Cape Fear Bank CORP
Form DFAN14A
August 12, 2008

SCHEDULE 14A INFORMATION

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

(Amendment No. __)

Filed by the Registrant o
Filed by a Party other than the Registrant x

Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
x Definitive Additional Materials
o Soliciting Material Pursuant to ss.240.14a-12

CAPE FEAR BANK CORPORATION

(Name of Registrant as Specified In Its Charter)

Maurice J. Koury
The Maurice and Ann Koury Charitable Trust
The Maurice J. Koury Foundation, Inc.
Scott C. Sullivan
Miltom E. Petty
Mort Neblett
Haywood Cochrane, Jr.
James S. Mahan III
David Lucht
Robert Isser

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

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

---

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

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

____

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

____

(3) Filing Party:

____

(4) Date Filed:

____

On August 12, 2008, Maurice J. Koury, The Maurice and Ann Koury Charitable Trust, The Maurice J. Koury Foundation, Inc., Scott C. Sullivan, Miltom E. Petty, Mort Neblett, Haywood Cochrane, Jr., James S. Mahan III, David Lucht and Robert Isser issued the following press release.

Leading Independent Proxy Advisory Firms ISS and Glass Lewis Recommend that Shareholders of Cape Fear Bank Corporation Vote the BLUE Proxy Card

Wilmington, NC - August 12, 2008 - We are pleased to announce that RiskMetrics Group - Institutional Shareholder Services (ISS) and Glass Lewis & Co. (Glass Lewis), the leading independent proxy voting advisory and corporate governance firms, recommend that the shareholders of Cape Fear Bank Corporation (NASDAQ: CAPE) vote the **BLUE proxy card** in connection with the election of directors at the upcoming annual meeting and NOT the company s white proxy card. Specifically, ISS recommended the election of James S. Mahan III and Mort Neblett. Glass Lewis recommended the election of James S. Mahan III and David Lucht. ISS and Glass Lewis based their recommendations on their independent and comprehensive analyses of the company, the current board and our nominees.

We certainly agree with the recommendations of Messers. Mahan, Neblett and Lucht, and we are pleased that both ISS and Glass Lewis support us. We also feel that you should vote FOR the other the other nominees on the **BLUE proxy card**. We believe that their experience and expertise, like that of Messrs. Mahan, Neblett and Lucht, will bring value to the company s boardroom. Therefore, we urge you to vote for the election of Scott C. Sullivan, Mort Neblett, Haywood Cochrane, Jr., James S. Mahan III, David Lucht and Robert Isser by voting the **BLUE proxy card** today.

ISS and Glass Lewis recognize that the company has underperformed its peers

Consistent with the analysis in our proxy statement, Glass Lewis stated in its report, Cape Fear s operating performance lags the industry averages with respect to a number of metrics including returns, efficiency and profitability. **In addition, the company s stock has underperformed its peers for an extended period and its shares are currently at a five-year low.**

In addition, in comparing the company to the local peer group disclosed on the company s website, ISS noted that the company has generally trailed the peer group median in terms of operational performance since 2004. ISS also questioned the deterioration in the company s loan portfolio and the allowances for loan losses, which currently represent just over one-half of nonperforming assets.

The current board s actions raise corporate governance concerns for ISS and Glass Lewis

ISS criticized CEO/Chairman Cameron Coburn s single trigger change-in-control arrangement as problematic and a poor pay practice. As we stated in our proxy statement, we believe this is another mechanism to entrench an unproven and, thus far, ineffective executive officer.

Glass Lewis cautioned shareholders that management nominee, Craig S. Relan, served as chairman of the audit committee during the last fiscal year. As you recall, the company reported on April 3, 2008 that it had identified material weaknesses in its internal controls over financial reporting, particularly related to its allowance for loan losses. The Glass Lewis report warned, We believe such material weaknesses may signal weak internal accounting expertise, poor internal controls and aggressive financial reporting practices at the company. Glass Lewis concluded, **In this case, we believe that the chairman of the audit committee has not satisfactorily performed his duties in this regard.**

Glass Lewis questioned other practices by the company s audit committee and its chairman. We note that the audit committee has not appointed an audit committee financial expert as defined by the SEC. An audit financial expert is essential in providing the committee with expert advice and guidance as it relates to the oversight of the company s accounting and financial reporting. **We believe this is a serious omission for which the chair of the audit committee should be held accountable**.

In contrast, if our nominees are elected, we intend to appoint Miltom E. Petty, who is a certified public accountant with experience in audit and accounting, as a seventh director and the financial expert on the audit committee. We initially proposed Mr. Petty as our seventh director nominee, but we removed him from our slate in response to the company reducing the size of the board to six directors. We would have preferred to allow you to elect Mr. Petty, but believe having a financial expert is important enough that he should be appointed to the board.

ISS and Glass Lewis criticize the board s timing of a potential sale

Concerning a sale of the company, Glass Lewis cautioned, We believe that shareholders should be concerned regarding the board s timing of a potential sale. In December 2007, the board determined to not hold discussions with Mr. Koury regarding an offer to acquire the company for $12.00 per share. However, it now believes a strategic transaction could be best for shareholders at the current depressed values.

ISS shared this sentiment. It stated, [W]e question why the board did not consult with its financial advisor prior to rejecting [Mr. Koury s] December 2007 offer, if only to gauge the attractiveness of such offer in a softening economy as well as to decide whether the time was right to seek out interested parties. The analyses of Glass Lewis and ISS give even more credence to our criticism of the company s lack of focus and direction.

ISS agrees that our nominees have more financial and banking experience than the current board

According to ISS, **[a] comparative analysis of the dissident and management slates indicates that the dissident has more relevant financial and banking experience.** ISS highlighted nominee Scott Sullivan who is a manager at Cameron Management LLC, an investment firm focused on real estate and other financial investments, and previously served on Wachovia Bank s local advisory board. ISS continues by discussing the experience of Messrs. Neblett, Mahan and Lucht, who, collectively, have a wealth of banking, investment banking and financial experience. In contrast, ISS noted that, other than CEO/Chairman Cameron Coburn, the current board consists of a realtor/broker, a restaurant operator, and others not employed in the banking or financial industry.

The professional proxy advisory firms agree that the company needs a change in the boardroom

In its report, Glass Lewis stated that it generally does not favor dissident board nominees unless one of the following two things has occurred: (i) there are serious problems at the company and the newly proposed nominee has a clear and realistic plan to solve those problems; or (ii) the current board has undertaken an action clearly contrary to the interests of shareholders (or failed to undertake an action clearly to the benefit of shareholders). Consistent with our proxy statement, Glass Lewis found that the company had serious problems and could benefit from new, independent directors. Similarly, ISS declared that it makes recommendations solely on its professional opinion of what is in the shareholders best interests.

ISS and Glass Lewis recognize that Live Oak Banking Company, the Wilmington-based employer of Messrs. Mahan and Lucht, is not a competitor to the company. Live Oak Banking Company s business is to make specialty loans - it does not seek local deposits or otherwise serve as a community bank. **Therefore, we urge you to follow the independent advice of ISS and Glass Lewis, the leading, independent proxy advisory firms.**

Vote the BLUE proxy card for the election of our nominees

We strongly urge you to vote FOR Messrs. Mahan, Lucht, Sullivan, Neblett, Cochrane and Isser on the **BLUE proxy card**. We are confident that these gentlemen, as a group, possess the knowledge, experience and leadership to invigorate the boardroom, to respond to shareholder concerns and to ensure an effective management team dedicated to maximizing shareholder returns.

We entirely agree with Glass Lewis assessment that the participation of new directors will likely be of value in the board s strategic review process, ... (and) independent directors with substantial industry experience could assist management in crafting such a turn-around of the bank. Please vote the **BLUE proxy card**, and we pledge to work tirelessly for you.

If you have any questions or need assistance in voting your shares, please contact D.F. King & Co., Inc., which is assisting in our solicitation of proxies:

D.F. King & Co., Inc.
48 Wall Street, 22nd Floor
New York, NY 10005

Shareholders call toll free (800) 290-6427
Banks and Brokers call collect (212) 269-5550

Important Information
In connection with Cape Fear Bank Corporation s (the company) 2008 annual meeting of shareholders (the Annual Meeting), Maurice J. Koury, The Maurice and Ann Koury Charitable Trust, The Maurice J. Koury Foundation, Inc., Scott C. Sullivan, Miltom E. Petty, Mort Neblett, Haywood Cochrane, Jr., James S. Mahan III, David Lucht and Robert Isser (the Group) filed with the SEC and mailed to shareholders a definitive proxy statement on July 17, 2008. The Annual Meeting is to be held at 9:30 a.m. on Tuesday, August 19, 2008, at the University of North Carolina at Wilmington Executive Development Center located at 1241 Military Cutoff Road, Wilmington, North Carolina. Shareholders are strongly advised to read the Group s definitive proxy statement. Shareholders may obtain a free copy of the definitive proxy statement and any other documents filed by the Group with the SEC at the SEC s website at www.sec.gov. The definitive proxy statement may also be obtained for free from D.F. King & Co., Inc. 48 Wall Street, 22nd Floor, New York, NY 10005. Shareholders may call D.F. King & Co. toll free at (800) 290-6427. In connection with the Annual Meeting, the individuals comprising the Group and employees of D.F. King & Co. may solicit proxies from shareholders of the company by mail, advertisement, telephone, electronic means and personal solicitation. Shareholders may obtain more information regarding the names, affiliations and interests of the individuals comprising the Group in the Group s definitive proxy statement. This press release includes quotations from previously published material from ISS and Glass Lewis. We did not seek the consent of the author or publication to the use of any such material as proxy soliciting material nor has any consent been granted. We have not directly or indirectly paid or proposed to make any payments or give any other consideration to either ISS or Glass Lewis in connection with the preparation, publication or republication of any such material.

d customers in the future.

Moreover, we anticipate that we will depend upon new license agreements and purchase orders to generate revenues for future quarters because, historically, Ceva s license agreements have not generally provided for substantial ongoing license payments, although they may provide for royalties based on product shipments. Therefore, significant portions of our anticipated future revenue will likely depend upon our success in attracting new customers or expanding our relationships with existing and former customers. Our ability to attract new customers and expand our relationships with existing and former customers will depend on a variety of factors, including the performance, quality, breadth and depth of our current and future products. Our failure to obtain agreements with these customers will impede our future revenue growth.

In addition, our unit royalties from licenses are totally dependent upon the success of our licensees in introducing products incorporating our technology and the success of those products in the marketplace. If we do not retain our current licensees and customers and continue to attract new licensees and customers, our business may be harmed.

Our quarterly operating results will fluctuate due to a variety of factors and are not a meaningful indicator of future quarterly performance.

The operating results of each of Ceva s DSP cores licensing business and Parthus IP platforms licensing business have fluctuated from quarter to quarter in the past, and our operating results as a combined company may continue to do so in the future. As a result, it is possible that in some quarters, ParthusCeva s 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 results of operations in the future include, among other things:

timely introduction, demand and market acceptance of new or enhanced products;

- new product announcements and introductions by competitors;
- supply constraints for and changes in the cost of components incorporated in our products;
- timing and volume of orders and production;
- gain or loss of significant customers, licensees, distributors and suppliers; and
- changes in our pricing policies and those of our competitors and suppliers.

Parthus has implemented a reduction in workforce in connection with the streamlining of two product lines. The reduction in workforce and realignment of resources is expected to result in the incurrence of a one time restructuring charge during Parthus third quarter of fiscal 2002 of approximately $3 million. However, we cannot assure you that the restructuring charge will not exceed that amount.

13

Table of Contents

ParthusCeva s operating results will also be affected by general economic and other conditions affecting the timing of customer orders and capital spending. Unfavorable general economic conditions have harmed Ceva s DSP cores licensing business and Parthus IP platforms licensing business in the past and may continue to harm our business in the future.

Seasonal trends may cause our quarterly operating results to fluctuate, which may adversely affect the market price of our common stock.

Historically, there have been seasonal variations in the operating results of our DSP cores licensing business. Typically this business has generated more licensing revenues in the last quarter of the fiscal year, which we believe may be due to our licensees desire to exhaust their year-end budgets, as well as prepare for the next year s new design trends. These seasonal trends may cause ParthusCeva s operating results to fluctuate, which may have an adverse effect on our stock price.

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

In recent years, both the manufacturing processes and the complexity of semiconductor chips have advanced significantly, requiring chip manufacturers to either devote the substantial resources required to develop all of the components found in many of today s complex chips, or outsource some of these functions to third parties. Due to a lack of qualified personnel, many semiconductor designers and manufacturers are increasingly licensing from third parties proven re-useable intellectual property components, such as DSP cores, general purpose processors, memory technologies and logic blocks. Our programmable DSP technology is part of a relatively young and evolving market for third-party semiconductor intellectual property (SIP). Our future growth will depend on the level of acceptance by the market of this intellectual property concept and the variety of intellectual property offerings available on the market, which to a large extent are not in our control. 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.

Since we do not sell our products directly to end users, we depend on the success of our licensees to promote our solutions in the marketplace.

We license our technology primarily to semiconductor companies, such as STMicroelectronics, Texas Instruments and National Semiconductor, who then incorporate our technology into the products they sell or incorporate our intellectual property with technology from other sources to produce components that they sell. We rely to a large extent on manufacturers and designers of application-specific integrated circuits (ASICs) and application-specific standard products (ASSPs) to add value to our licensed DSP cores by providing complete SmartCores-based programmable DSP solutions to meet the specific application needs of system OEMs. We believe that our licensee network is essential to improving our brand name recognition, bringing more rapid acceptance of our architectures and platforms and ensuring that there are multiple, reliable sources of products incorporating our technologies available at competitive prices. We cannot assure you that we will be able to maintain our current relationships or establish new relationships with additional licensees, and any failure by us to do so could have a material adverse effect on our business. Existing and potential licensees are not contractually obligated to use our architecture and some of them design and develop processors based on competing architectures, including their own, and others may do so in the future. None of our current semiconductor manufacturer customers is obligated to license new or future generations of our technology designs. In addition, 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 to consumer product manufacturers. We cannot assure you that our licensees will devote satisfactory efforts to promote our solutions which is important to our business and future growth.

We also depend significantly on system OEMs to adopt our solutions and on their success in selling products containing our technology.

Although we have licensed directly to system OEMs in the past, these companies typically purchase chips or components containing our technology from our semiconductor manufacturing licensees. As system OEMs are the creators of many of the final products containing our technology, our success is substantially dependent upon the adoption and continued use of chips containing our technology by system OEMs. We face numerous risks because of this fact, including the potential difficulties in persuading large system OEMs to rely on our technology for their critical components, rather than developing the technology themselves or relying on competing products of more established companies with greater resources and name recognition than we have. In addition, we might face difficulties in persuading users of our technologies to bear certain development costs associated with adopting our technologies and to make other necessary investments to produce embedded processors using our technologies, and of electronic product manufacturers to incorporate our technologies into their products. We depend on electronic product manufacturers to incorporate our technology in their products, and any failure by them to do so or to successfully sell their products to end users could substantially limit our revenue growth.

We also face substantial risks which are beyond our control that influence the success or failure of our existing or potential system OEM customers, including the competition they face and the market acceptance of their products; their engineering, marketing and management capabilities and the technical challenges unrelated to our technology that they face in developing their products; and their financial and other resources. The failure of one or more of the system OEMs using our technology may have a material adverse effect on our business, results of operations and financial condition.

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

The markets for programmable DSP cores and IP platforms are characterized by rapidly changing technology, emerging markets and new and developing end-user needs, requiring significant expenditure for research and development. Our future success will depend on our ability to develop enhancements to and new generations of our IP platforms and our SmartCores family of DSP cores, DSP based sub-systems and related development tools to address the requirements of specific product applications, and to introduce these new technologies in a timely manner. Our success will further depend upon our ability to successfully identify, anticipate and respond to technological changes in hardware, software and architecture, and the needs associated with emerging markets within our field. 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. In addition, the reduction in the number of employees devoted to RF and wireless communications research and development as the result of the Parthus reduction in force in September 2002 could adversely affect our ability to attract or retain customers who require those capabilities from their IP providers either specifically or as part of integrated IP solutions.

To remain competitive, we must be able to meet our needs for substantial capital, and financing from other sources may not be available on favorable terms, if at all.

We believe that success in our markets requires substantial capital in order to maintain the flexibility to take advantage of opportunities as they arise and to fund our anticipated combined research and development needs. Our capital requirements may vary greatly from quarter to quarter, depending on, among other things, capital expenditures, fluctuations in our operating results, financing activities, acquisitions and investments and receipt of receivables. In the past, capital needs for our DSP cores licensing business have been satisfied by DSP Group. However, as a result of the separation of the DSP cores licensing business from DSP Group, DSP Group will no longer provide funds to finance our working capital or other cash requirements. We believe that the existing resources of Ceva and Parthus, including existing cash and cash equivalents, and anticipated cash flows from operations, will be adequate to meet the combined company s projected working capital, capital expenditure and research and development requirements for at least the next 12 months. However, we may need to raise funds sooner if, among other things, we acquire additional businesses, products or technologies. We cannot assure you

Table of Contents

that additional financing will be available on commercially reasonable terms, if at all, which may prevent ParthusCeva from taking advantage of available opportunities. To the extent that existing resources and anticipated cash flows are not adequate for the combined company s operational and other cash needs, our operating results and financial position could be harmed. If additional funds were raised through the issuance of equity securities, your percentage ownership in ParthusCeva would be reduced. Moreover, our ability to raise funds using equity securities may be limited because the separation agreement provides that we will not issue capital stock or take certain other actions during the one-year period following the distribution unless either DSP Group consents to the action or we receive a supplemental ruling from the Internal Revenue Service or an opinion of tax counsel satisfactory to DSP Group to the effect that the action will not cause the distribution to be taxable to either DSP Group or its stockholders. If we were to issue equity securities without fulfilling these conditions, we would be required to indemnify DSP Group if such issuance causes the distribution to be taxable to DSP Group. Similarly, future debt financings could involve restrictive covenants that may limit our ability to manage and grow our business.

We depend on a limited number of key personnel who would be difficult to replace. If we lose the services of these individuals or cannot hire additional qualified personnel, our business will be harmed.

The success of ParthusCeva will depend to a significant extent upon our key employees and senior management. The loss of the service of these employees could materially harm us. We believe that the future success of ParthusCeva will depend in large part upon our ability to attract and retain highly skilled technical, managerial and marketing personnel. Competition for skilled employees in these fields is intense. We cannot assure you that we will be successful in attracting and retaining the required personnel. In addition, we cannot assure you that the Ceva and Parthus management teams who became part of our company as a result of the separation and the combination, or their respective employees, will remain employed by ParthusCeva, or if they remain employed, will successfully work together to build our business.

The continued growth and success of ParthusCeva will also depend on the managerial and technical skills of key technical, sales and management personnel, whose knowledge of our business and industry would be difficult to replace. In addition, although Ceva employees have executed agreements containing non-competition provisions, the enforceability of these provisions in Israel has been questioned and we cannot assure you that a court would enforce the terms of these provisions. Because of these facts, our employees could join competitors. If any of the members of ParthusCeva s senior management team, including Kevin Fielding and Gideon Wertheizer, are unable or unwilling to continue in ParthusCeva s employ, our results of operations could be materially harmed.

ParthusCeva s success will also depend on our ability to manage our expanding and geographically dispersed operations successfully.

Any expansion of our operations in the near future is likely to place a significant strain on our existing managerial resources and may require us to retain additional management personnel. Expansion may also require us to implement additional operating and financial controls, improve coordination among engineering and finance functions, and hire additional personnel. As part of this process, we would need to install additional reporting and management information systems for production monitoring and financial reporting. To the extent we are unable to attract additional management personnel in a timely fashion, or lose the services of our existing management personnel, our operating results and financial position could be harmed.

Although ParthusCeva will be headquartered in San Jose, California, most of our executives will be based in Dublin, Ireland and Herzeliya, Israel and most of our employees will be based in Dublin. 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 ParthusCeva s customers and respond to changes in our markets. If we are unable to effectively manage our remote operations, our business may be harmed.

Table of Contents

We may seek to expand our business through acquisitions that could result in diversion of resources and extra expenses, which could disrupt our business and harm our financial condition.

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. Future acquisitions could result in:

- potential dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities;
- amortization of intangibles and impairment of goodwill;
- research and development write-offs; and
- other acquisition-related expenses.

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, ParthusCeva 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.

ParthusCeva may not be able to adequately protect its intellectual property.

ParthusCeva s success and ability to compete will depend in large part upon protecting our proprietary technologies. We will 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.

As part of their confidentiality procedures, both Ceva s DSP cores licensing business and Parthus IP platforms licensing business generally have entered into non-disclosure agreements with their employees, consultants and corporate partners and have attempted to control access to and distribution of their technologies, documentation and other proprietary information. We plan to continue these procedures. Despite these procedures, third parties could copy or otherwise obtain and make unauthorized use of our technologies or independently develop similar technologies. The steps Parthus and Ceva have taken and that ParthusCeva may take in the future may not prevent misappropriation of our solutions or technologies, particularly in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States.

Effective protection of intellectual property rights may be unavailable or limited, both in the United States and in foreign countries. Patent protection throughout the world is generally established on a country-by-country basis. Ceva and Parthus have applied for patent protection for some of their technologies both inside the United States and in various countries outside the United States. However, we cannot assure you that pending patents that are being transferred and assigned to ParthusCeva will issue or that the issued patents will be valid or enforceable. We cannot assure you that the protection of our proprietary rights will be adequate or that our competitors will not independently develop similar technologies, duplicate our services or design around any patents or other intellectual property rights we hold.

Table of Contents

Our tradenames 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. In the United States, the trademark SmartCore has been registered by an unrelated company. While we have successfully co-existed with this other trademark holder, we cannot assure you that this state of affairs will continue. If we were forced to change any of our brand names, we could lose a significant amount of our brand equity.

If we fail to protect our intellectual property rights and proprietary technologies adequately, if there are changes in applicable laws that are adverse to our interests, or if we become involved in litigation relating to our intellectual property rights and proprietary technologies or relating to the intellectual property rights of others, our business, results of operations and financial condition could be harmed.

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 neither DSP Group (with respect to the DSP cores licensing business) nor Parthus was involved in any material litigation regarding its respective intellectual property prior to the combination, we will be subject to the risk of adverse claims and litigation alleging infringement of the intellectual property rights of others in the future. Many participants in the semiconductor intellectual property industry have an increasing number of patents and patent applications and have frequently demonstrated a readiness to pursue litigation based on allegations of patent and other intellectual property infringement. Our products rely on technology that could be the subject of existing patents or patent applications of third parties. There are 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. Third parties may assert infringement claims in the future with respect to our current or future products. These claims 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. For additional discussion of our intellectual property and proprietary rights, see Business Proprietary Rights.

In any potential dispute involving our patents or other intellectual property, our licensees could also become the target of litigation. Some of our license agreements require us to provide technical support and information to a licensee who is subject to litigation involving the use of our technology. We are also generally bound to indemnify many of our licensees under the terms of their license agreements, particularly with respect to our IP platforms licensing business, and we may agree to indemnify others in the future. We could incur substantial expenses for these support and indemnification obligations. In addition to the time and expense required for us to supply support or indemnification to these licensees, their development, marketing and sales of products incorporating our technology could be severely disrupted or shut down as a result of litigation, which in turn could have a material adverse effect on our business, financial condition and results of operations.

The industries in which we license our technologies are experiencing a challenging period of slow growth and have experienced and will continue to experience other cyclical effects which may negatively impact our operating results and business.

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, if the downturn is sufficiently prolonged or severe, encourage semiconductor companies or electronic product manufacturers to

Table of Contents

reduce their expenditure on our technology. During 2001, the semiconductor industry as a whole experienced the most severe contraction in its history, with total semiconductor sales worldwide declining by more than 30%, according to the Semiconductor Industry Association. The market for semiconductors used in mobile communications was particularly hard hit, with the overall decline in sales worldwide estimated by Gartner Dataquest to have been well above 30%. If the market does not recover during the second half of 2002 and the beginning of 2003, our business could be materially and adversely affected. In addition, economic problems in certain regions have harmed and may continue to negatively affect our business. For example, in recent years certain Asian countries have experienced significant economic difficulties, including currency devaluation and instability, business failures and a depressed business environment. These difficulties triggered a significant downturn in the semiconductor market, resulting in reduced budgets for our solutions which, in turn, negatively impacted our Asian business activities. Our business is harmed when capital and research and development budgets of our current and potential customers are curtailed.

The slow growth of the telecommunication and semiconductor industries has resulted and may continue to result in the reduction of capital and research and development budgets or the delay of product introduction, both of which have resulted and may continue to result in a reduction in demand for our products. Our success depends on increasing demand for products that use our technology. In particular, in 2001, more than 56% of Ceva s sales of DSP cores were to chip manufacturers whose products are incorporated in or are being developed for use in digital cellular telephones. Recently there has been a downturn in the cellular handset industry. As a result, the growth rate of sales by our customers and potential customers has slowed significantly. Demand for other products that incorporate our DSP cores, such as MP3 devices, hard disk drives and voice over packet network services, has also weakened. For example, Ceva s total revenues decreased by 35% for the second quarter of 2002 as compared to the second quarter of 2001 as a result of the global economic slowdown which inhibited Ceva s ability to obtain new licensees. Continued weakening demand for digital cellular telephones and these other products will adversely affect our ability to maintain our current growth rate, and could harm our financial results.

Our failure to detect unknown defects could materially harm our relationship with customers, reputation and business.

Designs as complex as those we offer frequently contain undetected errors. Despite testing, errors may occur in our existing or new designs, which could result in loss of revenue or market share, failure to achieve market acceptance, diversion of development resources, injury to our reputation, indemnification claims, litigation, increased insurance costs and increased service costs, any of which could materially harm our business. Furthermore, we often provide implementation, customization, consulting and other technical services in connection with licenses of our IP. In addition, since we typically do not control the manufacturing of products containing our technology, which are made in many different foundries chosen by our licensees, we may be blamed for their manufacturing defects. Our inability to meet customer expectations with respect to our IP and delivery of other services in a timely manner could also result in a loss of or delay in revenue, loss of market share, failure to achieve market acceptance, injury to our reputation, litigation and increased costs which could harm our results of operations and financial condition.

Because customers rely on our DSP core designs and IP platforms as a central part of their applications, errors in our products might discourage customers from purchasing our products. These errors could also result in product liability or warranty claims. Although we attempt to reduce the risk of losses resulting from these claims through warranty disclaimers and liability limitation clauses in our license agreements, these contractual provisions may not be enforceable or sufficient in every instance. Furthermore, although we maintain errors and omissions insurance, this insurance coverage may not adequately cover these claims. If a court refused to enforce the liability-limiting provisions of our agreements for any reason, or if liabilities arose that were not contractually limited or adequately covered by insurance, our business could be materially harmed.

Table of Contents

We have a very lengthy sales cycle, which increases the likelihood that our quarterly revenue will fluctuate and which may, in turn, adversely affect the market price of our common stock.

Our lengthy sales cycle may also cause our revenue and operating results to vary unpredictably from period to period. The period of time between our initial contact with a potential customer and the receipt of a request for a quote on an intellectual property license is generally at least six months, and the time from such a request to a binding contract is generally at least another four to six months. Due to the complexity of our technology and of the legal framework in which our industry operates, we must devote a substantial amount of time to negotiating the terms of our licensing arrangements with our customers. In addition, customers perform, and require us to perform, extensive process and product evaluation and testing before entering into purchase or licensing arrangements. Even after we enter into an agreement and provide a final product to a customer in the form of silicon or intellectual property, we expect that it will be at least six months more before the customer begins to sell its products incorporating our technology, and therefore even longer before we begin to receive royalty income.

Many of the milestones along the sales cycle for our IP platforms business are beyond our control and difficult to predict. This fact makes it more difficult to forecast our quarterly results and can cause substantial variations in operating results from quarter to quarter that are unrelated to the long-term trends in our business. This lack of predictability and variability in our results could harm our stock price and could significantly affect it in particular periods.

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 used are highly competitive. Aggressive competition could result in substantial declines in the prices that we are able to charge for our intellectual property. It could also cause our existing customers to move their orders to our competitors. Many of our competitors are large companies that have significantly greater financial and other resources than we have. As a result, they may be able more quickly and effectively to:

- respond to new technologies or technical standards;
- react to changing customer requirements and expectations;
- devote needed resources to the development, production, promotion and sale of products; or
- deliver competitive products at lower prices.

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 and production. 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 bases could have a material adverse effect on our business, results of operations and financial condition.

Terrorist attacks and threats or actual war may negatively impact all aspects of ParthusCeva s operations, revenues, costs and stock price.

Recent terrorist attacks in the United States, as well as any future events occurring in response to or in connection with them, including, without limitation, future terrorist attacks against United States targets, rumors or threats of war, actual conflicts involving the United States or its allies or military or trade disruptions impacting our domestic or foreign suppliers, may substantially negatively impact our operations. Any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. They also could result in economic recession in the United States or abroad. Any of these occurrences could have a significant impact on our operating results, revenues and costs.

Table of Contents

RISKS RELATING TO THE DSP CORES LICENSING BUSINESS

Our DSP cores licensing business depends on OEMs and their suppliers to obtain required complementary components.

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

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

Historically our DSP cores licensing business has derived a substantial portion of its revenue in any period from license fees from a relatively small number of licenses. Because of the high license fees we currently charge, only large semiconductor companies or vertically integrated system OEMs typically license our DSP core technologies. Part of our current growth strategy for our DSP cores licensing business is to broaden its client base by offering tailored packages to small- and medium-sized semiconductor companies and other system OEMs to enable them to license our DSP core technologies. We plan to expand the sales and marketing organization of our DSP cores licensing business for this purpose. We cannot assure you that we will be successful in expanding this marketing and sales organization for this purpose and in promoting its products to system OEMs and small- to medium-sized semiconductor companies. If we are unable to effectively develop and market its intellectual property through this model, our DSP cores licensing business revenues will continue to be dependent on a smaller number of licensees and the failure to secure these types of relationships could harm our business and results of operations.

The success of our DSP cores licensing business depends on its ability to compete successfully with other providers of DSP solutions.

The market for programmable DSP solutions is highly competitive and is dominated by large, fully integrated semiconductor companies that have significant brand recognition, a large installed base of customers and a large network of field support and field application engineers. We and the companies that license our technology from us compete with companies such as 3DSP, BOPS, LSI Logic and StarCore, a venture formed by Infineon, Agere and Motorola, which license DSP cores, and companies such as Analog Devices, Agere, Motorola, and Texas Instruments, which sell their own complete general purpose DSP or application specific DSP solutions. Our DSP cores licensing business also faces competition from some of its strategic partners, which are not committed exclusively to our technology and may develop products competing with our DSP cores, or products based on architectures of our direct competitors.

As demand for programmable DSP solutions increases, large manufacturers of off-the-shelf chips and system manufacturers may make their intellectual property available to others, and developers of microprocessors, microcontrollers or other processors may devote more resources to create DSP extensions to their products. It is also possible that new competitors or alliances among competitors could emerge. For example, Infineon, Agere and Motorola formed a venture to develop and market DSP technologies used in communications systems, wireless phones and consumer electronic products. These existing or future alliances could rapidly acquire significant market share in our markets.

We cannot assure you that our DSP cores licensing business will be able to compete successfully against current or future competitors, or that we will be able to improve or even maintain our competitive position or that our new products will achieve market acceptance. If our DSP cores licensing business is unable to maintain its competitive position in the marketplace, its business, results of operations and financial condition may be harmed.

Table of Contents

Our DSP cores licensing business may need to increase its research and development efforts to remain competitive.

The DSP cores market is experiencing extensive efforts by some of our competitors to use new technologies to manipulate their chip designs to increase the parallel processing of the chips and/or designs they offer. For example, one such technology used is Very Long Instruction Word (VLIW), of which some of our competitors possess elements, but which we do not possess at the present time. If such technology continues to improve the programming processing of these chips, or if other new technologies are demanded by our customers, we may need to change the focus of our research and development to obtain such technologies. Failure to do so could hurt our ability to remain competitive and could have an adverse effect on our results of operations. Our DSP cores licensing business spent $1.6 million, or 34% of its total revenues, on research and development in the second quarter of 2002 and $5.1 million, or 20% of its total revenues, in 2001, on research and development and we expect to continue to invest heavily in this area. However, we cannot assure you that these past or future expenditures will result in new and enhanced products or such products will be accepted in the market.

RISKS RELATING TO OUR IP PLATFORMS LICENSING BUSINESS

We utilize third-party foundries to produce the chips we sell, and any failure by them to deliver the chips we require on time could limit our ability to satisfy our customers demands.

Our business strategy calls for revenue from the sale of silicon chips embodying our intellectual property to comprise an increasing percentage of the total revenue of our IP platforms licensing business over the next two years. We currently utilize third party foundries to produce chips using our designs. Any interruption in our relationship with these third party foundries could harm our ability to develop this part of our business profitably. We do not have the ability to produce chips independently and thus depend on these foundries to:

- allocate a portion of their manufacturing capacity to our needs;
- produce acceptable quality silicon wafers and chips with acceptable manufacturing yields; and
- deliver chips on a timely basis at a competitive price.

RISKS RELATING TO PARTHUSCEVA S INTERNATIONAL OPERATIONS

Potential political, economic and military instability in Israel may adversely affect our results of operations.

Some of our principal research and development facilities are located in the State of Israel. In addition, although we are incorporated in Delaware, some of our directors and executive officers 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, or the interruption or curtailment of trade between Israel and its present trading partners, could significantly harm our business, operating results and financial condition.

Israel s economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980 s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. In addition, Israel and companies doing business with Israel have been the subject of an economic boycott by the Arab countries since Israel s establishment. Although they have not done so to date, these restrictive laws and policies may have an adverse impact on our operating results, financial condition or expansion of our business.

Since the establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. Although Israel has entered into various agreements with certain Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, hostilities between Israel and some of its Arab

Table of Contents

neighbors have recently escalated and intensified. We cannot predict whether or in what manner these conflicts will be resolved. Our results of operations may be negatively affected by the obligation of key personnel to perform military service. 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 for 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 officers or key employees due to military service.

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

We were assigned certain tax benefits in Israel from DSP Group, and have received others for our Israeli facilities 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 36%, and could be required to refund tax benefits already received. In addition, we cannot assure you that such grants and tax benefits will be continued in the future at their current levels or otherwise.

We also receive funding as part of our participation in Magnet research programs supported by the Office of Chief Scientist operated by Israel s Ministry of Industry and Trade. In the second quarter of 2002, we received $318,000 in grants to us from these programs. In the years 2001 and 2000, we recorded $542,000 and $578,000, respectively, in grants to us from these programs. All of these grants are non-refundable.

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.

The corporate tax rate applicable to our IP platforms licensing business may increase, which could adversely impact our cash flow, financial condition and results of operations.

We have significant operations in the Republic of Ireland and a substantial portion of the taxable income on our IP platforms licensing business has historically been generated there. Currently, some of our Irish subsidiaries are taxed at rates substantially lower than U.S. tax rates. Although there is no expectation of any changes to Irish tax law, if our 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 the IP platforms licensing business will be 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 foreign tax authorities were to change applicable foreign 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.

Our results of operations may be affected by currency fluctuations.

Due to our multinational operations, our business is subject to fluctuations based upon changes in the exchange rates between the U.S. dollar, British pound, the euro and the new Israeli shekel, the currencies in which we collect revenues or pay expenses. Part of our expenses in Israel are paid in Israeli currency, which subjects us to the risks of foreign currency fluctuations and to economic pressures resulting from Israel s general rate of inflation. Additionally, some of our revenues and part of our expenses in Dublin, Ireland are paid in euros, which subjects us to similar risks with respect to the European economies. While a significant part of our sales and expenses are denominated in United States dollars, a

Table of Contents

portion of our expenses are denominated in new Israeli shekels and the euros. As a result, an increase in the value of the Israeli shekel and/or the euro in comparison to the United States dollar could increase the cost of our technology development, research and development expenses and general and administrative expenses. We cannot assure you that currency fluctuations, changes in the rate of inflation between these regions and the U.S. or any of the other factors mentioned above will not have a material adverse effect on our business, financial condition and results of operations. From time to time, we may use derivative instruments in order to minimize the effects of such developments. Our hedging positions may be partial, may not exist at all in the future or may not succeed to minimize our foreign currency fluctuation risks. Our reporting currency will be the U.S. dollar and, therefore, fluctuations in the exchange rate between the U.S. dollar and other currencies in which we transact business may cause fluctuations in our reported financial information.

Foreign courts might not enforce judgments rendered in the United States, which may make it difficult to collect on judgments rendered against us.

Most of our directors and officers, as well as the experts named in this prospectus, are not residents of the United States, and most of our assets and their assets are located outside the United States. Service of process upon our non-U.S. resident directors, officers or the experts named herein and the enforcement of judgments obtained in the United States against us, our directors and executive officers, or the experts named herein, may be difficult to obtain.

There is also doubt as to the enforceability in Ireland and in Israel of judgments obtained in any federal or state court in the United States in civil and commercial matters, including actions predicated upon the civil liability provisions of the U.S. securities laws. The United States does not currently have a treaty with the Republic of Ireland and/or Israel providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Therefore, a final judgment for the payment of a fixed debt or sum of money rendered by any federal or state court in the United States based on civil liability, whether or not based solely upon the U.S. federal securities laws, would not automatically be enforceable in the Republic of Ireland or in Israel. In addition, there is doubt as to whether an Irish or an Israeli court would impose civil liability based solely on the U.S. federal securities laws in an action brought in a court of competent jurisdiction in the Republic of Ireland or in Israel.

RISKS RELATING TO HOLDING PARTHUSCEVA COMMON STOCK AND TO PARTHUSCEVA BECOMING A PUBLIC COMPANY

Our securities have no prior market, and we cannot assure you that our stock price will not decline.

There has not been a public market for our common stock, and an active public market for our common stock may not develop or be sustained. The market price of our common stock could be subject to significant fluctuations. Among the factors that could affect the stock price are:

- negative market reaction to the separation of the DSP cores licensing business from DSP Group;
- negative market reaction to the combination of Parthus and Ceva;
- quarterly variations in our operating results;
- changes in revenue or earnings estimates or publication of research reports by analysts;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- general market conditions; or
- domestic and international economic factors unrelated to our performance.

In particular, the realization of any of the risks described above could have a significant and adverse effect on the market price of our common stock. We cannot assure you that you will be able to resell your shares of our common stock at any particular price, or at all.

Table of Contents

Substantial sales of our common stock may occur in connection with the distribution and combination, which could cause our stock price to decline.

DSP Group is distributing all of the shares of our common stock it holds to DSP Group s stockholders. In addition, we are issuing new shares to all of the former Parthus shareholders as part of the combination. Other than shares held by certain of our insiders and affiliates and former Parthus affiliates under applicable securities laws, substantially all of these shares will be eligible for immediate resale in the public market. We are unable to predict whether significant amounts of common stock will be sold in the open market following the distribution and combination. We are also unable to predict whether a sufficient number of buyers will be in the market at that time. Any sales of substantial amounts of common stock in the public market, or the perception that such sales might occur, whether as a result of the distribution or otherwise, could harm the market price of our common stock.

Market prices of technology companies have been highly volatile and the market for our common stock may be volatile as well.

The stock market has experienced significant price and trading volume fluctuations, and the market prices of shares of technology companies generally have been extremely volatile and have recently experienced sharp declines. Broad market fluctuations may adversely affect the trading price of our common stock regardless of our actual performance. In the past, following periods of volatility in the market price of a public company s securities, securities class action litigation has often been instituted against that company. Such litigation could result in substantial costs and a diversion of management s attention and resources.

The anti-takeover provisions in our charter documents and in Delaware law could prevent or delay transactions that our stockholders may favor.

Our certificate of incorporation and bylaws contain provisions which could make it harder for a third party to acquire us without the consent of our board of directors. For example, if a potential acquirer were to make a hostile bid for us, the acquirer would not be able to call a special meeting of stockholders to remove our board of directors or act by written consent without a meeting. The acquirer would also be required to provide advance notice of its proposal to remove directors at an annual meeting. In addition, our board of directors is authorized to issue preferred stock in series, with the terms of each series to be fixed by the board of directors, which could be issued in a way to make acquisition of our company more difficult or expensive.

Section 203 of the General Corporation Law of the State of Delaware limits business combination transactions with 15% stockholders that have not been approved by the board of directors. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. These provisions may apply even if the offer may be considered beneficial by some stockholders.

Our board of directors could choose not to negotiate with an acquirer that it did not feel was in the strategic interests of ParthusCeva. If the acquirer were discouraged from offering to acquire us or prevented from successfully completing a hostile acquisition by the anti-takeover measures, you could lose the opportunity to sell your shares at a favorable price.

Our ability to pay dividends is limited.

We currently intend to retain all future earnings to fund the development and growth of our business and, therefore, do not anticipate paying any dividends. Section 170 of the General Corporation Law of the State of Delaware provides that we can pay dividends only out of surplus or net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. In addition, because our Israeli subsidiary received certain benefits under Israeli laws relating to its Approved Enterprise status, the payment of dividends by our Israeli subsidiary to us may subject us to certain Israeli taxes to which we would not otherwise be subject. For additional information regarding our dividend policy, please see Dividend Policy and Description of Capital Stock.

Table of Contents

SEPARATION OF DSP CORES LICENSING BUSINESS FROM DSP GROUP

Overview

In October 2000, DSP Group announced its plan to establish Ceva, one of its wholly-owned subsidiaries, as an independent business focused on the licensing of technology for the design and manufacture of DSP cores. The separation of the DSP cores licensing business from DSP Group, including the transfer of related assets, liabilities and intellectual property rights, was substantially completed on , 2002. DSP Group distributed its shares of Ceva s common stock to the DSP Group stockholders on , 2002.

Benefits of the Separation

We believe that we will realize benefits from the separation of the DSP cores licensing business from DSP Group, including the following:

Greater Strategic Focus. DSP Group designs, manufactures and markets DSP integrated circuit devices for highly-integrated digital cordless phones, Internet telephony devices and other digital speech products. Our focus for the DSP cores licensing business will be on developing businesses and strategic opportunities in the licensing of technology to third parties for the manufacturing of these products. Our separation from DSP Group and the subsequent combination with Parthus will allow the board of directors, management team and employees of the combined company to focus specifically on our business and strategic opportunities. As a combined entity separate from DSP Group, we will have a greater ability to modify our business processes and organization to fulfill our goals with respect to enhanced research and development and the creation of targeted markets and sales and support infrastructures that better accommodate the needs of our business, customers and employees.

Greater Management Focus. As a stand-alone, independent company, our management can devote time and energy exclusively to our business. Our business requires a significant amount of executive attention at the sales and marketing level because license agreements are typically not finalized without the involvement of a sophisticated negotiator. The separation will enable our management team to focus on the licensing business without the distractions of the competing needs of DSP Group s business.

Avoid Conflicts of Interest. As a licensor of intellectual property, we can make our technology accessible to all potential users. Our relationship with DSP Group raised competitive considerations for both DSP Group and potential customers of the products of the DSP cores licensing business, including direct competitors of DSP Group. We believe our separation from DSP Group will enable us to enter into license agreements with direct competitors of DSP Group, to offer more competitive agreements to potential customers, and to enter into mergers, joint ventures and technology development relationships as the opportunities present themselves.

Better Incentives for Employees and Greater Accountability. We expect the motivation of our employees and the focus of our management will be strengthened by incentive compensation programs tied to the market performance of our common stock. Our separation from DSP Group and combination with Parthus will enable us to offer our employees compensation directly linked to the performance of our business, which we expect to enhance our ability to attract and retain qualified personnel.

Increased Speed and Responsiveness. As a stand-alone company, we expect to be able to make decisions more quickly, deploy resources more rapidly and efficiently and operate with more agility than we could as a part of a more diverse organization. In addition, we expect to enhance our responsiveness to the needs of our customers and partners.

Direct Access to Capital Markets. As a separate company, we will have direct access to the capital markets to finance our operational and financial requirements, including growth through acquisitions.

Table of Contents

Arrangements Between Ceva and DSP Group

We have provided below a summary description of the separation agreement along with the other key agreements which govern our separation from DSP Group. The following description is a summary of the material terms of these agreements. You should read the full text of these agreements, which have been filed with the Securities and Exchange Commission as exhibits to the registration statement of which this prospectus is a part.

Separation Agreement

The separation agreement contains the key provisions relating to our separation from DSP Group and DSP Group s distribution of our shares to its stockholders.

The Separation. The separation of the DSP cores licensing business from DSP Group, including the transfer of related assets, liabilities and intellectual property rights, was substantially completed immediately prior to the consummation of Ceva s combination with Parthus. The separation agreement provides for the transfer to Ceva of assets and liabilities from DSP Group related to the DSP cores licensing business as described in this prospectus in exchange for the issuance by Ceva to DSP Group of 1,000 shares of Ceva s common stock, effective on the separation date. Further, in accordance with the separation agreement, DSP Group s Israeli subsidiary, DSP Group, Ltd., transferred to DSP Group all of the share capital of Corage, Ltd., an Israeli company, which DSP Group then contributed to Ceva. Ceva subsequently contributed all of the Corage, Ltd. share capital to DSP Ceva, Inc., its wholly-owned subsidiary, and upon the closing of the combination, DSP Ceva, Inc. changed its name to DSP ParthusCeva, Inc. and Corage, Ltd. changed its name to ParthusCeva, Ltd. Following the separation, ParthusCeva, Ltd. is a wholly-owned subsidiary of DSP ParthusCeva, Inc. After its contribution of assets to Ceva, DSP Group surrendered shares of Ceva s common stock it held to Ceva without consideration, to adjust the number of shares of Ceva s common stock held by DSP Group, and then distributed the remaining shares of Ceva common stock it held to the DSP Group stockholders on the basis of one share of Ceva common stock for every three shares of DSP Group common stock held by such stockholders on the record date for the distribution. Ceva then acquired Parthus pursuant to a scheme of arrangement.

In connection with the separation, one share of Ceva common stock was distributed for every three shares of the DSP Group common stock outstanding (approximately 27 million shares in the aggregate), resulting in an aggregate of approximately 9 million shares of Ceva common stock being distributed to DSP Group stockholders on the distribution date. Since the number of shares distributed to the former Parthus shareholders was approximately 49.9% of the total outstanding shares, following the combination, ParthusCeva had approximately 18 million shares of its common stock outstanding. Since there was no public market for Ceva s common stock prior to the combination, the decision to distribute one share of Ceva common stock for every three shares of DSP Group common stock held by DSP Group stockholders on the distribution date was determined through negotiations between DSP Group and Parthus. The parties had previously considered distributing one share of Ceva common stock for every two shares of DSP Group common stock outstanding, which would have resulted in ParthusCeva having a total of 27 million shares outstanding immediately following the combination. In determining the final distribution ratio, the parties assumed that the market capitalization of ParthusCeva would not be affected by the number of shares of ParthusCeva common stock outstanding. The parties agreed that it would be preferable from a market trading price perspective to have an approximately 50% greater per-share value resulting from a total of 18 million shares of ParthusCeva common stock outstanding, rather than the per-share value if 27 million shares had been distributed in the separation and combination, and therefore revised the ratio accordingly. See Combination with Parthus Technologies plc.

The various ancillary agreements that are exhibits to the separation agreement (or forms thereof mutually agreed upon by the parties) and which detail the separation and various interim and ongoing relationships among DSP Group, its subsidiaries, Ceva and its subsidiaries following the separation date include:

- a technology transfer agreement whereby DSP Group transfers and/or assigns certain technology, third party licenses and other contracts to Ceva;

a technology transfer assignment and assumption agreement whereby Ceva transfers and/or assigns the technology, as well as its rights under the transfer agreement, to DSP Ceva, Inc.;

a technology transfer agreement whereby DSP Group, Ltd. transfers and/or assigns certain technology, third party licenses and other contracts to Corage, Ltd.;

a transition services agreement between DSP Group, Ltd. and Corage, Ltd.; and

a tax indemnification and allocation agreement between DSP Group and Ceva.

To the extent that the terms of any of these ancillary agreements conflict with the separation agreement, the terms of the ancillary agreements will govern. These agreements are described more fully below.

The Contribution. As part of the assets contributed to Ceva in the separation, DSP Group also contributed to Ceva a total of the sum of $40 million plus cash equal to the amount by which the transaction costs of the separation and combination exceeded $2 million as initial working capital. In addition, as part of the separation and distribution and pursuant to the terms of the separation agreement, Ceva agreed with DSP Group to settle the intercompany investment account between them by (i) converting part of DSP Group s investment account in Ceva (consisting of the value of the property, equipment and inventory) into Ceva s stockholders equity, (ii) allowing DSP Group to retain all rights to Ceva s accounts receivable existing on the date of the separation, and (iii) having DSP Group retain certain of Ceva s current liabilities existing on the date of separation, such that the settlement arrangement resulted in the net amount of assets retained by DSP Group to equal the amount of the intercompany account on the date of separation (as of September 30, 2002, approximately $9.9 million).

The Distribution. After the contribution of the assets related to the DSP cores licensing business discussed above, DSP Group surrendered shares of Ceva s common stock it held to Ceva without consideration, to adjust the number of shares of Ceva s common stock held by DSP Group, and then distributed the remaining shares of Ceva s common stock it held to the DSP Group stockholders on the basis of one share of Ceva common stock for every three shares of DSP Group common stock held by such stockholders on the record date for the distribution. DSP Group did not issue any fractional shares in the distribution. Instead, fractional shares were aggregated and sold on the market on the first day after the consummation of the separation and combination, or as soon as possible thereafter, and each DSP Group stockholder entitled to a fraction of a ParthusCeva share received cash in lieu of such fraction in an amount equal to their portion of the amount received for the shares sold, net of commissions.

In connection with the distribution, the payment of cash in lieu of a fractional share of Ceva common stock will be treated for U.S. federal income tax purposes as if the fractional share had been distributed as part of the separation and then had been sold by the DSP Group stockholder. Accordingly, a DSP Group stockholder will recognize gain or loss on the sale of such fractional share in an amount equal to the difference between the cash received by that stockholder and the basis the stockholder has in the fractional share. If the Ceva common stock is held by the stockholder as a capital asset, the gain or loss generally will be capital gain or loss. Certain of the DSP Group stockholders primarily non-U.S. shareholders not engaged in a trade or business in the United States may not be subject to U.S. taxation with respect to the sale of a fractional share.

Representations, Warranties, Covenants and Indemnification Regarding the Distribution.

The separation agreement contains representations, warranties and covenants from DSP Group and Ceva as to the accuracy of facts and representations made by DSP Group, Ceva and Parthus in connection with the tax rulings issued by the Internal Revenue Service in connection with the separation, distribution and combination. Under the separation agreement, we have agreed that:

(a) during the two-year period immediately following completion of the distribution, we will not:

liquidate or dispose of all or a substantial portion of our active trade or business as defined in the separation agreement;

28

Table of Contents

- discontinue the conduct of our active trade or business ; or
- except in accordance with the provisions of the separation agreement, dispose of any business or assets that would cause us to be operated in a manner inconsistent in any material respect with the business purposes of the distribution as set forth in the representation letter sent to, and the tax rulings issued by, the Internal Revenue Service in connection with the separation and distribution; and

(b) during the one-year period immediately following completion of the distribution, we will not, except in accordance with the terms of the separation agreement, directly or indirectly, enter into any agreement, understanding, arrangement or substantial negotiations regarding a proposed acquisition transaction (as that term is defined in the separation agreement);

unless (1) the IRS has ruled that such action or transaction is not pursuant to a plan or series of transaction related to the distribution, (2) DSP Group expressly consents in writing to the action or transaction, which consent may be withheld by DSP Group in its sole discretion taking into account solely the preservation of the tax-free treatment of the distribution, or (3) we obtain a supplemental ruling from the Internal Revenue Service or a tax opinion from a nationally recognized law firm or accounting firm reasonably acceptable to DSP Group that the action will not adversely affect the tax-free status of the distribution. In addition, we have represented and warranted that any factual information presented or representations made by Parthus (or by us after the distribution) in the application for supplemental rulings or any supplement to this application filed with the Internal Revenue Service regarding the separation, distribution and combination are true, correct and complete.

Under the terms of the separation agreement, we have agreed to indemnify DSP Group and its affiliates for any tax liability incurred by DSP Group or such affiliates with respect to the distribution as a result of our breach of any of our representation, warranties or covenants made in the separation agreement or in any representation letter issued by us after the combination with respect to the tax matters listed in the separation agreement.

In the event that the IRS subsequently determines that DSP Group s distribution of Ceva s common stock to its stockholders is not a tax-free transaction as to DSP Group, DSP Group will recognize a corporate-level taxable gain in an amount equal to the difference between the market value of the Ceva s common stock at the time of distribution to the DSP Group stockholders and DSP Group s basis in that stock (and its tax owed would be determined by multiplying this gain by DSP Group s net effective tax rate at the time of the distribution (currently approximately 38%)).

These rights and obligations shall survive until 30 days following the expiration of the applicable statute of limitations. There are no limitations on the rights and obligations relating to the amount of any claim for indemnification.

In addition, each of the parties has agreed to indemnify the other with respect to:

- the failure to pay, perform or discharge any liabilities for which it is responsible under the separation agreement;
- the breach by it or any of its affiliates of the terms of the separation agreement and the ancillary agreements associated with the separation agreement; and
- the breach by it or any of its affiliates of any of the covenants or obligations in the combination agreement or any other documents or instruments executed or delivered by that party in connection with the separation, distribution and combination. These rights and obligations shall survive until the second anniversary following the distribution date. The amount of any claims for indemnification will be reduced by the amount of any insurance proceeds. There are no other limitations on the rights and obligations relating to the amount of any claim for indemnification.

The limitations on the issuance of shares of our capital stock and other restrictions discussed above could have a negative impact on our financial flexibility following the distribution.

Dispute Resolution. If problems arise between the parties to the separation agreement, the parties have agreed to the following procedures:

the parties will make a good-faith effort to first resolve the dispute through negotiation;

in connection with these attempts to resolve the dispute, the parties may agree to attempt to resolve the dispute through non-binding mediation; and

after certain events occur as described in the separation agreement, the parties can resort to binding arbitration. In addition, under limited circumstances any party acting in good faith may initiate litigation in lieu of complying with the arbitration provisions of the separation agreement.

Noncompetition and Nonsolicitation. Subject to the restrictions and rights set forth in the technology transfer agreements, DSP Group has agreed that for a period of five years from the distribution date, DSP Group will not, and will ensure that affiliates of DSP Group will not, directly or indirectly engage in any business which is competitive with the DSP cores licensing business. Furthermore, we have agreed that, subject to the restrictions and rights set forth in the technology transfer agreements, for a period of five years from the distribution date, we will not, and will ensure that our affiliates will not, directly or indirectly engage in designing, manufacturing and marketing high performance digital signal processor-based integrated circuit devices for integrated digital cordless phones and voice-over broadband products. This restriction does not, however, prevent us from licensing our technologies to third parties who use them to make these or similar products. In addition, except in accordance with the terms of the agreement, for three years after the distribution date, the parties each agree that they will not solicit for hire any employee of the other party.

Expenses. Each party to the separation agreement will bear its own respective third party fees, costs and expenses paid or incurred in connection with the transactions contemplated thereby.

Ceva Technology Transfer Agreement

Asset Transfer and Assumption of Liabilities. The Ceva technology transfer agreement identifies the assets, including but not limited to intellectual property, that DSP Group transferred to us and certain of the liabilities that we assumed from DSP Group in the separation in exchange for the issuance by us to DSP Group of shares of our common stock. The agreement also describes when and how these transfers and assumptions occurred.

Retention of Certain Rights. Notwithstanding the assignment and assumption, DSP Group reserves for itself, its successors and assigns, the nonexclusive, royalty-free right to use, make, modify, reproduce, sell, import, prepare derivative works from, and sublicense (subject to certain restrictions) the intangible property transferred by DSP Group to us, as such intangible property exists on the date of the transfer, solely in connection with the design, manufacture, development, testing, use and sale or other distribution of its products. DSP Group also retains the right to use our trademarks and logos in connection with the marketing and distribution of its products.

DSP Ceva, Inc. Technology Transfer Agreement

The DSP Ceva, Inc. technology transfer agreement implements the transfer from us to our wholly-owned subsidiary, DSP Ceva, Inc., of the assets transferred by DSP Group to us and the assumption by DSP Ceva, Inc. of liabilities assumed by us from DSP Group in the separation in exchange for the issuance by DSP Ceva, Inc. to us of shares in its share capital. The agreement also describes when and how these transfers and assumptions occurred.

Corage, Ltd. Technology Transfer Agreement

Asset Transfer and Assumption of Liabilities. The Corage, Ltd. technology transfer agreement identifies the assets that DSP Group, Ltd., an Israeli subsidiary of DSP Group, transferred to Corage, Ltd., our Israeli

Table of Contents

subsidiary, as well as the liabilities Corage, Ltd. assumed from DSP Group, Ltd. in the separation in exchange for the issuance by Corage, Ltd. to DSP Group, Ltd. of shares in its share capital. The agreement also describes when and how these transfers and assumptions occurred.

Retention of Certain Rights. Notwithstanding these assignments and assumptions, DSP Group, Ltd. reserves, for itself and its successors and assigns, the nonexclusive, royalty-free right to use, make, modify, reproduce, sell, import, prepare derivative works from, and sublicense (subject to certain restrictions) the intangible property transferred by DSP Group, Ltd. to us as that intangible property exists on the date of the transfer, solely in connection with the design, manufacture, development, testing, use and sale or other distribution of its products. DSP Group, Ltd. also retains the right to use our trademarks and logos transferred to Corage, Ltd. in connection with the marketing and distribution of DSP Group, Ltd. s products.

ParthusCeva, as the owner of the intellectual property relating to the DSP cores licensing business, has the exclusive right to bring actions against third parties for infringement of all intellectual property assigned to it. ParthusCeva also has the right to grant licenses and sublicenses of this intellectual property, and to give these rights to others (subject only to DSP Group s existing rights). As a licensee, DSP Group has only the rights explicitly granted to it in the separation agreement and related documents, including the various technology transfer agreements. DSP Group is not able to engage in ParthusCeva s business as it is currently conducted for a period of five years after the separation, and after the non-competition period, DSP Group only has the right to grant sublicenses to the intellectual property relating to the DSP cores licensing business as part of DSP Group s products that offer functions and features in addition to the DSP core functions. These agreements therefore prevent DSP Group from granting the type of license which ParthusCeva may grant to its licensees or customers in its ordinary course of business.

Ceva and DSP Group have transferred the assets used for sales made by our DSP cores licensing business in the United States to DSP Ceva, Inc. and for sales of our DSP cores licensing business made outside the United States to Corage, Ltd. to take advantage of the favorable tax treatment provided by this structure. Because Corage, Ltd. s assets remain outside the United States, income from its operations that are entitled to an approved enterprise status are subject to advantageous tax rates in Israel, and are not currently subject to U.S. taxation. In addition, in order for the separation of the DSP cores licensing business operated in Israel to obtain the same tax free treatment following the combination under Israeli tax law that the separation of the DSP cores licensing business operated in the U.S. received under U.S. tax law, it was necessary that, at the time of the separation and combination, Corage Ltd. be owned by a wholly-owned subsidiary of Ceva, Inc. (or ParthusCeva, Inc. after the combination) rather than directly by Ceva, Inc. Were this not done, the separation of Israeli operations of the DSP cores licensing business would have still been tax free under U.S. law, but would have been subject to Israeli taxes. See Management s Discussion and Analysis of Financial Condition and Results of Operations Israeli Taxation and Investment Programs.

Since both ParthusCeva and DSP Ceva, Inc. are United States corporations that will file a consolidated federal income tax return, we do not anticipate that whether particular assets are held by one versus the other of these two corporations will have U.S. federal income tax consequences. Also, as no assets or businesses subject to U.S. federal income taxes are being transferred abroad and no Israeli-based assets or businesses that are not currently subject to U.S. federal income taxes are being transferred into the United States, no change in the federal income tax treatment of the assets or businesses involved in the separation and combination is anticipated as a result of those transactions.

Transition Services Agreement between DSP Group, Ltd. and Corage, Ltd.

Services. The transition services agreement governs the provision of transition services by DSP Group, Ltd. to Corage, Ltd. after the separation date. DSP Group, Ltd. is obligated to provide certain general and administrative services, including management and information services and network, hardware and software maintenance and support, to Corage, Ltd., as Corage, Ltd. requires and requests. For research and development services, Corage, Ltd., is obligated to pay DSP Group, Ltd. for services provided at agreed upon rates.

Table of Contents

Term. The term of the transition services agreement commenced on the date of the separation agreement and continues until December 31, 2003. However, Corage, Ltd. may terminate or limit any of the services provided by DSP Group, Ltd. at any time upon at least 30 days prior notice.

Although agreed in the context of arms-length negotiations between DSP Group and Parthus in connection with the combination, the transition services agreement was entered into in the context of a parent-subsidiary relationship with DSP Group. As a result, the prices charged to Corage, Ltd. under the transition services agreement may be lower than the prices that we may be required to pay third parties for similar services or the costs of similar services if we undertake them ourselves. If we fail to find replacements for these services after the expiration of the term of the agreement, or if we are unable to replace them on terms as favorable as those provided in the transition services agreement, our business, results of operations and financial condition could be harmed.

Tax Indemnification and Allocation Agreement

Ceva was included as part of DSP Group s consolidated group for federal income tax purposes until the separation date. In general, under the U.S. Internal Revenue Code, each member of a consolidated group is jointly and severally liable for the federal income tax liability of each other member of the consolidated group. Pursuant to arms-length negotiations between DSP Group and Parthus to allocate the responsibilities between us and DSP Group for tax liabilities that may be asserted in the future, in addition to the indemnification provided in the separation agreement, we have entered into a tax indemnification and allocation agreement with DSP Group pursuant to which DSP Group will be liable for, and will indemnify us for, any federal income tax related to the consolidated returns filed by it for all periods ending on or before the distribution date. Under that agreement, we and DSP Group will each be liable for, and shall indemnify the other against, liability for our respective federal income tax for subsequent periods after the distribution. In the case of income taxes other than federal income taxes, the tax indemnification and allocation agreement provides for an allocation that is generally similar to the allocation of federal income taxes. Taxes other than income taxes are allocated based on the legal entity on which the legal incidence of the tax is imposed.

In general, the separation agreement described above, rather than the tax indemnification and allocation agreement, governs indemnification for any taxes due by reason of the distribution.

Other Tax Matters

Our DSP cores licensing business operations have been grante