

CEVA INC  
Form 10-Q  
May 12, 2014

**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, 2014**

**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: 20,985,983 shares of common stock, \$0.001 par value, as of May 5, 2014.

---

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Interim Condensed Consolidated Balance Sheets at March 31, 2014 (unaudited) and December 31, 2013</u>	2
<u>Interim Condensed Consolidated Statements of Income (unaudited) for the three months ended March 31, 2014 and 2013</u>	3
<u>Interim Condensed Consolidated Statements of Comprehensive Income (unaudited) for the three months ended March 31, 2014 and 2013</u>	4
<u>Interim Condensed Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2014 and 2013</u>	5
<u>Notes to the Interim Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	22
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	22
Item 1A. <u>Risk Factors</u>	22
Item 2. <u>Unregistered Sales Of Equity Securities And Use Of Proceeds</u>	31
Item 3. <u>Defaults Upon Senior Securities</u>	31
Item 4. <u>Mine Safety Disclosures</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	31
<b><u>SIGNATURES</u></b>	32

## 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:

We believe the adoption of our DSP cores and technologies in the handset, mobile broadband and base station markets continues to progress;

Our belief that our broadband communications, audio, voice, computational photography, embedded vision and connectivity product lines enable us to continue to expand our licensee base in the market for non-baseband applications;

Our belief that the growth of 3G low cost smartphones using integrated platforms from companies such as Broadcom, Intel and Spreadtrum, all of whom are our customers, will drive royalty revenue growth for us;

Our belief that we are well positioned to leverage (1) the increased adoption of low cost smartphones in developing countries, especially in India, (2) the broader adoption of 4G LTE-based advanced smartphones and lower cost LTE smartphones in China, (3) the introduction of feature set enhancements in audio, computational photography and embedded vision and Bluetooth connectivity in smart devices, and (4) the growing adoption of heterogeneous cellular base station networks composed of small cells and macrocells;

Our belief that our proven track record in audio/voice puts us in a strong position to power audio roadmaps across a new range of addressable end markets;

Our belief that the following key elements represent growth drivers for us: (1) our established market presence in the baseband market and the transition toward smartphones, (2) our proven track record in baseband technologies that allows us to expand to baseband markets, including small cells and macrocells, (3) the market potential for feature enhancements in computational photography and vision analytics in cameras, and (4) the market potential for advanced audio and voice processing, including the trend towards always on devices ;

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

Edgar Filing: CEVA INC - Form 10-Q

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

Market data prepared by third parties, including ABI Research 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.

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 party research firm. Actual market results may differ from their projections.

---

**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, 2014</b>	<b>December 31, 2013</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 28,201	\$ 24,117
Short term bank deposits	42,137	41,947
Marketable securities	65,338	68,464
Trade receivables	3,066	5,629
Deferred tax assets	3,278	3,457
Prepaid expenses and other current assets	3,641	1,996
<b>Total current assets</b>	<b>145,661</b>	<b>145,610</b>
Long term bank deposits	17,138	17,066
Severance pay fund	7,273	7,215
Deferred tax assets	1,036	955
Property and equipment, net	1,531	1,616
Goodwill	36,498	36,498
Investments in other companies	3,367	3,367
<b>Total long-term assets</b>	<b>66,843</b>	<b>66,717</b>
<b>Total assets</b>	<b>\$ 212,504</b>	<b>\$ 212,327</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current liabilities:		
Trade payables	\$ 622	\$ 1,085
Deferred revenues	800	623
Accrued expenses and other payables	2,646	2,955
Accrued payroll and related benefits	7,810	7,681
Income taxes payable, net	1,858	1,833
<b>Total current liabilities</b>	<b>13,736</b>	<b>14,177</b>
Long term liabilities:		
Accrued severance pay	7,383	7,255
Stockholders equity:		
Preferred Stock:		
\$0.001 par value: 5,000,000 shares authorized; none issued and outstanding		

Edgar Filing: CEVA INC - Form 10-Q

Common Stock:

\$0.001 par value: 60,000,000 shares authorized; 23,595,160 shares issued at March 31, 2014 and December 31, 2013. 21,031,689 and 21,181,730 shares outstanding at March 31, 2014 and December 31, 2013, respectively

	21	21
Additional paid in-capital	206,107	204,415
Treasury stock at cost (2,563,471 and 2,413,430 shares of common stock at March 31, 2014 and December 31, 2013, respectively)	(43,678)	(41,005)
Accumulated other comprehensive loss	(56)	(81)
Retained earnings	28,991	27,545
<b>Total stockholders' equity</b>	<b>191,385</b>	<b>190,895</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 212,504</b>	<b>\$ 212,327</b>

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

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

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

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Revenues:		
Licensing and related revenue	\$ 7,906	\$ 5,034
Royalties	5,768	7,082
Total revenues	13,674	12,116
Cost of revenues	1,112	1,575
Gross profit	12,562	10,541
Operating expenses:		
Research and development, net	5,996	5,039
Sales and marketing	2,393	2,355
General and administrative	2,040	1,838
Total operating expenses	10,429	9,232
Operating income	2,133	1,309
Financial income, net	460	729
Income before taxes on income	2,593	2,038
Income taxes	608	333
Net income	\$ 1,985	\$ 1,705
Basic and diluted net income per share	\$ 0.09	\$ 0.08
Weighted-average shares used to compute net income per share (in thousands):		
Basic	21,159	22,197
Diluted	21,590	22,670

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



**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(UNAUDITED)**
**U.S. dollars in thousands**

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net income:	\$ 1,985	\$ 1,705
Other comprehensive income (loss) before tax:		
Available-for-sale securities:		
Changes in unrealized losses	(7)	(15)
Reclassification adjustments for gains (losses) included in net income	1	(143)
Net change	(6)	(158)
Cash flow hedges:		
Changes in unrealized gains	28	106
Reclassification adjustments for losses included in net income	(1)	(100)
Net change	27	6
Other comprehensive income (loss) before tax	21	(152)
Income tax benefit related to components of other comprehensive income (loss)	4	39
Other comprehensive income (loss), net of taxes	25	(113)
Comprehensive income	\$ 2,010	\$ 1,592

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

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

U.S. dollars in thousands

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,985	\$ 1,705
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation	162	154
Equity-based compensation	1,513	1,318
Realized loss (gain), net on sale of available-for-sale marketable securities	1	(143)
Amortization of premiums on available-for-sale marketable securities	298	380
Accrued interest on bank deposits	116	(352)
Unrealized foreign exchange loss	1	43
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	2,564	(1,130)
Increase in prepaid expenses and other current assets	(1,455)	(1,293)
Decrease (increase) in deferred tax, net	108	(204)
Decrease in trade payables	(455)	(87)
Increase (decrease) in deferred revenues	177	(382)
Decrease in accrued expenses and other payables	(298)	(619)
Increase in accrued payroll and related benefits	166	1,033
Increase in income taxes payable	25	156
Excess tax benefit from equity-based compensation	(179)	
Increase in accrued severance pay, net	70	91
Net cash provided by operating activities	4,799	670
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(77)	(298)
Investment in bank deposits	(21,389)	(21,000)
Proceeds from bank deposits	21,000	18,444
Investment in available-for-sale marketable securities	(10,084)	(20,430)
Proceeds from maturity of available-for-sale marketable securities	700	3,916
Proceeds from sale of available-for-sale marketable securities	12,205	11,822
Investments in other company		(300)
Net cash provided by (used in) investing activities	2,355	(7,846)
<b>Cash flows from financing activities:</b>		
Purchase of Treasury Stock	(4,127)	(2,002)
Proceeds from exercise of stock-based awards	915	826
Excess tax benefit from equity-based compensation	179	
Net cash used in financing activities	(3,033)	(1,176)
Effect of exchange rate movements on cash	(37)	(70)

Edgar Filing: CEVA INC - Form 10-Q

Increase (decrease) in cash and cash equivalents	4,084	(8,422)
Cash and cash equivalents at the beginning of the period	24,117	18,422
Cash and cash equivalents at the end of the period	\$ 28,201	\$ 10,000
Supplemental information of cash-flow activities:		
Cash paid during the period for:		
Income and withholding taxes, net of refunds	\$ 289	\$ 417

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

---

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

**(U.S. dollars in thousands, except share data)**

**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 communications (wireless, Wi-Fi and Bluetooth), computational photography, computer vision, audio, voice, 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 wireless, consumer electronics and automotive companies for incorporation into a wide variety of end products.

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

***Basis of Presentation***

The interim condensed consolidated financial statements have been prepared according to U.S Generally Accepted Accounting Principles ( U.S. GAAP ).

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. 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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2013, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2014, have been applied consistently in these unaudited interim condensed consolidated financial statements.

***Use of Estimates***

The preparation of the interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the interim condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.



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

(U.S. dollars in thousands, except share data)

**NOTE 3: MARKETABLE SECURITIES**

The following is a summary of available-for-sale marketable securities at March 31, 2014 and December 31, 2013:

	As at March 31, 2014 (Unaudited)			
	Amortized	Gross unrealized	Gross unrealized	Fair
	cost	gains	losses	value
<b>Available-for-sale securities - matures within one year:</b>				
Corporate bonds	\$ 3,549	\$ 15	\$ (4)	\$ 3,560
<b>Available-for-sale securities - matures after one year through three years:</b>				
Corporate bonds	61,885	140	(247)	61,778