation expense as a result of

the adoption of this new accounting standard that may be material to the 2006 financial statements.

Had we adopted FAS 123(R) in prior periods, the impact of that statement would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and earnings per share of common stock in Note 1 to the consolidated financial statements.

In March 2005, the SEC released SEC Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107). SAB 107 provides the SEC staff s position regarding the application of SFAS 123(R) and contains interpretive guidance related to the interaction between SFAS 123(R) and certain SEC rules and regulations, and also provides the SEC staff s views regarding the valuation of share-based payment arrangements for public companies. SAB 107 highlights the importance of disclosures made relating to the accounting for share-based payment transactions. We are currently reviewing the effect of SAB 107, however we believe that SAB 107 will have a material effect on our financial position, results of operations or cash flows.

In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154 (SFAS 154), Accounting Changes and Error Corrections , a replacement of APB No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements . SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. APB No. 20 previously required that most voluntary changes in accounting principles be recognized by including in net income for the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retroactive application to prior periods financial statements of a voluntary change in accounting principles unless it is impracticable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 will not have a material impact on our results of operations and financial condition.

Results of Operations

The following table presents line items from our statement of operations as percentages of our total revenues for the periods indicated:

	2003	2004	2005
Consolidated Statement of Operations Data:			
Revenues:			
Licensing and royalties	80.9 %	85.7 %	86.3 %
Other revenue	19.1 %	14.3 %	13.7 %
Total revenues	100.0 %	100.0 %	100.0 %
Cost of revenues	16.5 %	13.7 %	11.8 %
Gross profit	83.5 %	86.3 %	88.2 %
Operating expenses:			
Research and development, net	47.2 %	45.9 %	56.6 %
Sales and marketing	16.4 %	18.5 %	18.5 %
General and administrative	16.6 %	15.6 %	16.1 %
Amortization of other intangible assets	3.0 %	2.3 %	2.3 %
Reorganization, restructuring and severance charge	23.4 %		9.0 %
Impairment of assets	8.8 %		1.4 %
Total operating expenses	115.4 %	82.3 %	103.9 %
Operating income (loss)	(31.9)%	4.0 %	(15.7)%
Financial income, net	0.2 %	2.1 %	5.1 %
Other income			4.2 %
Income (loss) before taxes on income	(31.7)%	6.1 %	(6.4)%
Taxes on income	(0.8)%	(1.7)%	

Net income (loss)	(32.5)%	4.4 %	(6.4)%

Discussion and Analysis

Below we provide information on the significant line items in our statement of operations for each of the past three fiscal years, including the percentage changes year-on-year, as well as an analysis of the principal drivers of change in these line items from year-to-year.

Revenues

Total Revenues

	2003	2004	2005
Total revenues (in millions)	$ 36.8	$ 37.7	$ 35.6
Change year-on-year		*2.3 %*	*(5.4)%*

The decrease in total revenues from 2005 to 2004 principally reflects a combination of lower licensing and other revenues, offset by higher royalties revenues. The five largest customers accounted for 36% of total revenues in 2005, 46% in 2004 and 39% in 2003.

The increase in total revenues from 2003 to 2004 principally reflects a combination of higher licensing and royalty revenues from our DSP-centric IP, offset by the elimination of Hard IP and certain other non strategic IP revenues in 2004 following the decision in December 2003 to cease these manufacturing product lines.

In 2005, 2004 and 2003 revenue from separately identifiable customers accounted for 10%, 12% and 10% of total revenues, respectively. Because of the nature of our license agreements and the associated large initial payments due, the identity of major customers generally varies from quarter to quarter.

We generate royalties from our licensing activities in two manners: royalties paid by our customers over the period in which they ship units which we refer to as per unit royalties and royalties which are paid in a lump sum which cover a fixed number of future unit shipments which we refer to as prepaid royalties. In either case, these prepaid royalties are non-refundable payments and are recognized upon invoicing for payment, provided that no future obligation exists. Prepaid royalties are recognized under our licensing revenue line and accounted for 19% of total revenue in 2004 and 2005 and 6.5% of total revenue in 2003. Only royalty revenue from customers who are paying as they ship units is recognized in our royalty revenue line. These per unit royalties are invoiced and recognized on a quarterly basis as we receive quarterly shipment reports from our licensees.

Licensing and Royalty Revenues

	2003	2004	2005
Licensing and royalty revenues (in millions)	$ 29.8	$ 32.3	$ 30.8
Change year-on-year		*8.3 %*	*(4.7)%*
of which:			
Licensing revenues (in millions)	$ 25.7	$ 26.3	$ 23.9
Change year-on-year		*2.0 %*	*(8.8)%*
Royalty revenues (in millions)	$ 4.1	$ 6.0	$ 6.8
Change year-on-year		*48.7 %*	*13.1 %*

The decrease in licensing revenue from 2004 to 2005 principally reflects lower revenues from our DSP-teaklite IP and our GPS IP offset by growth in our CEVA X Core and SATA platform IP. The increase in licensing revenue from 2003 to 2004 reflects increased revenues from our DSP-centric IP offset by lower revenues from our application solutions IP as we ceased certain non-strategic solutions IP following the strategic re-alignment of our operations in the fourth quarter of 2003. The strategic re-alignment allowed us to better focus on our key strengths, DSP cores and application-specific full system solutions in 2004.

Licensing and royalty revenues accounted for 86.3% of our total revenues in 2005, compared with 85.7% and 80.9% of total revenues in 2004 and 2003, respectively. In 2005 we signed 27 new license agreements compared to 24 and 25 in 2004 and 2003, respectively. Included in the license agreements in 2005 were four new licensees for our flagship CEVA X DSP technology compared to five and two in 2004 and 2003, respectively.

The increase in royalty revenue from 2004 to 2005 and from 2003 to 2004 was driven by increases in the underlying unit shipments of customers products incorporating our IP. In particular licensees of our CEVA Teaklite cores continued to report increased unit shipments in 2.5G cellular and DVD Servo product areas. The five largest customers paying per unit royalty accounted for 72.8% of total royalty revenues in 2005 compared to 67.2 and 86.7% in 2004 and 2003, respectively.

Both our per unit and prepaid royalty customers reported sales of 115 million chips incorporating our technology in 2005, compared with 106 million in 2004 and 55 million in 2003. The increase in units shipped in 2005 compared to 2004 and 2004 compared to 2003 reflects increased unit shipments of our CEVA-Teak core by licensees in 2.5G cellular and DVD Servo product areas.

Other Revenues

Other revenues includes design and consulting services and support for licensees.

	2003	2004	2005
Other revenues (in millions)	$ 7.0	$ 5.4	$ 4.9
Change year-on-year		*(23.3)%*	*(9.6)%*

The decrease in other revenues in 2005 compared to 2004 principally reflects a decrease in revenues from our application IP solutions. The decrease in other revenues in 2004 compared to 2003 principally reflects the elimination of Hard IP revenue following the decision in December 2003 to cease our Hard IP manufacturing product line.

Geographic Revenue Analysis

	2003		2004		2005	
	(in millions, except percentages)					
United States	$ 17.4	*47.2 %*	$ 11.2	*29.5 %*	$ 12.5	*35.2 %*
Europe, Middle East, Africa (EMEA)	$ 11.4	*31.0 %*	$ 16.6	*44.1 %*	$ 7.9	*22.1 %*
Asia Pacific (APAC)	$ 8.0	*21.8 %*	$ 9.9	*26.4 %*	$ 15.2	*42.7 %*

Due to the nature of our license agreements and the associated potential large individual contract amounts, the geographic spilt of revenues both in absolute and percentage terms generally varies from year to year.

Revenues increased in absolute and percentage terms in the United States and APAC regions from 2004 to 2005, primarily reflecting greater CEVA Mobile-Media2000, CEVA-X Core and SATA platform IP licensing revenues. The decrease in revenues in absolute and percentage terms in EMEA reflects lower revenues from our CEVA-X Core , CEVA-TeakLite IP and our GPS IP. Revenues increased in absolute and percentage terms in EMEA and APAC regions from 2003 to 2004, reflecting greater sales activity and penetration in these markets. The decrease in revenues in absolute and percentage terms in the United States from 2003 to 2004 reflects a reduction in IP application solutions revenues as certain non-strategic solution technologies were ceased following the strategic re-alignment of our operations in the fourth quarter of 2003.

Cost of Revenues

	2003	2004	2005
Cost of revenues (in millions)	$ 6.1	$ 5.2	$ 4.2
Change year-on-year		*(14.6)%*	*(18.6)%*

Cost of revenues accounted for 11.8% of total revenues in 2005, compared with 13.7% in 2004 and 16.5% in 2003. The absolute and percentage decrease in cost of revenues in 2005 compared to 2004 principally reflects the shift in revenue mix with increased higher gross margin license and royalty revenue. The absolute and percentage decrease in

cost of revenues in 2004 compared to 2003 reflects the shift in revenue mix with increased higher gross margin license and royalty revenue and no Hard IP revenue following the decision in December 2003 to cease our lower margin Hard IP manufacturing product line. Historically margins for Hard IP were below 50%.

Cost of revenues includes related labor costs and, where applicable related overhead and material costs.

Operating Expenses

	2003	2004	2005
		(in millions)	
Research and development, net	$ 17.4	$ 17.3	$ 20.2
Sales and marketing	$ 6.1	$ 6.9	$ 6.6
General and administration	$ 6.1	$ 5.9	$ 5.7
Amortization of intangible assets	$ 1.1	$ 0.9	$ 0.8
Reorganization, restructuring and severance charge	$ 8.6	$	$ 3.2
Impairment of assets	$ 3.2	$	$ 0.5
Total operating expenses	$ 42.5	$ 31.0	$ 37.0
Change year-on-year		*(27.1)%*	*19.4 %*

Total operating expenses increased in 2005 compared to 2004 due to a combination of reorganization and impairment charges incurred in 2005 and a higher investment in research and development. There were no reorganization or impairment charges in 2004. Total operating expenses decreased in 2004 compared to 2003 principally as a result of restructuring and impairment charges incurred in 2003. There were no similar charges in 2004.

Research and Development Expenses, Net

	2004	2004	2005
Research and development expenses, net (in millions)	$ 17.4	$ 17.3	$ 20.2
Change year-on-year		*(0.6)%*	*16.7 %*

Research and development expenses increased in 2005 from 2004 primarily reflecting increased investment in our latest multimedia platform, design tools and sub-contract design and higher labor and associated costs from increased average headcount. The average number of research and development personnel in 2005 was 169 compared to 163 in 2004 and 189 in 2003. The number of research and development personnel was 158 at December 31, 2005, compared with 170 at year-end 2004 and 154 at year-end 2003. The net movement in research and development expenses in 2004 compared with 2003 primarily reflects lower research grants from the MAGNET programs of the Chief Scientist of Israel and under the RTI funding program of Enterprise Ireland offset by lower costs arising from the decision to exit certain non-strategic technology areas and the resulting reduction in headcount and facility requirements as a result of the realignment of the business in December 2003.

Research and development expenses, net of related government grants, were 56.6% of total revenues in 2005, compared with 45.9% in 2004 and 47.2% in 2003. We recorded net research grants under funding programs of the Chief Scientist of Israel and under funding programs of Enterprise Ireland and Invest Northern Ireland of $574,000 in 2005 compared with $346,000 in 2004 and $2.0 million in 2003. Grants received from the Chief Scientist of Israel may become refundable if certain revenues are achieved for products developed under these programs and grants received from Enterprise Ireland and Invest Northern Ireland may become repayable if certain criteria under the grants are not met.

Research and development expenses consist primarily of salaries and associated costs connected with the development of our intellectual property and are expensed as incurred. Research and development expenses are net of related government research grants. We view research and development as a principal strategic investment and have continued our commitment to invest heavily in this area, which represents the largest of our ongoing operating

expenses. We will need to continue to invest in research and development and our research and development expenses may increase in the future to keep pace with new trends in our industry.

Sales and Marketing Expenses

	2003	2004	2005
Sales and marketing expenses (in millions)	$ 6.1	$ 6.9	$ 6.6
Change year-on-year		*15.0 %*	*(5.6)%*

The decrease in sales and marketing expenses in 2005 compared to 2004 principally reflects lower consultancy and promotional costs. The increase in sales and marketing expenses in 2004 compared to 2003 principally reflects

additional sales and marketing efforts in APAC and also increased activity relating to the flagship CEVA Mobile-Media2000 and CEVA-X architectures.

Sales and marketing expenses as a percentage of total revenues were 18.5% in 2004 and 2005, compared with 16.4% in 2003. The total number of sales and marketing personnel was 20 at December 31, 2005, compared with 21 at year-end 2004 and 20 at year-end 2003. Sales and marketing expenses consist of salaries, commissions, travel and other costs associated with sales and marketing activity, as well as advertising, trade show participation, public relations and other marketing costs.

General and Administrative Expenses

	2003	2004	2005
General and administrative expenses (in millions)	$ 6.1	$ 5.9	$ 5.7
Change year-on-year		*(4.0)%*	*(2.1)%*

The decrease in general and administrative expenses in 2005 compared with 2004 primarily reflects lower corporate management and overhead charges following the reorganization in the second quarter of 2005. The total number of general and administrative personnel was 31 at December 31, 2005, compared with 36 at year-end 2004 and 32 at year-end 2003. The net decrease in general and administrative expenses in 2004 compared with 2003 primarily reflects increased professional fees arising from Sarbanes Oxley compliance work, offset by lower facility and IT consumable costs as a result of the realignment of the business in December 2003.

Amortization of Other Intangible Assets

	2003	2004	2005
Amortization of other intangible assets (in millions)	$ 1.1	$ 0.9	$ 0.8
Change year-on-year		*(20.9)%*	*(7.7)%*

The charges identified above were incurred in connection with the amortization of intangible assets acquired in the combination with Parthus. The decrease in the 2004 and 2005 charges reflects lower amortization as a result of separate impairment charges incurred relating to certain technology acquired in the combination with Parthus. The impairment charges incurred reduced the carrying value of the intangible assets and subsequently led to a lower amortization charge going forward. As of December 31, 2005, 2004 and 2003, the net amount of other intangible assets was $1.5 million, $2.6 million and $3.5 million, respectively. We anticipate ongoing expense in connection with the amortization of remaining intangibles of approximately $190,000 per quarter.

Reorganization, Restructuring and Severance Charge

	2003	2004	2005
Reorganization, restructuring and severance charge (in millions)	$ 8.6	$	$ 3.2

Reorganization and restructuring plans in 2005, resulted in a total charge of $3.2 million. The charge arose in connection with the decision to restructure the Company s corporate management, reduce overhead and consolidate its activities. Included are severance charges and employee related liabilities arising in connection with a head-count reduction of nine employees and provision for future operating lease charges on idle facilities.

Reorganization and restructuring plans in 2003, resulted in a total charge of $8.6 million. The charge arose in connection with senior executive management changes in connection with the implementation of our strategic initiative to strengthen our headquarters function in the U.S. Also included were severance charges and employee-related liabilities arising in connection with a head-count reduction of 40 employees, under-utilized building operating lease charges and a charge for non-performing assets arising from a reduction in headcount and facility requirements. The reduction in headcount and facility requirements was a result of the realignment of the business to focus on DSP cores and integrated application technologies and the decision to cease manufacturing our hard IP products and certain non-strategic technology areas.

We were required to make and are required to review certain estimates and assumptions in assessing the under-utilized building operating lease charges arising from the reduction in facility requirements. Management takes into account current market conditions and the ability of the Company to either exit the lease property or sub-let the

property in determining the estimates and assumptions used. The Company expects to revise its assumptions quarterly, as appropriate in respect of future vacancy rates and sublet rents in light of current market conditions and the applicable discount rate based on projected interest rates.

In the third quarter of 2005, we conducted exit negotiations with the landlord of one of our properties in Ireland. We consequently updated the accrual for this property to reflect an exit strategy, resulting in a net additional charge of $1.7 million in the third quarter. At December 31, 2005, exit negotiations had not concluded and we were required to update our accrual for this property on a sub-let basis. There was no additional charge to the income statement during the fourth quarter of 2005. However, if we are successful in surrendering our long term lease relating to this property, we would expect an associated cash outflow of approximately $3.2 million in 2006. Revisions to our estimates of this liability could materially impact our operating results and financial position in future periods if anticipated events and assumptions either change or do not materialize.

Impairment of Assets

	2003	2004	2005
Impairment of assets (in millions)	$ 3.2	$	$ 0.5

We recorded an impairment charge of $400 in the second quarter of 2005 in respect of Bluetooth technology acquired in the combination with Parthus Technologies plc (Parthus) as we have decided to cease the development of this product line due to the minimal differentiation between competing solutions. We also recorded an impairment charge of $110 in the same period relating to non-performing assets following the implementation of our reorganization plan.

We recorded an impairment charge of $910,000 in 2003 in respect of non-performing assets, as well as an impairment charge of $973,000 in respect of certain technology acquired in the combination with Parthus and the Parthus name, which we abandoned as part of our corporate rebranding. These charges related to the realignment of our business, including the decision to cease manufacturing Hard IP products and certain non-strategic technology areas.

In December 2003, we also recognized an impairment charge of $1.35 million in relation to a minority investment in a private company acquired on the combination with Parthus. Management assessed the carrying value of the investment after taking into consideration the potential discounted projected future cash flows, the valuation derived from the most recent proposed private placement, the liquidity of the investment and the general market conditions in which this private company operates.

Financial Income, Net and Other Income

	2003	2004	2005
Financial income, net (in millions)	$ 0.06	$ 0.80	$ 1.82
of which:			
Interest income and gains from marketable securities (in millions)	$ 0.75	$ 0.76	$ 1.71
Foreign exchange gain (loss) (in millions)	$ (0.69)	$ 0.04	$ 0.11
Other income			
Gain on realization of investment (in millions)	$	$	$ 1.51

Financial income, net and other income, consists of interest earned on investments, gains from marketable securities,

foreign exchange movements and gain on disposal of investment. The increase in interest and gains from marketable securities earned in 2005 from 2004 reflects a combination of a higher interest rate environment and higher combined cash and marketable securities balances held. Interest earned in 2004 and 2003 reflected similar combined cash and marketable securities balances held throughout 2004 and 2003.

We recorded a gain of $1.5 million in the third quarter of 2005 from the realization of a minority investment in a private company acquired in the combination with Parthus. In December 2003, we had fully written down the carrying value of the investment having assessed the carrying value of the investment taking into consideration the potential discounted projected future cash flows, the valuation derived from the most recent proposed private

placement, the liquidity of the investment and the general market conditions in which this private company operated at that time.

Provision for Income Taxes

We had no provision for income taxes in 2005 primarily due to losses incurred domestically and in certain foreign jurisdictions. The provision for income taxes in 2004 and 2003 reflects income earned domestically and in certain foreign jurisdictions. We have significant operations in Israel and the Republic of Ireland and a substantial portion of our taxable income is generated there. Currently, our Israeli and Irish subsidiaries are taxed at rates substantially lower than U.S. tax rates.

The Irish operating subsidiary currently qualifies for a 10% tax rate, which under current legislation will remain in force until December 31, 2010. The Israeli operating subsidiary s production facilities have been granted Approved Enterprise status under Israeli law in connection with six separate investment plans. Accordingly, income from an Approved Enterprise is tax-exempt for a period of two (2) or four (4) years and is subject to a reduced corporate tax rate of ten (10) percent to twenty five (25) percent (based on percentage of foreign ownership) for an additional period of six (6) or eight (8) years. Certain expenditure in connection with the investment plans is allowable as a tax deduction over a three year period which has resulted in higher deferred tax asset in 2005.

Liquidity and Capital Resources

As of December 31, 2005, the Company had approximately $35.1 million in cash and cash equivalents and $26.5 million in deposits and marketable securities, totaling $61.6 million compared to $59.6 million at December 31, 2004. During 2005, the Company invested $45.6 million of its cash in certificates of deposits and U.S. government and agency securities with maturities up to 20 months. In addition, certificates of deposits and U.S. government and agency securities were sold for cash amounting to $58.2 million. During 2004, the Company made a net investment of $30.7 million of its cash in certificates of deposits and U.S. government and agency securities with maturities up to 12 months. These instruments are classified as marketable securities and the purchases and sales are considered part of operating cash flow. Deposits are short-term bank deposits with maturities of more than three months but less than one year. The deposits are in U.S. dollars and are presented at their cost, including accrued interest and purchases and sales are considered part of cash flows from investing activities.

Net cash provided by operating activities in 2005 was $12.7 million, compared with $29.8 million of net cash used in operating activities in 2004 and $12.8 million of net cash used in operating activities in 2003. Included in the operating cash inflow in 2005 was a net disposal of $12.6 million in marketable securities and $2.9 million outflow in connection with restructuring and reorganization costs. Excluding these items net cash provided by operations during 2005 was $3.0 million. Included in the operating cash outflow in 2004 was a net investment of $30.7 million in marketable securities and $1.9 million outflow in connection with restructuring and reorganization costs. Excluding these items net cash provided by operations during 2004 was $2.8 million. The net cash outflow from operating activities in 2003 of $12.8 million included the settlement of merger-related costs of approximately $3.1 million following the combination with Parthus and cash outflow in connection with restructuring and reorganization costs incurred in 2003 and the last quarter of 2002 amounting to approximately $6.5 million.

Cash flows from operating activities may vary significantly from quarter to quarter depending on the timing of our receipts and payments. Of the $3.2 million of restructuring and reorganization costs accrued at December 31, 2005, we expect a cash outflow of approximately $1 million in 2006, primarily relating to under-utilized building rental payments. However, if we are successful in surrendering our long term lease relating to an under-utilized premises in Ireland, we would expect an associated cash outflow of approximately $3.2 million in 2006. Our ongoing cash outflows from operating activities principally relate to payroll-related costs and obligations under our property leases and design tool licenses. Our primary sources of cash inflows are receipts from our accounts receivable and interest earned from our cash and marketable securities holdings. The timing of receipts from debtors is based upon the

completion of agreed milestones or agreed dates as set out in the contracts.

CEVA became a stand-alone business in November 2002, when the separation and spin-off of the DSP cores licensing business from DSPG and the combination with Parthus were effected. Immediately prior to the separation and spin-off, all of the year-end available cash from the operations of the DSP cores licensing business was transferred to DSPG. As part of the assets contributed to us in the separation, DSPG made a total net contribution to our company of $45.6 million, including $7.6 million in transaction expenses relating to the combination. Cash acquired in connection with the separation from DSPG and on the acquisition of Parthus has been used to fund

working capital requirements, as well as property and equipment expenditures, which to date have been relatively low due to the fact that our licensing business model requires no manufacturing facilities.

Net cash used in investing activities in 2005 was $7.74 million. Capital equipment purchases of computer hardware and software used in engineering development, company vehicles, furniture and fixtures amounted to approximately $0.9 million in 2005, $3.1 million in 2004, and $2.7 million in 2003. The high level of capital expenditures in 2004 and 2003 was principally due to investments in new design tools and tenant improvements associated with the move of our facility in Israel to new premises in the fourth quarter of 2003. Proceeds from the sale of property and equipment amounted to $14,000 in 2005 compared with $54,000 in 2004 and $142,000 in 2003. We had a cash outflow of $153,000 for acquired technology in 2005 and $115,000 and 72,000 for 2004 and 2003, respectively. We had a cash inflow of $1.5 million from the disposal of a minority investment in a private company in 2005 and a cash outflow of $8.2 million in respect of investment in short term bank deposits.

Net cash provided by financing activities of $1.8 million in 2005, $2.2 million in 2004 and $398,000 in 2003 reflects proceeds from the issuance of shares upon exercise of employee stock options and issuance of shares under our employee stock purchase plan.

We believe that our current cash on hand and marketable securities, along with cash from operations, will provide sufficient capital to fund our operations for at least the next 12 months. We cannot assure you, however, that the underlying assumed levels of revenues and expenses will prove to be accurate.

Contractual Obligations

The table below presents the principal categories of our contractual obligations as of December 31, 2005:

		Payments due by period				
		Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
				($ in thousands)		
Operating Lease Obligations	Leasehold properties	24,969	2,138	3,659	3,326	15,846
Operating Lease Obligations	Other	2,181	973	1,208		
Purchase Obligations		57	57			
Total		27,207	3,168	4,867	3,326	15,846

Operating leasehold obligations principally relate to our offices in Ireland, Israel and the United States. The most material of these obligations relates to the lease on our Harcourt Street offices in Dublin, which involves a total commitment of $16.5 million over the remaining sixteen (16) years of the agreement. A portion of rental space is currently under-utilized as a result of the re-alignment of our business and related headcount reductions in 2003, which is further discussed in Note 11 to our audited financial statements, which appears elsewhere in this annual report. Other operating lease obligations relate to license agreements entered into for maintenance of design tools of $1.3 million and obligations under motor vehicle leases of $876,000. Purchase obligations consist of capital commitments of $21,000 and operating purchase order commitments of $36,000.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as such term is defined in recently enacted rules by the Securities and Exchange Commission, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or

capital resources that are material to investors.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

A majority of our revenues and a portion of our expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the bulk of our expenses are denominated in currencies other than the U.S. dollar, principally the euro and the Israeli NIS. Increases in the volatility of the exchange rates of the euro and the NIS versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur when remeasured into U.S. dollars. We review our monthly expected non-U.S. dollar denominated expenditure and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations and this has resulted in a foreign exchange gain of $37,000 and $109,000 in 2004 and 2005, respectively.

We incurred foreign exchange losses of approximately $687,000 in 2003, arising principally on euro liabilities as a result of the appreciation of the euro against the U.S. dollar. As a result of such currency fluctuations and the conversion to U.S. dollars for financial reporting purposes, we may experience fluctuations in our operating results on an annual and a quarterly basis going forward. We have not in the past, but may in the future, hedge against fluctuations in exchange rates. Future hedging transactions may not successfully mitigate losses caused by currency fluctuations. We expect to continue to experience the effect of exchange rate fluctuations on an annual and quarterly basis, and currency fluctuations could have a material adverse impact on our results of operations.

We invest our cash in high grade certificates of deposits, U.S. government and agency securities and corporate bonds. Cash held by foreign subsidiaries is generally held in short-term time deposits denominated in the local currency.

Interest income and gains from marketable securities were $1.7 million in 2005, $759,000 in 2004 and $750,000 in 2003. The increase in interest and gains from marketable securities earned in 2005 from 2004 reflects a combination of a higher interest rate environment and higher combined cash and marketable securities balances held.

We are exposed primarily to fluctuations in the level of U.S. and EMU (European Monetary Union) interest rates. To the extent that interest rates rise, fixed interest investments may be adversely impacted, whereas a decline in interest rates may decrease the anticipated interest income for variable rate investments.

We are exposed to financial market risks, including changes in interest rates. We typically do not attempt to reduce or eliminate our market exposures on our investment securities because the majority of our investments are short-term. We do not have any derivative instruments.

The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of our investment portfolio. All the potential changes noted above are based on sensitivity analysis performed on our balances as of December 31, 2005.

Item 8. Financial Statements and Supplementary Data

See the Index to Financial Statements and Supplementary Data on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 9a. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) during the period covered by this Annual Report on Form 10- K. Disclosure controls are procedures that are (1) designed to ensure that information relating to CEVA, including our consolidated subsidiaries, is made known to them by others within those entities, particularly in the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

As we disclosed in our 10-K/A filed with the SEC on April 26, 2005 (the 10-K/A), we identified a material weakness under standards established by the Public Company Accounting Oversight Board relating to our revenue recognition treatment of a certain license upgrade agreement. During the first quarter of 2005, we began analyzing the steps to be

taken to remediate this material weakness . Under the direction of our Audit Committee and with the participation of our senior management, we have completed the following remediation actions during the first nine months of 2005 to strengthen our disclosure controls and procedures and internal controls to address the above referenced material weakness:

- set up procedures to ensure that a comprehensive review of all past and future agreements is undertaken when we enter into a new revenue generating agreement with a customer where we have an existing relationship with this party, such as an existing customer, supplier or service provider relationship;

- retained a third party accounting firm to consult on complicated technical accounting issues; and

- ensured that our accounting and finance personnel attend U.S. G.A.A.P courses on revenue recognition policies.

We believe the corrective steps taken to improve our disclosure controls and procedures and internal controls described above have enabled our chief executive officer and chief financial officer to conclude that our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K are effective.

While we believe that these corrective actions, taken as a whole, remediate the material weakness referenced above, a control system, no matter how well designed or operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in any control systems, no evaluation of controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, will be detected on a timely basis. These inherent limitations include the possibility that judgments in decision-making can be faulty and that breakdowns can occur because of errors or mistakes. Our disclosure controls and procedures can also be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Furthermore, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control Over Financial Reporting

Other than as described above, there has been no other change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

We intend to review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis and to improve our controls and procedures over time and to correct any deficiencies that we may discover in the future. Our goal is to ensure that our senior management has timely access to all material financial and non-financial information concerning our business. While we believe the present design of our disclosure controls and procedures is effective to achieve our goal, future events affecting our business may cause us to significantly modify our disclosure controls and procedures.

Management s Annual Report on Internal Control Over Financial Reporting

CEVA, Inc. s management is responsible for establishing and maintaining adequate internal control over the Company s financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. CEVA, Inc. s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with

generally accepted accounting principles. There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further because of changes in conditions, the effectiveness of internal controls may vary over time such that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of CEVA, Inc. s internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on its assessment using those criteria, management believes that, as of December 31, 2005, CEVA, Inc. s internal control over financial reporting is effective.

CEVA, Inc. s independent registered public accountants audited the financial statements included in this Annual Report on Form 10-K and have issued an attestation report on management s assessment of the company s internal control over financial reporting. This report appears on page 40 of this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of CEVA, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that CEVA, Inc. and its subsidiaries maintained effective internal control over annual financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CEVA Inc. and its subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that CEVA, Inc. and its subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, CEVA, Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CEVA, Inc. and its subsidiaries as of December 31, 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended of CEVA, Inc. and its subsidiaries and our report dated March 14, 2006 expressed an unqualified opinion thereon.

By: /s/ Kost Forer Gabbay & Kasierer

KOST FORER GABBAY &
KASIERER

A Member of Ernst & Young Global

Tel-Aviv, Israel
March 14, 2006

Item 9b. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information regarding our directors required by this item is incorporated herein by reference to the 2006 Proxy Statement. Information regarding the members of the Audit Committee, our code of business conduct and ethics, the identification of the Audit Committee Financial Expert, stockholder nominations of directors and compliance with Section 16(a) of the Securities Exchange Act of 1934 is also incorporated herein by reference to the 2006 Proxy Statement.

The information regarding our executive officers required by this item is contained in Part I of this annual report.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the 2006 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stock Holder Matters

The information required by this item is incorporated herein by reference to the 2006 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated herein by reference to the 2006 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this items is incorporated herein by reference to the 2006 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of or are included in this Annual Report on Form 10-K:

1. Financial Statements:

- Consolidated Balance Sheets as of December 31, 2005 and 2004.
- Consolidated Statements of Operations for the Years Ended December 31, 2005, 2004 and 2003.
- Statements of Changes in Stockholders Equity for the Years Ended December 31, 2005, 2004 and 2003.
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003.
- Notes to Consolidated Financial Statements.

2. Financial Statement Schedules:

- Schedule II: Valuation and Qualifying Accounts

Other financial statement schedules have been omitted since they are either not required or the information is otherwise included.

3. Exhibits:

The Exhibits filed as part of this Annual Report on Form 10-K are listed on the Exhibit Index immediately preceding such Exhibits, which Exhibit Index is incorporated herein by reference. Some of these documents have previously been filed as exhibits with the Securities and Exchange Commission and are being incorporated herein by reference to such earlier filings. CEVA s file number under the Securities Exchange Act of 1934 is 000-49842.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CEVA, INC. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of CEVA, Inc.

We have audited the accompanying consolidated balance sheet of CEVA, Inc. (the Company) and its subsidiaries as of December 31, 2005, and the related consolidated statement of operations, changes in stockholders equity and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2005, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2006 expressed an unqualified opinion thereon.

/s/ Kost Forer Gabbay & Kasierer

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel-Aviv, Israel

March 14, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of CEVA, INC.

We have audited the accompanying consolidated balance sheet of CEVA, Inc. and its subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the two years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a) 2. These consolidated financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CEVA, Inc. and its subsidiaries as of December 31, 2004, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young

ERNST & YOUNG

Dublin, Ireland

March 29, 2005

CEVA, INC. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands, except share and per share data)

	December 31,	
	2004	**2005**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,844	$ 35,111
Short term bank deposits		8,335
Marketable securities (Note 2)	30,794	18,174
Trade receivables (net of allowance for doubtful accounts of $ 813 in 2004 and $667 in 2005)	10,835	6,159
Deferred tax assets (Note 10)	125	600
Prepaid expenses (Note 5)	703	1,040
Other accounts receivable (Note 5)	647	1,042
Total current assets	71,948	70,461
Long-term investments:		
Severance pay fund	1,713	1,912
Deferred tax assets (Note 10)	70	292
Property and equipment, net (Note 3)	4,471	3,226
Goodwill (Note 4)	38,398	38,398
Other intangible assets, net (Note 4)	2,563	1,460
	47,215	45,288
Total assets	$ 119,163	$ 115,749
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables	$ 1,714	$ 548
Accrued expenses and other payables (Note 6)	9,816	7,778
Taxes payable	707	442
Deferred revenues	1,751	453
Total current liabilities	13,988	9,221
Long term liabilities:		
Accrued severance pay	1,844	2,100
Accrued liabilities (Note 6)	782	2,195
Total long term liabilities	2,626	4,295
Stockholders equity:		
Preferred Stock:		

$0.001 par value: 5,000,000 shares authorized at December 31, 2004 and 2005; none issued and outstanding		
Common Stock:		
$0.001 par value: 100,000,000 and 60,000,000 shares authorized at December 31, 2004, and 2005, respectively; 18,557,818 and 18,923,071 shares issued and outstanding at December 31, 2004 and 2005, respectively	19	19
Additional paid in capital	136,868	138,818
Accumulated deficit	(34,338)	(36,604)
Total stockholders equity	102,549	102,233
Total liabilities and stockholders equity	$ 119,163	$ 115,749

The accompanying notes are an integral part of the consolidated financial statements.

CEVA, INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. dollars in thousands, except share and per share data)

	Year ended December 31,		
	2003	**2004**	**2005**
Revenues:			
Licensing and royalties	$ 29,795	$ 32,271	$ 30,755
Other revenue	7,041	5,402	4,881
Total revenues	36,836	37,673	35,636
Cost of revenues	6,061	5,178	4,217
Gross profit	30,775	32,495	31,419
Operating expenses:			
Research and development, net	17,382	17,276	20,153
Selling and marketing	6,058	6,965	6,577
General and administrative	6,109	5,863	5,742
Amortization of intangible assets	1,127	892	823
Reorganization, restructuring and severance charge (Note 11)	8,620		3,207
Impairment of assets	3,233		510
Total operating expenses	42,529	30,996	37,012
Operating income (loss)	(11,754)	1,499	(5,593)
Financial income, net	63	796	1,820
Other income			1,507
Income (loss) before taxes on income	(11,691)	2,295	(2,266)
Taxes on income (Note 10)	300	645	
Net income (loss)	$ (11,991)	$ 1,650	$ (2,266)
Basic net income (loss) per share	$ (0.66)	$ 0.09	$ (0.12)
Diluted net income (loss) per share	$ (0.66)	$ 0.09	$ (0.12)
Weighted average number of shares of Common Stock used in computation of net income (loss) per share (in thousands)			
Basic	18,106	18,421	18,807
Diluted	18,106	19,016	18,807

The accompanying notes are an integral part of the consolidated financial statements.

CEVA, INC. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(U.S. dollars in thousands, except share data)

	Common Stock		Additional paid-in capital	Accumulated deficit	Total stockholders equity
	Shares	Amount			
Balance as of January 1, 2003	18,053,507	$ 18	$ 134,051	$ (23,997)	$ 110,072
Issuance of Common Stock upon exercise of employee stock options(a)	15,647	(*)	43		43
Issuance of Common Stock under employee stock purchase plan(a)	98,178	(*)	355		355
Net loss				(11,991)	(11,991)
Balance as of December 31, 2003	18,167,332	$ 18	$ 134,449	$ (35,988)	$ 98,479
Issuance of Common Stock upon exercise of employee stock options(a)	193,886	(*)	1,417		1,417
Issuance of Common Stock under employee stock purchase plan(a)	196,600	1 (*)	773		774
Stock-based compensation			229		229
Net income				1,650	1,650
Balance as of December 31, 2004	18,557,818	$ 19	$ 136,868	$ (34,338)	$ 102,549
Issuance of Common Stock upon exercise of employee stock options(a)	72,820	(*)	369		369
Issuance of Common Stock under employee stock purchase plan(a)	292,433	(*)	1,386		1,386
Stock-based compensation			195		195
Net loss				(2,266)	(2,266)
Balance as of December 31, 2005	18,923,071	$ 19	$ 138,818	$ (36,604)	$ 102,233

(*)

Represent an amount lower than $1.

(a)

See Note 7 to these consolidated financial statements.

The accompanying notes are an integral part of the consolidated financial statements.

CEVA, INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	Year ended December 31,		
	2003	**2004**	**2005**
Cash flows from operating activities:			
Net income (loss)	$ (11,991)	$ 1,650	$ (2,266)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	3,710	2,523	2,016
Impairment of tangible assets	910		110
Amortization of intangible assets	1,127	892	823
Redundant asset write down	464		
Impairment of intangible assets	973		400
Impairment of investment	1,350		
Stock-based compensation		229	195
Loss (gain) from sale of property and equipment	39	(9)	(14)
Gain (loss) on marketable securities		(50)	16
Unrealized foreign exchange loss (gain)	221	(72)	(109)
Accrued interest on short term bank deposits			(131)
Gain on realization of investment			(1,507)
Marketable securities		(30,744)	12,604
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	(3,736)	(569)	4,526
Decrease (increase) in other accounts receivable and prepaid expenses	(41)	612	(806)
Decrease (increase) in deferred income taxes		(195)	(697)
Decrease in inventories	168		
Decrease in trade payables	(524)	(404)	(1,052)
Increase (decrease) in deferred revenues	(51)	687	(1,298)
Increase (decrease) in accrued expenses and other payables	(4,983)	(4,233)	142
Decrease in taxes payable	(400)	(184)	(265)
Increase (decrease) in accrued severance pay, net	(56)	108	57
Net cash provided by (used in) operating activities	(12,820)	(29,759)	12,744
Cash flows from investing activities:			
Purchase of property and equipment	(2,691)	(3,125)	(908)
Proceeds from sale of property and equipment	142	54	14
Investment in short term bank deposits			(8,204)
Proceeds from realization of investment			1,507

Purchase of technology	(72)	(115)	(153)
Net cash used in investing activities	(2,621)	(3,186)	(7,744)
Cash flows from financing activities:			
Proceeds from issuance of Common Stock upon exercise of employee options	43	1,417	369
Proceeds from issuance of Common Stock under employee stock purchase plan	355	774	1,386
Net cash provided by financing activities	398	2,191	1,755
Effect of exchange rate movements on cash	363	468	(488)
Increase (decrease) in cash and cash equivalents	(14,680)	(30,286)	6,267
Cash and cash equivalents at the beginning of the year	73,810	59,130	28,844
Cash and cash equivalents at the end of the year	$ 59,130	$ 28,844	$ 35,111

The accompanying notes are an integral part of the consolidated financial statements.

CEVA, INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(U.S. dollars in thousands)

	Year ended December 31,		
	2003	**2004**	**2005**
Supplemental information of cash-flows activities:			
Cash paid during the year for:			
Income and withholding taxes, net	$ 450	$ 842	$ 1,383

The accompanying notes are an integral part of the consolidated financial statements.