

CEVA INC  
Form 10-Q  
May 09, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934.**

**For the quarterly period ended: March 31, 2011**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 000-49842**

**CEVA, Inc.**

**(Exact Name of Registrant as Specified in Its Charter)**

**Delaware**

**(State or Other Jurisdiction of Incorporation or Organization)**

**77-0556376**

**(I.R.S. Employer Identification No.)**

**1943 Landings Drive, Mountain View, California  
(Address of Principal Executive Offices)**

**94043  
(Zip Code)**

**(650) 417-7900**

**(Registrant's Telephone Number, Including Area Code)**

Indicate by check mark whether the registrant: (1) has filed all reports 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 23,036,576 shares of common stock, \$0.001 par value, as of May 5, 2011.



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**FORWARD-LOOKING STATEMENTS  
FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA**

This Quarterly 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 there is an industry shift towards licensing DSP technology from third party IP providers as opposed to developing it in-house;

Our belief that the full scale migration to our DSP cores and technologies in the handsets and mobile broadband markets has not been fully realized and continues to progress;

Our optimism about adoption of our technologies for new categories of products;

Our belief that Texas Instruments and Freescale's announcement of their intent to exit the baseband market, after historically having been large players in this market, as well as the emergence of merchant chips from companies such as Broadcom, Intel and Spreadtrum are strong positive drivers for our future market share expansion;

Our belief that both the handsets and mobile broadband markets continue to present significant growth opportunities for us;

Our belief that we are well-positioned to capitalize on the growth in the feature phone, smartphone and mobile broadband markets;

Our belief that CEVA-XC DSP enables the expansion of our licensee base in both existing wireless handsets market and new, untapped markets, such as wireless infrastructure, machine-2-machine and smart grids;

Our belief that our operating expenses will increase in 2011 as compared to 2010;

Our belief that the penetration of feature phones in emerging markets such as China, India and Africa could generate future growth potential for CEVA;

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;

Our belief that changes in interest rates within our investment portfolio will not have a material affect on our financial position on an annual or quarterly basis;

Market data prepared by third parties, including ABI Research, Ericsson, The Linley Group and Strategy Analytics.

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.

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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 Part II Item 1A Risk Factors of this Form 10-Q.

This report contains market data prepared by third parties, including ABI Research, Ericsson, The Linley Group and Strategy Analytics. Actual market results may differ from the projections of such organizations.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands, except share and per share data

	<b>March 31, 2011 Unaudited</b>	<b>December 31, 2010 Audited</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,058	\$ 17,098
Short term bank deposits	36,672	24,807
Marketable securities (see Note 3)	76,331	73,874
Trade receivables (net of allowance for doubtful accounts of \$25 at both March 31, 2011 and December 31, 2010)	1,172	5,906
Deferred tax assets	1,240	1,288
Prepaid expenses and other accounts receivable	5,120	4,609
Total current assets	135,593	127,582
Long term bank deposit 4,071 4,455	15,259	15,173
Severance pay fund	5,682	5,433
Deferred tax assets	831	574
Property and equipment, net	1,296	1,348
Goodwill	36,498	36,498
Total long-term assets	59,566	59,026
Total assets	\$ 195,159	\$ 186,608
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Trade payables	\$ 398	\$ 616
Deferred revenues	376	616
Accrued expenses and other payables	11,088	10,521
Deferred tax liabilities	888	901
Total current liabilities	12,750	12,654
Long term liabilities:		
Accrued severance pay	5,735	5,486
Stockholders equity:		
Common Stock:		
\$0.001 par value: 60,000,000 shares authorized; 22,824,695 and 22,524,449 shares issued and outstanding at March 31, 2011 and December 31, 2010,	23	23

respectively		
Additional paid in-capital	180,281	176,838
Accumulated other comprehensive income	429	317
Accumulated deficit	(4,059)	(8,710)
Total stockholders' equity	176,674	168,468
Total liabilities and stockholders' equity	\$ 195,159	\$ 186,608

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



**Table of Contents****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
**U.S. dollars in thousands, except share and per share data**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Revenues:		
Licensing	\$ 5,108	\$ 4,722
Royalties	9,206	4,980
Other revenue	738	899
Total revenues	15,052	10,601
Cost of revenues	948	714
Gross profit	14,104	9,887
Operating expenses:		
Research and development, net	5,250	4,609
Sales and marketing	2,224	1,808
General and administrative	1,754	1,546
Total operating expenses	9,228	7,963
Operating income	4,876	1,924
Financial income, net	545	557
Income before taxes on income	5,421	2,481
Income tax expenses	770	422
Net income	\$ 4,651	\$ 2,059
Basic net income per share	\$ 0.20	\$ 0.10
Diluted net income per share	\$ 0.19	\$ 0.09
Weighted-average number of shares of Common Stock used in computation of net income per share (in thousands):		
Basic	22,692	20,654
Diluted	23,888	21,911

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

**Table of Contents****INTERIM CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)**  
U.S. dollars in thousands, except share data

	Common stock		Accumulated			Total comprehensive income	Total stockholders equity
	Shares	Amount	Additional paid-in capital	other comprehensive income	deficit		
<b>Three months ended March 31, 2011</b>							
Balance as of January 1, 2011	22,524,449	\$ 23	\$ 176,838	\$ 317	\$ (8,710)		\$ 168,468
Net income					4,651	\$ 4,651	4,651
Unrealized gain from available-for-sale securities, net				95		95	95
Unrealized gain from hedging activities, net				17		17	17
Total comprehensive income						\$ 4,763	
Equity-based compensation				954			954
Tax benefit related to exercise of stock options				336			336
Issuance of Common Stock upon exercise of employee stock options	204,994	(*)	1,563				1,563
Issuance of Common Stock under employee stock purchase plan	95,252	(*)	590				590
Balance as of March 31, 2011	22,824,695	\$ 23	\$ 180,281	\$ 429	\$ (4,059)		\$ 176,674

	Common stock		Accumulated			Total comprehensive income	Total stockholders equity
	Shares	Amount	Additional paid-in capital	other comprehensive income (loss)	deficit		
<b>Three months ended March 31, 2010</b>							
Balance as of January 1, 2010	20,429,736	\$ 20	\$ 158,325	\$ 251	\$ (19,500)		\$ 139,096
Net income					2,059	\$ 2,059	2,059
Unrealized loss from available-for-sale securities, net				(14)		(14)	(14)
Unrealized loss from hedging activities, net				(82)		(82)	(82)
Total comprehensive income						\$ 1,963	
Equity-based compensation				584			584
Issuance of Common Stock upon exercise of employee stock options	443,964	1	2,910				2,911
Issuance of Common Stock under employee stock purchase plan	89,365	(*)	525				525
Balance as of March 31, 2010	20,963,065	\$ 21	\$ 162,344	\$ 155	\$ (17,441)		\$ 145,079

(\*) Amount less than \$1.

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

**Table of Contents****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**U.S. dollars in thousands**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,651	\$ 2,059
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation	125	122
Equity-based compensation	954	584
Loss (gain) on available-for-sale marketable securities	3	(6)
Amortization of premiums on available-for-sale marketable securities	514	346
Accrued interest on short term bank deposits	(242)	(187)
Unrealized foreign exchange loss (gain)	46	(17)
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	4,734	(748)
Decrease (increase) in prepaid expenses and other accounts receivable	(155)	1,201
Increase in deferred tax, net	(260)	(226)
Increase (decrease) in trade payables	(227)	138
Decrease in deferred revenues	(240)	(66)
Increase (decrease) in accrued expenses and other payables	452	(180)
Excess tax benefit from stock-based compensation	(336)	
Increase (decrease) in accrued severance pay, net	(1)	1
Net cash provided by operating activities	10,018	3,021
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(73)	(250)
Investment in bank deposits	(11,500)	(5,000)
Proceeds from bank deposits		20,416
Investment in available-for-sale marketable securities	(16,966)	(18,683)
Proceeds from maturity of available-for-sale marketable securities	13,097	8,563
Proceeds from sale of available-for-sale marketable securities	1,028	3,441
Net cash provided by (used in) investing activities	(14,414)	8,487
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of Common Stock upon exercise of employee stock options	1,563	2,911
Proceeds from issuance of Common Stock under employee stock purchase plan	590	525
Excess tax benefit from stock-based compensation	336	
Net cash provided by financing activities	2,489	3,436
Effect of exchange rate movements on cash	(133)	26

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Increase (decrease) in cash and cash equivalents	(2,040)	14,970
Cash and cash equivalents at the beginning of the period	17,098	12,104
Cash and cash equivalents at the end of the period	\$ 15,058	\$ 27,074

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

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(U.S. dollars in thousands, except share and per share amounts)**

**NOTE 1: BUSINESS**

The financial information in this quarterly report includes the results of CEVA, Inc. and its subsidiaries (the Company or CEVA ).

CEVA licenses a family of programmable DSP cores and application-specific platforms, including wireless baseband (both terminal and infrastructure), HD video, HD audio, Voice over IP, Bluetooth, Serial ATA (SATA) and Serial Attached SCSI (SAS).

CEVA's technologies are licensed to leading semiconductor and original equipment manufacturer (OEM) companies in the form of intellectual property (IP). These companies design, manufacture, market and sell application-specific integrated circuits (ASICs) and application-specific standard products (ASSPs) based on CEVA's technology to OEM companies for incorporation into a wide variety of end products.

**NOTE 2: BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The interim condensed consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2010, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2011, have been applied consistently in these unaudited interim condensed consolidated financial statements.

**NOTE 3: MARKETABLE SECURITIES**

Marketable securities consist of certificates of deposits, corporate bonds and securities and U.S. government sponsored enterprise securities. The Company determines the appropriate classification of marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 320 Investments- Debt and Equity Securities, the Company classifies marketable securities as available-for-sale securities. Available-for-sale securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity, net of taxes. Realized gains and losses on sales of marketable securities, as determined on a specific identification basis, are included in the consolidated statements of operations. The Company has classified all marketable securities as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date, because it may sell these securities prior to maturity to meet liquidity needs or as part of risk versus reward objectives.

The Company periodically assesses whether its investments with unrealized losses are other than temporarily impaired (OTTI). OTTI charges exist when the Company has the intent to sell a security, the Company will more likely than not be required to sell a security before anticipated recovery or the Company does not expect to recover the entire amortized cost basis of a security (that is, a credit loss exists). OTTI is determined based on the specific identification method and is reported in the interim condensed consolidated statements of operations. The Company did not recognize OTTI on its marketable securities during the three months ended March 31, 2011 and 2010.

Table of Contents**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**  
(U.S. dollars in thousands, except share and per share amounts)

	<b>As at March 31, 2011 (Unaudited)</b>			
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
<b>Available-for-sale matures within one year:</b>				
Certificates of deposits	\$ 1,040	\$ 3	\$	\$ 1,043
Corporate bonds and securities	23,575	131	(6)	23,700
	24,615	134	(6)	24,743
<b>Available-for-sale matures after one year through three years:</b>				
Government sponsored enterprises	599	1	(1)	\$ 599
Corporate bonds and securities	50,845	296	(152)	50,989
	51,444	297	(153)	51,588
<b>Total</b>	<b>\$ 76,059</b>	<b>\$ 431</b>	<b>\$ (159)</b>	<b>\$ 76,331</b>

	<b>As at December 31, 2010 (Audited)</b>			
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
<b>Available-for-sale matures within one year:</b>				
Certificates of deposits	\$ 5,358	\$ 3	\$	\$ 5,361
Corporate bonds and securities	25,909	112	(23)	25,998