

CEVA INC
Form 10-Q
May 10, 2010

Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2010

OR

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

For the transition period from _____ to _____

Commission file number: 000-49842

CEVA, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

77-0556376

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

2033 Gateway Place, Suite 150, San Jose, California

(Address of Principal Executive Offices)

95110-1002

(Zip Code)

(408) 514-2900

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 20,979,556 shares of common stock, \$0.001 par value, as of May 3, 2010.

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Interim Condensed Consolidated Balance Sheets at March 31, 2010 and December 31, 2009</u>	2
<u>Interim Condensed Consolidated Statements of Operations (unaudited) for the three months ended March 31, 2010 and 2009</u>	3
<u>Interim Condensed Statements of Changes in Stockholders' Equity (unaudited) for the three months ended March 31, 2010 and 2009</u>	4
<u>Interim Condensed Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2010 and 2009</u>	5
<u>Notes to the Interim Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	19
<u>Item 4. Controls and Procedures</u>	20
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	20
<u>Item 1A. Risk Factors</u>	20
<u>Item 6. Exhibits</u>	28
<u>SIGNATURES</u>	29
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32</u>	

Table of Contents

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

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

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

Our belief that the penetration of handsets in emerging markets such as China, India and Latin America could generate future growth potential for CEVA;

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

Our optimism about adoption of our technologies for new categories of products, such as data cards, USB dongles, smart metering, tablets, netbooks and eReaders;

Our belief that Texas Instruments and Freescale's announcement of their intent to exit the baseband market, after historically having been large players in this market, is a strong positive driver for our future market share expansion;

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

Subject to a return to normal seasonal growth, our optimism about 2010 resulting from key customers with production capability for high volume products, including portable consumer products, set-top boxes, ultra-low-cost phones and smartphones;

Our belief that our research and development expenses will increase in 2010 as compared to 2009;

Our belief that our new DSP core, CEVA-XC, is well positioned to expand our licensee base in both existing wireless handsets and new wireless infrastructure markets;

We are experiencing strong interest and pipe line build-up for our DSP cores due to general business improvements in our primary markets;

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

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

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

as required by law. All such forward-looking statements should be read as of the time the statements were made and with the recognition that these forward-looking statements may not be complete or accurate at a later date.

Many factors may cause actual results to differ materially from those expressed or implied by the forward-looking statements contained in this report. These factors include, but are not limited to, those risks set forth in Part II Item 1A Risk Factors of this Form 10-Q.

This report contains market data prepared by third parties, including Gartner, Inc. and ABI Research. Actual market results may differ from the projections of such organizations.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS****U.S. dollars in thousands, except share and per share data**

	March 31, 2010 Unaudited	December 31, 2009 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,074	\$ 12,104
Short term bank deposits	19,847	40,056
Marketable securities (see Note 3)	54,753	48,438
Trade receivables (net of allowance for doubtful accounts of \$700 at both March 31, 2010 and December 31, 2009)	6,743	5,995
Deferred tax assets	1,115	1,096
Prepaid expenses and other accounts receivable	4,109	5,345
Total current assets	113,641	113,034
Long term bank deposit	5,006	
Severance pay fund	4,711	4,455
Deferred tax assets	561	309
Property and equipment, net	1,276	1,148
Goodwill	36,498	36,498
Total long-term assets	48,052	42,410
Total assets	\$ 161,693	\$ 155,444
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	\$ 680	\$ 530
Deferred revenues	366	432
Accrued expenses and other payables	9,630	9,735
Deferred tax liabilities	1,197	1,168
Total current liabilities	11,873	11,865
Long term liabilities:		
Accrued severance pay	4,741	4,483
Stockholders' equity:		
Common Stock:		
\$0.001 par value: 60,000,000 shares authorized; 20,963,065 and 20,429,736 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	21	20

Edgar Filing: CEVA INC - Form 10-Q

Additional paid in-capital	162,344	158,325
Accumulated other comprehensive income	155	251
Accumulated deficit	(17,441)	(19,500)
Total stockholders' equity	145,079	139,096
Total liabilities and stockholders' equity	\$ 161,693	\$ 155,444

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

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

	Three months ended March 31,	
	2010	2009
Revenues:		
Licensing	\$ 4,722	\$ 4,544
Royalties	4,980	3,759
Other revenue	899	1,210
Total revenues	10,601	9,513
Cost of revenues	714	1,210
Gross profit	9,887	8,303
Operating expenses:		
Research and development, net	4,609	4,075
Sales and marketing	1,808	1,636
General and administrative	1,546	1,472
Total operating expenses	7,963	7,183
Operating income	1,924	1,120
Financial income, net	557	476
Income before taxes on income	2,481	1,596
Income tax expenses	422	228
Net income	\$ 2,059	\$ 1,368
Basic net income per share	\$ 0.10	\$ 0.07
Diluted net income per share	\$ 0.09	\$ 0.07
Weighted-average number of shares of Common Stock used in computation of net income per share (in thousands):		
Basic	20,654	19,557
Diluted	21,911	19,754

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

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

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

Three months ended	Common stock		Additional paid-in	Treasury stock	Accumulated		Total comprehensive income	Total stockholders' equity
					other comprehensive income	Accumulated deficit		
March 31, 2009	Shares	Amount	capital	stock	(loss)	deficit	income	equity
Balance as of January 1, 2009	19,532,026	\$ 20	\$ 153,712	\$ (5,077)	\$ (24)	\$ (26,972)		\$ 121,659
Net income						1,368	\$ 1,368	1,368
Unrealized loss from available-for-sale securities, net					(99)		(99)	(99)
Unrealized loss from hedging activities, net					(545)		(545)	(545)
							\$ 724	

Total comprehensive
income

Equity-based compensation			808				808
Purchase of Treasury Stock	(140,828)	(1)		(822)			(823)
Issuance of Treasury Stock upon exercise of employee stock options	17,373	(*)		132		(34)	98
Issuance of Treasury Stock under employee stock purchase plan	81,509	(*)		627		(153)	474
Balance as of March 31, 2009	19,490,080	\$ 19	\$ 154,520	\$ (5,140)	\$ (668)	\$ (25,791)	\$ 122,940

(*) Amount less
than \$1.

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

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

	Three months ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 2,059	\$ 1,368
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation	122	128
Equity-based compensation	584	808
Loss (gain) on available-for-sale marketable securities	(6)	53
Amortization of premiums on available-for-sale marketable securities	346	64
Accrued interest on short term bank deposits	(187)	(275)
Unrealized foreign exchange loss (gain)	(17)	50
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	(748)	837
Decrease (increase) in prepaid expenses and other accounts receivable	1,201	(259)
Increase in deferred tax, net	(226)	(41)
Increase (decrease) in trade payables	138	(190)
Decrease in deferred revenues	(66)	(304)
Decrease in accrued expenses and other payables	(180)	(1,275)
Increase in accrued severance pay, net	1	39
Net cash provided by operating activities	3,021	1,003
Cash flows from investing activities:		
Purchase of property and equipment	(250)	(74)
Investment in bank deposits	(5,000)	(23,451)
Proceeds from bank deposits	20,416	21,676
Investment in available-for-sale marketable securities	(18,683)	(7,602)
Proceeds from maturity and sale of available-for-sale marketable securities	12,004	11,141
Net cash provided by investing activities	8,487	1,690
Cash flows from financing activities:		
Purchase of Treasury Stock		(823)
Proceeds from issuance of Common Stock upon exercise of employee stock options	2,911	
Proceeds from issuance of Common Stock under employee stock purchase plan	525	
Proceeds from issuance of Treasury Stock upon exercise of employee stock options		98
Proceeds from issuance of Treasury Stock under employee stock purchase plan		474
Net cash provided by (used in) financing activities	3,436	(251)
Effect of exchange rate movements on cash	26	(287)
Increase in cash and cash equivalents	14,970	2,155

Edgar Filing: CEVA INC - Form 10-Q

Cash and cash equivalents at the beginning of the period	12,104	13,328
Cash and cash equivalents at the end of the period	\$ 27,074	\$ 15,483

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

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1: BUSINESS

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

CEVA licenses a family of programmable DSP cores, DSP-based subsystems and application-specific platforms, including video, audio, Voice over IP, Bluetooth, Serial ATA (SATA) and Serial Attached SCSI (SAS).

CEVA's technologies are licensed to leading semiconductor and original equipment manufacturer (OEM) companies in the form of intellectual property (IP). These companies design, manufacture, market and sell application-specific integrated circuits (ASICs) and application-specific standard products (ASSPs) based on CEVA's technology to OEM companies for incorporation into a wide variety of end products. CEVA's IP is primarily deployed in high volume markets, including wireless handsets (e.g., GSM/GPRS/EDGE/WCDMA/WiMax/LTE, CDMA and TD-SCDMA), mobile broadband (USB dongles, notebooks, netbooks, Mobile Internet Devices (MID), M2M, eReader), portable multimedia (e.g., portable video players, MobileTVs, personal navigation devices and MP3/MP4 players), home entertainment (e.g., DVD/Blu-ray players, set-top boxes and digital TVs), game consoles (portable and home systems), storage (e.g., hard disk drives and solid state drives (SSD)) and telecommunication devices (e.g., residential gateways, femtocells, VoIP phones and network infrastructure).

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2009, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2010, have been applied consistently in these unaudited interim condensed consolidated financial statements.

NOTE 3: MARKETABLE SECURITIES

Marketable securities consist of certificates of deposits, corporate bonds and securities and U.S. government and agency securities. The Company determines the appropriate classification of marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 320-10-25 Investments in Debt and Equity Securities Recognition, the Company classified marketable securities as available-for-sale securities. Available-for-sale securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity, net of taxes. Realized gains and losses on sales of marketable securities, as determined on a specific identification basis, are included in the consolidated statements of operations. The Company has classified all marketable securities as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date, because it may sell these securities prior to maturity to meet liquidity needs or as part of risk versus reward objectives.

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

marketable securities during the three months ended March 31, 2010 and 2009.

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

	As at March 31, 2010 (Unaudited)			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Certificates of deposits	\$ 5,608	\$ 3	\$	\$ 5,611
U.S. government and agency securities	1,546	5		1,551
Corporate bonds and securities	47,374	305	(88)	47,591
	\$ 54,528	\$ 313	\$ (88)	\$ 54,753

	As at December 31, 2009 (Audited)			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Certificates of deposits	\$ 1,842	\$ 6	\$ (1)	\$ 1,847
U.S. government and agency securities	1,934	16		1,950
Corporate bonds and securities	44,413	318	(90)	44,641
	\$ 48,189	\$ 340	\$ (91)	\$ 48,438

The following table summarizes the Company's investments in marketable securities by the contractual maturity date of the security:

	As at March 31, 2010 (Unaudited)			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Due in one year or less	\$ 26,554	\$ 223	\$	\$ 26,777
Due after one year to three years	27,974	90	(88)	27,976
	\$ 54,528	\$ 313	\$ (88)	\$ 54,753

	As at December 31, 2009 (Audited)			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Due in one year or less	\$ 19,528	\$ 159	\$ (2)	\$ 19,685
Due after one year to three years	28,661	181	(89)	28,753
	\$ 48,189	\$ 340	\$ (91)	\$ 48,438

As of March 31, 2010 and December 31, 2009, management believes the losses detailed in the tables above are not OTTI. Management expects to recover the entire cost basis of these securities, and does not intend to sell or expect to be required to sell these investment before a recovery of the cost basis.

The total fair value of marketable securities with outstanding unrealized losses as of March 31, 2010 amounted to \$4,339. Of the unrealized losses outstanding as of March 31, 2010, the entire amount of \$88 was outstanding for less than 12 months.

Proceeds from maturity and sales of available-for-sale marketable securities during the first quarter of 2010 and 2009 were 12,004 and 11,141, respectively.

Table of Contents**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**
(U.S. dollars in thousands, except share and per share amounts)**NOTE 4: FAIR VALUE MEASUREMENT**

FASB ASC No. 820, Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value. Fair value is an exit price, representing the amount that would be received for selling an asset or paid for the transfer of a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

- Level 1 Unadjusted quoted prices in active markets that are accessible on the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company measures its marketable securities and foreign currency derivative contracts at fair value. Marketable securities are classified within Level 2 because they are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The table below sets forth the Company's assets and liabilities measured at fair value by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	March 31, 2010	Level I	Level II	Level III
Description				
Assets:				
Marketable securities:				
Certificates of deposits	\$ 5,611	\$	\$ 5,611	\$
U.S. government and agency securities	1,551		1,551	
Corporate bonds and securities	47,591		47,591	
Foreign exchange contracts	93		93	
Liabilities:				
Foreign exchange contracts	75		75	

	December 31, 2009	Level I	Level II	Level III
Description				
Assets:				
Marketable securities:				
Certificates of deposits	\$ 1,847	\$	\$ 1,847	\$
U.S. government and agency securities	1,950		1,950	
Corporate bonds and securities	44,641		44,641	
Foreign exchange contracts	128		128	
Liabilities:				
Foreign exchange contracts	27		27	

In addition to the assets and liabilities described above, the Company's financial instruments also include cash, cash equivalents, bank deposits, trade receivables, other accounts receivable, trade payables and accrued expenses and other payables. The fair values of these financial instruments were not materially different from their carrying values at March 31, 2010 due to the short-term maturity of such instruments.

Table of Contents**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**
(U.S. dollars in thousands, except share and per share amounts)**NOTE 5: GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER DATA**

a. Summary information about geographic areas:

The Company manages its business on the basis of one reportable segment: the licensing of intellectual property to semiconductor companies and electronic equipment manufacturers (see Note 1 for a brief description of the Company's business). The following is a summary of operations within geographic areas:

	Three months ended March 31,	
	2010	2009
	(unaudited)	(unaudited)
Revenues based on customer location:		
United States	\$ 789	\$ 559
Europe and Middle East (1) (2)	7,760	5,253
Asia Pacific (3) (4)	2,052	3,701
	\$ 10,601	\$ 9,513
 (1) Sweden	\$ 1,390	\$ 3,303
(2) Germany	\$ 4,135	*)
(3) Japan	*)	\$ 1,287
(4) S. Korea	*)	\$ 1,302

*) Less than 10%

b. Major customer data as a percentage of total revenues:

The following table sets forth the customers that represented 10% or more of the Company's total revenues in each of the periods set forth below.

	Three months ended March 31,	
	2010	2009
	(unaudited)	(unaudited)
Customer A	39%	(*)
Customer B	19%	19%
Customer C		17%
Customer D	(*)	14%
Customer E	(*)	10%

(*) Less than 10%

NOTE 6: NET INCOME PER SHARE OF COMMON STOCK

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each period, plus dilutive potential shares of common stock considered outstanding during the period, in accordance with FASB ASC No. 260, Earnings Per Share.

**Three months ended
March 31,**

(in thousands except per share data)

	2010 (unaudited)	2009 (unaudited)
Numerator:		
Numerator for basic and diluted net income per share	\$ 2,059	\$ 1,368
Denominator:		
Denominator for basic net income per share	20,654	19,557
Effect of employee stock options	1,257	197
Denominator for diluted net income per share	21,911	19,754
Basic net income per share	\$ 0.10	\$ 0.07
Diluted net income per share	\$ 0.09	\$ 0.07

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

The weighted average number of shares related to the outstanding options excluded from the calculation of diluted net income per share since their effect was anti-dilutive was 41,567 shares for the three months ended March 31, 2010, and 3,388,138 for the corresponding period of 2009.

NOTE 7: COMMON STOCK AND STOCK-BASED COMPENSATION PLANS

The Company grants stock options to employees and non-employee directors of the Company and its subsidiaries and provides the right to purchase common stock pursuant to the Company's employee stock purchase plan to employees of the Company and its subsidiaries. Most of the options granted under the Company's stock-based compensation plans have been granted at the fair market value of the Company's common stock on the grant date. A summary of the Company's stock option activity and related information for the three months ended March 31, 2010, is as follows:

	Number of options		Weighted average exercise price
Outstanding as of January 1, 2010	3,965,655	\$	7.66
Granted	32,500		11.58
Exercised	(443,964)		6.56
Forfeited or expired	(26,865)		8.25
Outstanding as of March 31, 2010	3,527,326	\$	7.83
Exercisable as of March 31, 2010	2,138,155	\$	7.47

During the first quarter of 2010, the Company issued 89,365 shares of common stock under its employee stock purchase plan for an aggregate consideration of \$525.

The following table shows the total equity-based compensation expense included in the condensed consolidated statement of operations:

	Three months ended March 31,	
	2010	2009
	(unaudited)	(unaudited)
Cost of revenue	\$ 18	\$ 35
Research and development expenses	167	262
Sales and marketing expenses	112	162
General and administrative expenses	287	349
Total	\$ 584	\$ 808

The fair value for the Company's stock options (other than share issuances in connection with the employee stock purchase plan, as detailed below) granted to employees and non-employees directors was estimated using the following assumptions:

Three months ended March 31,	
2010	2009
(unaudited)	(unaudited)

Expected dividend yield	0%	0%
Expected volatility	47%-61%	47%-76%
Risk-free interest rate	0.3%-3%	1%-2%
Expected forfeiture (employees)	10%	10%
Expected forfeiture (executives)		5%
Contractual term of up to	7 Years	7 Years
Suboptimal exercise multiple (employees)	1.5	1.5
Suboptimal exercise multiple (executives)		1.3

The fair value for rights to purchase shares of common stock under the Company's employee share purchase plan was estimated on the date of grant using the same assumptions set forth above for the three months ended March 31, 2010 and 2009, except the expected life, which was assumed to be six to 24 months, and except the expected volatility, which was assumed to be in a range of 45%-63% for the three months ended March 31, 2010, and 95% for the three months ended March 31, 2009.

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

As of March 31, 2010 and 2009, there were balances of \$1,569 and \$2,577, respectively, of unrecognized compensation expense related to unvested awards. The impact of equity-based compensation expense on basic and diluted net income per share was \$0.03 for the three months ended March 31, 2010, and \$0.04 for the corresponding period of 2009.

NOTE 8: DERIVATIVES AND HEDGING ACTIVITIES

The Company implemented the requirements of FASB ASC No. 815, Derivatives and Hedging which requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging transaction and further, on the type of hedging transaction. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Due to the Company's global operations, it is exposed to foreign currency exchange rate fluctuations in the normal course of its business. The Company's treasury policy allows it to offset the risks associated with the effects of certain foreign currency exposures through the purchase of foreign exchange forward or option contracts (Hedging Contracts). The policy, however, prohibits the Company from speculating on such Hedging Contracts for profit. To protect against the increase in value of forecasted foreign currency cash flow resulting from salaries paid in currencies other than the U.S. dollar during the year, the Company instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll of its non-U.S. employees denominated in currencies other than the U.S. dollar for a period of one to twelve months with Hedging Contracts. Accordingly, when the dollar strengthens against the foreign currencies, the decline in present value of future foreign currency expenses is offset by losses in the fair value of the Hedging Contracts. Conversely, when the dollar weakens, the increase in the present value of future foreign currency expenses is offset by gains in the fair value of the Hedging Contracts. These Hedging Contracts are designated as cash flow hedges and are all effective as hedges of these expenses.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any gain or loss on a derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item is recognized in current earnings during the period of change. As of March 31, 2010 and 2009, the notional principal amount of the Hedging Contracts held by the Company was \$4,975 and \$9,450, respectively.

Other derivative instruments that are not designated as hedging instruments consist of forward contracts that the Company uses to hedge monetary assets denominated in currencies other than the U.S. dollar. Gains and losses on these contracts as well as related costs are included in financial income, net, along with the gains and losses of the related hedged item. As of March 31, 2010 and 2009, the notional principal amount of the foreign exchange contracts held by the Company was \$4,006 and \$0, respectively.

The Company recorded in cost of revenues and operating expenses a net gain of \$105 and a net loss of \$239 during the three months ended March 31, 2010 and 2009, respectively, related to its Hedging Contracts. In addition, the Company recorded in financial income, net a gain of \$5 and \$0 during the three months ended March 31, 2010 and 2009, respectively, related to derivatives not designated as hedging instruments.

The fair value of the Company's outstanding derivative instruments is as follows:

As at March 31, 2010 (Unaudited)	As of December 31, 2009 (Audited)
---	--

Derivative assets:

Edgar Filing: CEVA INC - Form 10-Q

Derivatives designated as cash flow hedging instruments:

Foreign exchange option contracts	\$		\$	103
Foreign exchange forward contracts		88		25

88 128

Derivatives not designated as hedging instruments:

Foreign exchange forward contracts		5		
------------------------------------	--	---	--	--

Total	\$	93	\$	128
-------	----	----	----	-----

Derivative liabilities:

Derivatives designated as cash flow hedging instruments:

Foreign exchange forward contracts		75		27
------------------------------------	--	----	--	----

Total	\$	75	\$	101
-------	----	----	----	-----

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

The Company recorded the fair value of derivative assets in prepaid expenses and other accounts receivable and the fair value of derivative liabilities in accrued expenses and other payables in the Company's condensed consolidated balance sheet.

The increase (decrease) in gains recognized in accumulated other comprehensive income (loss) on derivatives, before tax effect, is as follows:

	Three months ended March 31,	
	2010	2009
	(Unaudited)	
Derivatives designated as cash flow hedging instruments:		
Foreign exchange option contracts	\$ 15	\$ (447)
Foreign exchange forward contracts	2	(337)
	\$ 17	\$ (784)

The gains (losses) reclassified from accumulated other comprehensive income (loss) into income, are as follows:

	Three months ended March 31,	
	2010	2009
	(Unaudited)	
Derivatives designated as cash flow hedging instruments:		
Foreign exchange option contracts	\$ (118)	\$ 127
Foreign exchange forward contracts	13	112
	\$ (105)	\$ 239

NOTE 9: RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-09, *Subsequent Events* (ASU No. 2010-09). The amendment removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The amendment is effective upon issuance and as such the Company adopted ASU No. 2010-09 during the first quarter of 2010. The Company has evaluated subsequent events after March 31, 2010 through the date and time the condensed consolidated financial statements were issued. There were no subsequent events that required disclosure or adjustment to the financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which requires disclosures about inputs and valuation techniques used to measure fair value, as well as disclosures about significant transfers, beginning in the first quarter of 2010. Additionally, these amended standards require presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3), beginning in the first quarter of 2011. The Company does not expect these new standards to significantly impact its condensed consolidated financial statements.

In October 2009, the FASB issued a new accounting standard, ASU No. 2009-13 *Multiple-Deliverable Revenue Arrangements*, which provides guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of the vendor-specific objective evidence or third-party evidence of the selling prices, consideration must be allocated to the deliverables based on management's best estimate of the selling prices. In addition, the new standard eliminates the use of the residual method of allocation. In October 2009, the FASB also

issued a new accounting standard, ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements, which changes revenue recognition for tangible products containing software and hardware elements. Specifically, tangible products containing software and hardware that function together to deliver the tangible products' essential functionality are scoped out of the existing software revenue recognition guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. Both standards will be effective for the Company in the first quarter of 2011. The Company is currently evaluating the impact of these standards on its condensed consolidated financial statements.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion together with the unaudited financial statements and related notes appearing elsewhere in this quarterly report. This discussion contains forward-looking statements that involve risks and uncertainties. Any or all of our forward-looking statements in this quarterly report may turn out to be wrong. These forward-looking statements can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Factors which could cause actual results to differ materially include those set forth under in Part II Item 1A Risk Factors, as well as those discussed elsewhere in this quarterly report. See Forward-Looking Statements.

BUSINESS OVERVIEW

The financial information presented in this quarterly report includes the results of CEVA, Inc. and its subsidiaries. CEVA is the world's leading licensor of DSP cores and platform solutions. Our technologies are widely licensed and power some of the world's leading semiconductor and original equipment manufacturer (OEM) companies. In 2009, our licensees shipped over 334 million CEVA-powered chipsets, an increase of 9% over 2008 shipments of 307 million chipsets. In 2009, Gartner Inc. reported our share of the licensable DSP market at 46%.

Given the technological complexity of DSP-based applications, there are increased requirements to supplement the DSP core IP with additional technologies in the form of integrated application-specific hardware peripherals and software components. Therefore, we believe there is an industry shift from developing DSP technologies in-house to licensing them from third party IP providers, like us, due to the design cycle time constantly shortening and the cost of ownership and maintenance of such architectures.

During the past three years, our business has shown profitability growth and business expansion as a result of the widespread deployment of our DSP cores with all major handset OEMs - LG Electronics, Motorola, Nokia, Samsung, and Sony Ericsson and many others, including a major U.S.-based smartphone manufacturer. This positive trend is evident from our royalty revenues which increased by 13% in 2009 from 2008 and increased 78% when comparing 2009 to 2007. Based on internal data, CEVA's worldwide market share of baseband chips for handsets that incorporate our technologies approximately doubled in 2009 from 13% to 26% of the worldwide handsets volume based on fourth quarter worldwide shipments of handsets for 2008 and 2009. Revenues derived from the handsets market accounted for approximately 58% and 57% of our total annual royalty revenues and total annual revenues, respectively, for 2009. We believe the full scale migration to our DSP cores and technologies in the handsets market has not been fully realized and continues to progress. Also, we are optimistic about adoption of our technologies for new categories of products, such as data cards, USB dongles, smart metering, tablets, netbooks, and eReaders. The announcement by Texas Instruments and Freescale of their intent to exit the baseband market, after historically having been large players in this market, is a strong positive driver for our future market share expansion.

We believe both the handsets and mobile broadband markets continue to present significant growth opportunities for CEVA. At the end of 2009, there were more than four billion cellular connections worldwide, which is 60% of the entire global population. Gartner Inc. predicts that worldwide handset shipments will grow 9% in 2010 to 1.3 billion units, with the majority of the growth coming from ultra-low-cost phone demands in developing countries and the broader adoption of advanced smartphones in mature markets. We are well-positioned to capitalize on the growth in the ultra-low-cost phone, smartphone and mobile broadband markets as key chip suppliers serving these markets use our technologies broadly. ABI Research forecasts that shipments of cellular-based devices will nearly double in 2014 from 2009, reaching 2.2 billion units. The source of this substantial growth is primarily due to new categories of devices that utilize cellular connectivity. More commonly referred to as mobile broadband connectivity, these devices comprise of various consumer and machine-to-machine equipment, including eReaders, netbooks, tablets, data cards and smart metering equipment. Every cellular-connected device requires a DSP-based modem for connectivity and many of the leading suppliers of these modems are using our DSP technologies.

Beyond products enabled by our technologies in handsets and mobile broadband markets, in 2009, we witnessed a noticeable increase in design starts of next-generation 4G WiMAX/LTE products utilizing our advanced DSP cores. Fourth generation wireless products require much greater performance and flexibility than 3G products. In addition to

our CEVA-X family of DSP cores currently being designed into multiple 4G chipsets, we introduced a new DSP architecture, the CEVA-XC, in February 2009, to specifically address the unique and evolving needs of implementing LTE/4G, WiMAX and Software Defined Radio (SDR)-based wireless communication applications. We further enhanced this product offering by adding critical LTE software libraries and a robust partner program in 2010. We believe this new product line is well positioned to expand our licensee base in both existing wireless handsets and new wireless infrastructure markets.

Table of Contents

As a result of the worldwide economic downturn that started in the second half of 2008, revenue derived from licensing of DSP cores and subsystems to semiconductor and OEM companies in the consumer electronics markets, including mobile multimedia and home entertainment, decreased during the first half of 2009 with a modest recovery during the second half of 2009. Our total revenues also decreased in 2009 as compared to 2008. Nonetheless, we are optimistic about 2010 as we have key customers with production capability for high volume products, including portable consumer products, set-top boxes, ultra-low-cost phones and smartphones. Subject to the market returning to its normal seasonal growth, we expect continued growth in these categories in 2010.

Notwithstanding the various growth opportunities we have outlined above, our business operates in a highly competitive environment. Competition has historically increased pricing pressures for our products and decreased our average selling prices. Some of our competitors have reduced their licensing and royalty fees to attract customers and expand their market share. In order to penetrate new markets and maintain our market share with our existing products, we may need to offer our products in the future at lower prices which may result in lower profits. In addition, our future growth is dependent not only on the continued success of our existing products but also the successful introduction of new products, which requires the dedication of resources into research and development which in turn may increase our operating expenses. We currently anticipate that our operating expenses will increase during 2010 in comparison to 2009, mainly due to increased investments in research and development, including the addition of new engineers, and currency exchange expenses as the U.S. dollar is currently devalued against the New Israeli Shekel (NIS), Euro, and British Pound, which are the primary currencies for our employee salary expenses. In addition to monitoring and controlling our operating expenses, we must maintain our current level of gross margin in order to offset any future declines in shipment quantities of products based on our technologies or any future declines in any per-unit royalty rates. Furthermore, since our products are incorporated into end products of our OEM customers, our business is very dependent on our OEM customers' ability to achieve market acceptance of their end products in the handsets and consumer electronic markets, which are similarly very competitive.

The ever-changing nature of the market also affects our continued business growth potential. For example, the success of our video and audio products are highly dependent on the market adoption of new services and products, such as smartphones, connected devices in the form of DTV, set-top boxes, tablets, mobile Internet devices, HD video and audio within products such as Blu-ray DVDs, digital TVs, set-top boxes. In addition, our business is affected by market conditions in emerging markets, such as China, India and Latin America, where the penetration of handsets, especially ultra-low-cost phones, could generate future growth potential for our business. The maintenance of our competitive position and our future growth also are dependent on our ability to adapt to ever-changing technology, short product life cycles, evolving industry standards, changing customer needs and the trend towards cellular connectivity, and voice, audio and video convergence in the markets that we operate.

Furthermore, the 2008-2009 worldwide economic downturn has resulted in slower economic activity, decreased consumer confidence and spending, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. Our total revenues decreased in 2009 as compared to 2008. Although the global market shows signs of recovery and stabilization, if market conditions remain uncertain or deteriorate, we could experience reduced spending by our customers for our products and services in 2010. We also operate primarily in the semiconductor industry, which is cyclical, and the 2008-2009 downturn resulted in a significant downturn of the semiconductor industry. The result was decreased product demand, excess customer inventories, and accelerated erosion of prices.

Moreover, due to the uncertainty about the sustainability of the market recovery, it is extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities. Therefore, the current economic conditions, and specifically the volatility in the semiconductor and consumer electronics industries, could seriously impact our revenue and harm our business, financial condition and operating results. As a result, our past operating results should not be relied upon as an indication of future performance.

RESULTS OF OPERATIONS*Total Revenues*

Total revenues increased by 11% to \$10.6 million for the first quarter of 2010 from \$9.5 million for the comparable quarter in 2009. The increase in total revenues reflected principally higher royalty revenues. Our five largest customers accounted for 78% of our total revenues for the first quarter of 2010, as compared to 66% for the

comparable quarter of 2009. Two customers accounted for 39% and 19% of our total revenues for the first quarter of 2010, as compared to four different customers that accounted for 19%, 17%, 14% and 10% of our total revenues for the first quarter of 2009. Because of the nature of our license agreements and the associated large initial payments due, the identity of major customers generally varies from quarter to quarter and we do not believe that we are materially dependent on any one specific customer or any specific small number of licensees. Our total revenues derived from the handsets market represented 68% of our total revenues for the first quarter of 2010.

Table of Contents

We generate our revenues from licensing our technology, which in certain circumstances is modified to customer-specific requirements. Revenues from license fees that involve customization of our technology to customer specifications are recognized in accordance with the principles set out in Financial Accounting Standards Board (FASB) Accounting Standards Codifications (ASC) No. 605-35-25 Construction-Type and Production-Type Contracts Recognition. We account for all of our other IP license revenues and related services in accordance with FASB ASC No. 985-605, Software Revenue Recognition.

We generate royalty revenue from our customers based on two models: royalties paid by our customers during the period in which they ship units of chipsets incorporating our technology, which we refer to as per unit royalties, and royalties which are paid in a lump sum and in advance to cover a pre-determined fixed number of future unit shipments, which we refer to as prepaid royalties. In either case, these royalties are non-refundable payments and are recognized when payment becomes due, provided no future obligation exists. No prepaid royalties revenue was generated during the first quarter ended March 31, 2010 and 2009. Only royalty revenue from customers who are paying as they ship units of chipsets incorporating our technology is recognized in our royalty revenue line. These per unit royalties are invoiced and recognized on a quarterly basis in arrears as we receive quarterly shipment reports from our licensees.

Licensing Revenues

Licensing revenues for the first quarter of 2010 were \$4.7 million, an increase of 4% from \$4.5 million for the first quarter of 2009. The slight increase in licensing revenues resulted mainly from higher revenues from our CEVA-TeakLite DSP core family of products, partially offset by lower revenues from our CEVA-X DSP core family of products and from our Serial Attached SCSI (SAS) product. We are experiencing strong interest and pipe line build-up for our DSP cores due to general business improvements in our primary markets, particularly the cellular baseband market.

Licensing revenues accounted for 45% of our total revenues for the first quarter of 2010, compared to 48% for the comparable period of 2009. During the first quarter of 2010, we concluded five new license agreements. Four of the agreements were for CEVA DSP cores, platforms and software, and one was for CEVA Serial ATA (SATA). Target applications for customer deployment are 2G and 3G handsets and data cards, set-top boxes, digital TVs and SSD drives. Geographically, two of the five deals concluded were in Europe and three were in the Asia Pacific region.

Royalty Revenues

Royalty revenues for the first quarter of 2010 were \$5.0 million, an increase of 32% from \$3.8 million for the first quarter of 2009. Royalty revenues accounted for 47% of our total revenues for the first quarter of 2010, compared to 39% for the comparable period of 2009. The increase in royalty revenues reflected our market share expansion in the handsets market, partially offset by a decrease in the average royalty rate per unit. Our per unit and prepaid royalty customers reported sales of 122 million chipsets incorporating our technologies for the first quarter of 2010, compared to 59 million for the comparable period of 2009. The five largest customers paying per unit royalty accounted for 86% of our total royalty revenues for the first quarter of 2010, compared to 85% for the comparable period of 2009.

As of March 31, 2010, 24 licensees were shipping products incorporating our technologies pursuant to 33 licensing arrangements. Of the 33 licensing arrangements, 29 are under per unit royalty arrangements and 4 are under prepayment arrangements. As of March 31, 2009, 26 licensees were shipping products incorporating our technologies pursuant to 29 licensing arrangements. Of the 29 licensing arrangements, 23 were under per unit royalty arrangements and 6 were under prepayment arrangements.

Other Revenues

Other revenues were \$0.9 million for the first quarter of 2010, a decrease of 26% from \$1.2 million for the first quarter 2009. The decrease in other revenues for the first quarter of 2010, as compared to the corresponding period of 2009, reflected lower support-related revenues and lower sales of development systems, mainly associated with our customers' tighter expense controls and refraining from extending or renewing support-related agreements. Other revenues accounted for 8% of our total revenues for the first quarter of 2010, compared to 13% for the comparable period of 2009. Other revenues include support and training for licensees and sale of development systems.

Table of Contents*Geographic Revenue Analysis*

	First quarter 2010			First quarter 2009	
	(in millions, except percentages)				
United States	\$	0.8	8%	\$	0.5 6%
Europe and Middle East (1) (2)	\$	7.8	73%	\$	5.3 55%
Asia Pacific (3) (4)	\$	2.0	19%	\$	3.7 39%
(1) Sweden	\$	1.4	13%	\$	3.3 35%
(2) Germany	\$	4.1	39%	\$	*) *)
(3) Japan		*)	*)	\$	1.3 14%
(4) S. Korea		*)	*)	\$	1.3 14%

*) Less than 10%

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

Cost of Revenues

Cost of revenues was \$0.7 million for the first quarter of 2010, compared to \$1.2 million for the comparable period of 2009. Cost of revenues accounted for 7% of our total revenues for the first quarter of 2010, compared to 13% for the comparable period of 2009. The decrease for the first quarter of 2010 principally reflected lower customization work for our licensees and lower royalty payback expenses paid to the Office of Chief Scientist of Israel. Royalty payback expenses amounted to 3%-3.5% of the actual sales of certain of our products, the development of which previously received grants from the Office of Chief Scientist of Israel. Included in cost of revenues for the first quarter of 2010 was a non-cash equity-based compensation expense of \$18,000, compared to \$35,000 for the comparable period of 2009.

Gross Margin

Gross margin for the first quarter of 2010 was 93%, compared to 87% for the comparable period of 2009. The increase in gross margin for the first quarter of 2010 principally reflected higher royalty revenues which have higher gross margins, and a decrease in cost of revenues.

Operating Expenses

Total operating expenses were \$8.0 million for the first quarter of 2010, compared to \$7.2 million for the comparable period of 2009. The increase in total operating expenses for the first quarter of 2010 principally reflected higher salary and related costs, partially as a result of a higher number of personnel, higher project-related expenses and higher travel cost, partially offset by higher research grants received from the Office of Chief Scientist of Israel and lower non-cash equity-based compensation expense.

We currently anticipate that our operating expenses will increase in 2010 in comparison to 2009, mainly due to increased investments in research and development, including the addition of new engineers, and higher currency exchange expenses as the U.S. dollar is currently devalued against the NIS, Euro and British Pound, which are the primary currencies for our employee salary expenses.

Research and Development Expenses, Net

Our research and development expenses were \$4.6 million for the first quarter of 2010, compared to \$4.1 million for the comparable period of 2009. The net increase for the first quarter of 2010 principally reflected higher salary and related costs, partially as a result of a higher number of research and development personnel hired to leverage opportunities in LTE and HD video markets, as well as an increase in project-related expenses, partially offset by lower research grants received from the Office of Chief Scientist of Israel and lower non-cash equity-based compensation expenses. Included in research and development expenses for the first quarter of 2010 was a non-cash equity-based compensation expense of \$167,000, compared to \$262,000 for the comparable period of 2009. Research and development expenses as a percentage of our total revenues were 43% for the first quarter of both 2010 and 2009.

The number of research and development personnel was 123 at March 31, 2010, compared to 116 at March 31, 2009.

Table of Contents*Sales and Marketing Expenses*

Our sales and marketing expenses were \$1.8 million for the first quarter of 2010, compared to \$1.6 million for the comparable period of 2009. The increase for the first quarter of 2010 principally reflected higher salary and related costs due to more personnel and higher travel expenses. Included in sales and marketing expenses for the first quarter of 2010 was a non-cash equity-based compensation expense of \$112,000, compared to \$162,000 for the comparable period of 2009. Sales and marketing expenses as a percentage of our total revenues were 17% for the first quarter of both 2010 and 2009.

The total number of sales and marketing personnel was 21 at March 31, 2010, compared to 20 at March 31, 2009.

General and Administrative Expenses

Our general and administrative expenses were both \$1.5 million for the first quarter of 2010 and 2009. Included in general and administrative expenses for the first quarter of 2010 was a non-cash equity-based compensation expense of \$287,000, compared to \$349,000 for the comparable period of 2009. General and administrative expenses as a percentage of total revenues were 15% for the first quarter of both 2010 and 2009.

The number of general and administrative personnel was 25 at March 31, 2010, compared to 23 at March 31, 2009.

Financial Income, Net (in millions)

	First quarter 2010	First quarter 2009
Financial income, net	\$ 0.56	\$ 0.48
<i>of which:</i>		
Interest income and gains and losses from marketable securities, net	\$ 0.53	\$ 0.53
Foreign exchange gain (loss)	\$ 0.03	\$ (0.05)

Financial income, net, consists of interest earned on investments, gains and losses from marketable securities, amortization of discount and premium on marketable securities and foreign exchange movements. The slightly increase in financial income, net, during the first quarter of 2010 principally reflected higher combined cash, bank deposits and marketable securities balances held, offset by lower interest rates.

We review our monthly expected non-U.S. dollar denominated expenditures and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. This has resulted in a foreign exchange gain of \$27,000 for the first quarter of 2010, and a foreign exchange loss of \$54,000 for the comparable period of 2009.

Provision for Income Taxes

Our income tax expenses were \$422,000 for the first quarter of 2010, compared to \$228,000 for the comparable period of 2009. The increase for the first quarter of 2010 primarily reflected an increase in income before taxes and withholding tax expenses which we were unable to obtain a refund from a certain foreign tax authority. We have significant operations in Israel and the Republic of Ireland, and a substantial portion of our taxable income is generated there. Currently, our Israeli and Irish subsidiaries are taxed at rates substantially lower than U.S. tax rates.

One of our Irish operating subsidiaries currently qualifies for a 10% tax rate on its trade, which under current legislation will remain in force until December 31, 2010. After this date, a tax rate of 12.5% will apply. Another Irish subsidiary qualifies for exemption from income taxes as its sole revenue source is license fees from qualifying patents within the meaning of Section 140 of the Irish Taxes Consolidation Act 1997.

Our Israeli operating subsidiary's production facilities have been granted Approved Enterprise status under Israeli law in connection with six separate investment plans. Income from an Approved Enterprise is tax-exempt for a period of two or four years and is subject to a reduced corporate tax rate of 10% to 25% (based on percentage of foreign ownership) for an additional period of six or eight years. The tax benefit under the first, second, third and fourth plans have expired and are subject to corporate tax of 25% in 2010. However, the Israeli operating subsidiary received in 2008 an approval for the erosion of tax basis in respect to its second, third and fourth plans, and as a result no taxable income was attributed to the second and third plans, and reduced taxable income was attributed to the fourth plan.

Table of Contents

On April 1, 2005, an amendment to the Israeli Investment Law came into effect (the Amendment) and significantly changed the provisions of the Investment Law. The Amendment included revisions to the criteria for investments qualified to receive tax benefits as an Approved Enterprise. The Amendment applies to new investment programs and investment programs commenced after 2004, and does not apply to investment programs approved prior to December 31, 2004, and therefore benefits included in any certificate of approval that was granted before the Amendment came into effect will remain subject to the provisions of the Investment Law as they were on the date of such approval. Our Israeli subsidiary's seventh plan (commenced in 2007) is subject to the provisions of the Amendment. We believe that we are currently in compliance with the requirements of the Amendment. However, if we fail to meet these requirements, we would be subject to corporate tax in Israel at the regular statutory rate of 25% for 2010. We could also be required to refund tax benefits, with interest and adjustments for inflation based on the Israeli consumer price index.

Certain expenditures pursuant to Israeli law are permitted to be recognized as a tax deduction over a three year period which has resulted in the recognition of deferred tax assets in 2010.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2010, we had approximately \$27.1 million in cash and cash equivalents, \$74.6 million in short term bank deposits and marketable securities, and \$5.0 million in long term bank deposits, totaling \$106.7 million, compared to \$100.6 million at December 31, 2009. During the first quarter of 2010, we invested \$23.7 million of cash in bank deposits and available-for-sale marketable securities with maturities up to 36 months. In addition, during the same period, bank deposits and available-for-sale marketable securities were sold or redeemed for cash amounting to \$32.4 million. Tradable certificates of deposits and corporate bonds and securities and U.S. government and agency securities instruments are classified as available-for-sale marketable securities. The purchase and sale or redemption of available-for-sale marketable securities are considered part of investing cash flow. Available-for-sale marketable securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the condensed consolidated statements of operations. Determining whether the decline in fair value is other-than-temporary requires management's judgment based on the specific facts and circumstances of each investment. We assess periodically whether our investments with unrealized losses are other than temporarily impaired (OTTI). OTTI charges exist when an entity has the intent to sell the security, it will more likely than not be required to sell the security before anticipated recovery or it does not expect to recover the entire amortized cost basis of the security (that is, a credit loss exists). OTTI is determined based on the specific identification method and is reported in the consolidated statements of operations. We did not recognize any OTTI charges on marketable securities during the first quarter of 2010.

Bank deposits are classified as short-term bank deposits and long-term bank deposits. Short-term bank deposits are non-tradable deposits with maturities of more than three months but less than one year, whereas long-term bank deposits are non-tradable deposits with maturities of more than one year. Non-tradable deposits are presented at their cost, including accrued interest, and purchases and sales are considered part of cash flows from investing activities.

Net cash provided by operating activities for the first quarter of 2010 was \$3.0 million, compared to \$1.0 million of net cash provided by operating activities for the comparable period of 2009. For the first quarter of 2009, we expended \$645,000 in connection with the restructuring of our SATA activities.

Cash flows from operating activities may vary significantly from quarter to quarter depending on the timing of our receipts and payments. Our ongoing cash outflows from operating activities principally relate to payroll-related costs and obligations under our property leases and design tool licenses. Our primary sources of cash inflows are receipts from our accounts receivable and interest earned from our cash, deposits and marketable securities. The timing of receipts of accounts receivable from customers is based upon the completion of agreed milestones or agreed dates as set out in the contracts.

Net cash provided by investing activities for the first quarter of 2010 was \$8.5 million, compared to \$1.7 million of net cash provided by investing activities for the comparable period of 2009. We had a cash outflow of \$18.7 million and a cash inflow of \$12.0 million in respect of investments in marketable securities during the first quarter of 2010, as compared to cash outflow of \$7.6 million and a cash inflow of \$11.1 million in respect of investments in

marketable securities during the first quarter of 2009. For the first quarter of 2010, we had net proceeds of \$15.4 million in bank deposits, as compared to net investments of \$1.8 million in bank deposits for the comparable period of 2009.

Net cash provided by financing activities during the first quarter of 2010 was \$3.4 million, compared to \$0.3 million of net cash used in financing activities for the comparable period of 2009. During the first quarter of 2010 and 2009, we received \$3.4 and \$0.6 million, respectively, from the issuance of common stock upon exercises of employee stock options and purchases under our employee stock purchase plan. During the first quarter of 2009, we repurchased 140,828 shares of our common stock at an average purchase price of \$5.85 per share, for an aggregate purchase price of \$0.8 million.

Table of Contents

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

In addition, as part of our business strategy, we occasionally evaluate potential acquisitions of businesses, products and technologies. Accordingly, a portion of our available cash may be used at any time for the acquisition of complementary products or businesses. Such potential transactions may require substantial capital resources, which may require us to seek additional debt or equity financing. We cannot assure you that we will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our current operations, or expand into new markets. Furthermore, we cannot provide assurances that additional financing will be available to us in any required time frame and on commercially reasonable terms, if at all. See Risk Factors We may seek to expand our business through acquisitions that could result in diversion of resources and extra expenses. for more detailed information.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A majority of our revenues and a portion of our expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the majority of our expenses are denominated in currencies other than the U.S. dollar, principally the Euro, the NIS and the British Pound. Increases in volatility of the exchange rates of currencies other than the U.S. dollar versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur when remeasured into U.S. dollars. We review our monthly expected non-U.S. dollar denominated expenditures and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. This has resulted in a foreign exchange gain of \$27,000 for the first quarter of 2010, and a foreign exchange loss of \$54,000 for the corresponding period of 2009.

As a result of currency fluctuations and the remeasurement of non-U.S. dollar denominated expenditures in U.S. dollars for financial reporting purposes, we may experience fluctuations in our operating results on an annual and quarterly basis. To protect against the increase in value of forecasted foreign currency cash flows resulting from salaries paid in currencies other than the U.S. dollar during the year, we instituted during the second quarter of 2007, a foreign currency cash flow hedging program. We hedge portions of the anticipated payroll for our non-U.S. employees denominated in currencies other than the U.S. dollar for a period of one to twelve months with forward and option contracts. During the first quarter of 2010 and 2009, we recorded accumulated other comprehensive loss of \$82,000 and \$545,000, respectively, from our forward and options contracts, net of taxes, with respect to anticipated payroll expenses for our non-U.S. employees. As of March 31, 2010, the amount of other comprehensive gain from our forward and option contracts, net of taxes, was \$5,000, which will be recorded in the consolidated statements of operations during the following 12 months. We recognized a net gain of \$105,000 for the first quarter of 2010 and a net loss of \$239,000 for the first quarter of 2009, related to forward and options contracts. We note that hedging transactions may not successfully mitigate losses caused by currency fluctuations. We expect to continue to experience the effect of exchange rate and currency fluctuations on an annual and quarterly basis.

The majority of our cash and cash equivalents are invested in high grade certificates of deposits with major U.S., European and Israeli banks. Generally, cash and cash equivalents and bank deposits may be redeemed and therefore minimal credit risk exists with respect to them. Nonetheless, deposits with these banks exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits or similar limits in foreign jurisdictions, to the extent such deposits are even insured in such foreign jurisdictions. While we monitor on a systematic basis the cash and cash equivalent balances in the operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit our funds fails or is subject to other adverse conditions in the financial or credit markets. To date we have experienced no loss of principal or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be affected if the financial institutions that we hold our cash and cash equivalents fail.

We hold an investment portfolio consisting principally of corporate bonds and securities, and U.S. government and agency securities. We intend, and have the ability, to hold such investments until recovery of temporary declines in market value or maturity; accordingly, as of March 31, 2010, we believe the losses associated with our investments are temporary and no impairment loss was recognized during the first quarter of 2010. However, we can provide no

assurance that we will recover present declines in the market value of our investments.

Interest income and gains from marketable securities, net, were \$0.53 million for both the first quarter of 2010 and 2009.

We are exposed primarily to fluctuations in the level of U.S. and EMU (European Monetary Union) interest rates. To the extent that interest rates rise, fixed interest investments may be adversely impacted, whereas a decline in interest rates may decrease the anticipated interest income for variable rate investments. We typically do not attempt to reduce or eliminate our market exposures on our investment securities because the majority of our investments are short-term. We currently do not have any derivative instruments but may put them in place in the future. Fluctuations in interest rates within our investment portfolio have not had, and we do not currently anticipate such fluctuations will have, a material effect on our financial position on an annual or quarterly basis.

Table of Contents

Item 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of March 31, 2010.

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are not a party to any litigation or other legal proceedings that we believe could reasonably be expected to have a material effect on our business, results of operations and financial condition.

Item 1A. RISK FACTORS

This Form 10-Q contains forward-looking statements concerning our future products, expenses, revenue, liquidity and cash needs as well as our plans and strategies. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Numerous factors could cause our actual results to differ significantly from the results described in these forward-looking statements, including the following risk factors.

There are no material changes to the Risk Factors described under the title **Factors That May Affect Future Performance** in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 other than (1) changes to the Risk Factor below entitled **Our quarterly operating results fluctuate from quarter to quarter due to a variety of factors, including our lengthy sales cycle, and may not be a meaningful indicator of future performance;** (2) changes to the Risk Factor below entitled **We rely significantly on revenue derived from a limited number of customers;** (3) changes to the Risk Factor below entitled **We generate a significant amount of our total revenues from the handsets market and our business and operating results may be materially adversely affected if we do not continue to succeed in this highly competitive market;** (4) changes to the Risk Factor below entitled **Because we have significant international operations, we may be subject to political, economic and other conditions relating to our international operations that could increase our operating expenses and disrupt our revenues and business;** (5) changes to the Risk Factor below entitled **Our operating results are affected by general economic conditions and the highly cyclical nature of the semiconductor industry;** (6) changes to the Risk Factor below entitled **Our research and development expenses may increase if the grants we currently receive from the Israeli and Irish governments are reduced or withheld;** (7) changes to the Risk Factor below entitled **We are exposed to fluctuations in currency exchange rates;** and (8) changes to the Risk Factor below entitled **The Israeli tax benefits that we currently receive and the government programs in which we participate require us to meet certain conditions and may be terminated or reduced in the future, which could increase our tax expenses.**

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

The markets for the products in which our technology is incorporated are highly competitive. Aggressive competition could result in substantial declines in the prices that we are able to charge for our intellectual property. Many of our competitors are striving to increase their share of the growing DSP market and are reducing their licensing and royalty fees to attract customers. The following factors may have a significant impact on our competitiveness:

We compete directly in the DSP core space with Tensilica and Verisilicon;

CPU IP providers, such as Virage Logic (through its acquisition of ARC), ARM Holdings, MIPS Technologies and Tensilica, who offer DSP and DSP extensions to their IP;

Our video solution is software-based and competes with hardware implementations offered by companies such as Hantro (acquired by On2), Imagination Technologies, Chips & Media, and Virage Logic (through its acquisition of ARC);

Internal engineering teams, such as Mediatek, NXP, STMicroelectronics and Zoran, may design programmable DSP core products in-house and therefore not license our technologies; and

SATA and SAS IP markets are highly standardized with several vendors, such as ARM Holdings, Gennum's Snowbush IP group, Silicon Image and Synopsys, that offer similar products, thereby leading to pricing pressures for both licensing and royalty revenue.

Table of Contents

In addition, we may face increased competition from smaller, niche semiconductor design companies in the future. Some of our customers also may decide to satisfy their needs through in-house design. We compete on the basis of DSP performance, overall chip cost, power consumption, flexibility, reliability, communication and multimedia software availability, design cycle time, tool chain, customer support, name recognition, 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.

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

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

- the timing of the introduction of new or enhanced technologies by us and our competitors, as well as the market acceptance of such technologies;

- the timing and volume of orders and production by our customers, as well as fluctuations in royalty revenues resulting from fluctuations in unit shipments by our licensees and shifts by our customers from prepaid royalty arrangements to per unit royalty arrangements;

- the mix of revenues among licensing revenues, per unit and prepaid royalties and service revenues;

- our lengthy sales cycle and specifically in the third quarter of any fiscal year during which summer vacations slow down decision-making processes of our customers in executing contracts;

- the gain or loss of significant licensees, partly due to our dependence on a limited number of customers generating a significant amount of quarterly revenues;

- any delay in execution of any anticipated licensing arrangement during a particular quarter;

- delays in the commercialization of end products that incorporate our technology;

- currency fluctuations of the Euro and NIS versus the U.S. dollar;

- fluctuations in operating expenses and gross margins associated with the introduction of new or enhanced technologies and adjustments to operating expenses resulting from restructurings;

- our ability to scale our operations in response to changes in demand for our technologies;

- entry into new markets, including China, India and Latin America;

- changes in our pricing policies and those of our competitors;

- restructuring, asset and goodwill impairment and related charges, as well as other accounting changes or adjustments; and

- general economic conditions, including the current economic conditions, and its effect on the semiconductor industry and sales of consumer products into which our technologies are incorporated.

Each of the above factors is difficult to forecast and could harm our business, financial condition and results of operations. Also, we license our technology to OEM customers for incorporation into their end products for consumer markets, including handsets and consumer electronics products. The royalties we generate are reported by our

customers and invoiced by us one quarter in arrears. As a result, our royalty revenues are affected by seasonal buying patterns of consumer products sold by our OEM customers that incorporate our technology and the market acceptance of such ends products supplied by our OEM customers. The fourth quarter in any given year is usually the strongest quarter for sales by our OEM customers in the consumer markets, and thus, the first quarter in any given year is usually the strongest quarter for royalty revenues as our royalties are reported and invoiced one quarter in arrears. By contrast, the second quarter in any given year is usually the weakest quarter for us in relation to royalty revenues. However, this general quarterly fluctuation may be impacted by the global economic slowdown and the slow recovery of business conditions.

In addition, as noted above, our operating expenses and, accordingly, our operating income, are subject to fluctuation from quarter to quarter. In particular, due to the uncertainty about the sustainability of the economic recovery and outlook, and pricing instability in worldwide markets, the level of operating efficiency and lower operating expenses that we reported for 2009 may not continue in 2010. We currently anticipate that our operating expenses will be higher for 2010, in comparison to 2009, mainly due to increased investments in research and development, including the addition of new engineers and currency exchange expenses as the U.S. dollar is currently devalued against the NIS, the Euro, and the British pound, which are the primary currencies for our employee salary expenses. Any future increase in our operating expenses or decrease in our operating efficiency could adversely impact our future financial results.

Table of Contents

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

We expect that a limited number of customers, generally varying in identity from period-to-period, will account for a substantial portion of our revenues in any period. Two customers, varying in identity from period-to-period, accounted for 39% and 19% of our total revenues for the first quarter of 2010. Our five largest customers, varying in identity from period-to-period, accounted for 78% of our total revenues for the first quarter of 2010. Our five largest customers paying per unit royalties, varying in identity from period-to-period, accounted for 86% of our total royalty revenues for the first quarter of 2010. Moreover, license agreements for our DSP cores have not historically provided for substantial ongoing license payments. Significant portions of our anticipated future revenue, therefore, will likely depend upon our success in attracting new customers or expanding our relationships with existing customers. Our ability to succeed in these efforts will depend on a variety of factors, including the performance, quality, breadth and depth of our current and future products, as well as our sales and marketing skills. In addition, some of our licensees may in the future decide to satisfy their needs through in-house design and production. Our failure to obtain future licensing customers would impede our future revenue growth and could materially harm our business.

We generate a significant amount of our total revenues from the handsets market and our business and operating results may be materially adversely affected if we do not continue to succeed in this highly competitive market.

Revenues derived from the handsets market accounted for approximately 68% of our total revenues for the first quarter of 2010. Any adverse change in our ability to compete and maintain our competitive position in the handsets market, including through the introduction of enhanced technologies that attract OEM customers that target the handsets market, would harm our business, financial condition and results of operations. Moreover, the handsets market is extremely competitive and is facing intense pricing pressures, and we expect that competition and pricing pressures will only increase. Our existing OEM customers may fail to introduce new handsets that attract consumers, or encounter significant delays in developing, manufacturing or shipping new or enhanced handsets in this market. The inability of our OEM customers to compete would result in lower shipments of handsets powered by our technologies which in turn would have a material adverse effect on our business, financial condition and results of operations.

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

The semiconductor intellectual property (SIP) industry is a relatively small and emerging industry. Our future growth will depend on the level of market acceptance of our third-party licensable intellectual property model, the variety of intellectual property offerings available on the market, and a shift in customer preference away from in-house development of proprietary DSPs towards licensing open DSP cores. Furthermore, the third-party licensable intellectual property model is highly dependent on the market adoption of new services and products, such as smartphones, mobile broad band, ultra-low-cost phones in emerging markets, Personal Multimedia Players (PMP), Blu-ray DVDs, connected digital TVs and set-top boxes with high definition audio and video. Such market adoption is important because the increased cost associated with ownership and maintenance of the more complex architectures needed for the advanced services and products may motivate companies to license third-party intellectual property rather than design them in-house.

The trends that would enable our growth are largely beyond our control. Semiconductor customers also may choose to adopt a multi-chip, off-the-shelf chip solution versus licensing or using highly-integrated chipsets that embed our technologies. If the above referenced market shifts do not materialize or third-party SIP does not achieve market acceptance, our business, results of operations and financial condition could be materially harmed.

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

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

company. As a result, we may incur significant expenditures on the development of a new technology without any assurance that our existing or potential customers will select our technology for incorporation into their own product and without this design win, it becomes significantly difficult to sell our IP solutions. Moreover, even after a customer agrees to incorporate our technology into its end products, the design cycle is long and may be delayed due to factors beyond our control, which may result in the end product incorporating our technology not reaching the market until long after the initial design win with such customer. From initial product design-in to volume production, many factors could impact the timing and/or amount of sales actually realized from the design-in. These factors include, but are not limited to, changes in the competitive position of our technology, our customers financial stability, and our ability to ship products according to our customers schedule. Moreover, current economic conditions may further prolong a customer s decision-making process and design cycle.

Table of Contents

Further, because we do not control the business practices of our customers, we do not influence the degree to which they promote our technology or set the prices at which they sell products incorporating our technology. We cannot assure you that our customers will devote satisfactory efforts to promote our IP solutions. In addition, our unit royalties from licenses are dependent upon the success of our customers in introducing products incorporating our technology and the success of those products in the marketplace. The primary customers for our products are semiconductor design and manufacturing companies, system OEMs and electronic equipment manufacturers, particularly in the telecommunications field. These industries are highly cyclical and have been subject to significant economic downturns at various times, particularly in recent periods, including the global economic downturn that started in the second half of 2008. These downturns are characterized by production overcapacity and reduced revenues, which at times may encourage semiconductor companies or electronic product manufacturers to reduce their expenditure on our technology. If we do not retain our current customers and continue to attract new customers, our business may be harmed.

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

Approximately 92% of our total revenues for the first quarter of 2010 were derived from customers located outside of the United States. We expect that international customers will continue to account for a significant portion of our revenue for the foreseeable future. As a result, the occurrence of any negative international political, economic or geographic events could result in significant revenue shortfalls. These shortfalls could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;

- fluctuations in the exchange rate for the U.S. dollar;

- imposition of tariffs and other barriers and restrictions;

- burdens of complying with a variety of foreign laws, treaties and technical standards;

- uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property;

- multiple and possibly overlapping tax structures and potentially adverse tax consequences;

- political and economic instability; and

- changes in diplomatic and trade relationships.

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

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

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

The sales cycle for our IP solutions is lengthy, often lasting three to nine months. Our customers generally conduct significant technical evaluations, including customer trials, of our technology as well as competing technologies prior to making a purchasing decision. In addition, purchasing decisions also may be delayed because of a customer's internal budget approval process. Furthermore, given the current market conditions, we have less ability to predict the timing of our customers' purchasing cycle and potential unexpected delays in such a cycle. Because of the lengthy sales cycle and potential delays, our dependence on a limited number of customers to generate a significant amount of revenues for a particular period and the size of customer orders, if orders forecasted for a specific customer for a

particular period do not occur in that period, our revenues and operating results for that particular quarter could suffer. Moreover, a portion of our expenses related to an anticipated order is fixed and difficult to reduce or change, which may further impact our operating results for a particular period.

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

On an ongoing basis, we evaluate our various product offerings and technology developments in order to determine whether any should be discontinued or, to the extent possible, divested. In December 2008, we restructured our SATA activities to better fit SATA's operating expense levels to its overall revenue contribution. We cannot guarantee that we have correctly forecasted, or will correctly forecast in the future, the right product lines and technology developments to dispose or discontinue or that our decision to dispose of or discontinue various investments, products lines and technology developments is prudent if market conditions change. In addition, there are no assurances that the discontinuance of various product lines will reduce our operating expenses or will not cause us to incur material charges associated with such decision. Furthermore, the discontinuance of existing product lines entails various risks, including the risk that we will not be able to find a purchaser for a product line or the purchase price obtained will not be equal to at least the book value of the net assets for the product line. Other risks include managing the expectations of, and maintaining good relations with, our customers who previously purchased products from our disposed or discontinued product lines, which could prevent us from selling other products to them in the future. We may also incur other significant liabilities and costs associated with our disposal or discontinuance of product lines, including employee severance costs and excess facilities costs.

Table of Contents

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

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

Our operating results are affected by general economic conditions and the highly cyclical nature of the semiconductor industry.

During the 2008-2009 global downturn, general worldwide economic conditions significantly deteriorated, and resulted in decreased consumer confidence and spending, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. Our total revenues decreased in 2009 as compared to 2008. The economic downturn made, and the current uncertainty about the sustainability of the recovery makes, it extremely difficult for our customers, the end-product customers, our vendors and us to accurately forecast and plan future business activities and make reliable projections. Furthermore, during challenging economic times our customers may face various economic issues, including reduced demand for their products, longer design or production cycles, inability to gain timely access to sufficient credit, focus on cash preservation and tighter inventory management, all of which could result in an impairment of their ability to make timely payments to us and could cause reduced spending on our technologies.

Moreover, we operate within the semiconductor industry which experiences significant fluctuations in sales and profitability. The industry was materially adversely affected by the 2008-2009 global downturn. Downturns in the semiconductor industry are characterized by diminished product demand, excess customer inventories, accelerated erosion of prices and excess production capacity. These factors could cause substantial fluctuations in our revenues and in our results of operations.

If global economic and market conditions remain uncertain or deteriorate, we could experience a material adverse impact on our business and results of operations.

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

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

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

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

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

Table of Contents

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

We currently receive research grants from programs of the Office of the Chief Scientist of Israel of the Israeli Ministry of Industry and Trade and under the funding programs of Enterprise Ireland and Invest Northern Ireland. To be eligible for these grants, we must meet certain development conditions and comply with periodic reporting obligations. Although we have met such conditions in the past, should we fail to meet such conditions in the future our research grants may be repayable, reduced or withheld. The repayment or reduction of such research grants may increase our research and development expenses which in turn may reduce our operating income.

We are exposed to fluctuations in currency exchange rates.

A significant portion of our business is conducted outside the United States. Although most of our revenue is transacted in U.S. dollars, we may be exposed to currency exchange fluctuations in the future as business practices evolve and we are forced to transact business in local currencies. Moreover, the majority of our expenses are denominated in foreign currencies, mainly New Israeli Shekel (NIS), Euro and British Pound, which subjects us to the risks of foreign currency fluctuations. Our primary expenses paid in the NIS, Euro and British Pound are employee salaries. Increases in the volatility of the exchange rates of the NIS, Euro and British Pound versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur in NIS, Euro and British Pound when remeasured into U.S. dollars for financial reporting purposes. We have instituted a foreign cash flow hedging program to minimize the effects of currency fluctuations. However, hedging transactions may not successfully mitigate losses caused by currency fluctuations, and our hedging positions may be partial or may not exist at all in the future. We also review our monthly expected non-U.S. dollar denominated expenditure and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. We expect to continue to experience the effect of exchange rate currency fluctuations on an annual and quarterly basis.

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 application IP are characterized by rapidly changing technology, emerging markets and new and developing end-user needs, and requiring significant expenditure for research and development. We cannot assure you that we will be able to introduce systems and solutions that reflect prevailing industry standards on a timely basis, meet the specific technical requirements of our end-users or avoid significant losses due to rapid decreases in market prices of our products, and our failure to do so may seriously harm our business.

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

We may pursue acquisitions of businesses, products and technologies, or establish joint venture arrangements in the future that could expand our business. We are unable to predict whether or when any other prospective acquisition will be completed. The process of negotiating potential acquisitions or joint ventures, as well as the integration of acquired or jointly developed businesses, technologies or products may be prolonged due to unforeseen difficulties and may require a disproportionate amount of our resources and management's attention. We cannot assure you that we will be able to successfully identify suitable acquisition candidates, complete acquisitions or integrate acquired businesses or joint ventures with our operations. If we were to make any acquisitions or enter into a joint venture, we may not receive the intended benefits of the acquisition or joint venture or such an acquisition or joint venture may not achieve comparable levels of revenues, profitability or productivity as our existing business or otherwise perform as expected. The occurrence of any of these events could harm our business, financial condition or results of operations. Future acquisitions or joint venture may require substantial capital resources, which may require us to seek additional debt or equity financing.

Future acquisitions or joint venture by us could result in the following, any of which could seriously harm our results of operations or the price of our stock:

issuance of equity securities that would dilute our current stockholders' percentages of ownership;

large one-time write-offs;

incurrence of debt and contingent liabilities;

difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;

diversion of management's attention from other business concerns;

contractual disputes;

risks of entering geographic and business markets in which we have no or only limited prior experience; and

potential loss of key employees of acquired organizations.

Table of Contents

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

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

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

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.

We are subject to the risk of adverse claims and litigation alleging infringement of the intellectual property rights of others. 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. In addition, patent infringement claims are increasingly being asserted by patent holding companies (so-called patent trolls), which do not use technology and whose sole business is to enforce patents against companies, such as us, for monetary gain. Because such patent holding companies do not provide services or use technology, the assertion of our own patents by way of counter-claim may be ineffective. Infringement 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.

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

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

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

Historically, a substantial portion of our licensing revenues has been derived in any given period from a relatively small number of licensees. Because of the substantial license fees we charge, our customers tend to be large semiconductor companies or vertically integrated system OEMs. Part of our current growth strategy is to broaden the adoption of our products by small and mid-size companies by offering different versions of our products targeted at these companies. If we are unable to develop and market effectively our intellectual property through these models, our revenues will continue to be dependent on a smaller number of licensees and a less geographically dispersed pattern of licensees, which could materially harm our business and results of operations.

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

We enjoy certain tax benefits in Israel, particularly as a result of the Approved Enterprise and the Benefited 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. 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 corporate rate of 25% in 2010 and could be required to refund tax benefits already received. In addition, we cannot assure you that these tax benefits will be continued in the future at their current levels or otherwise. The tax benefits under our first four investment programs have expired and are subject to corporate tax of 25% in 2010. However, our Israeli operating subsidiary received in 2008 an approval for the erosion of tax basis in respect to its second, third and fourth investment programs, and as a result no taxable income was attributed to the second and third investment programs, and reduced taxable income was attributed to the fourth investment program. The tax benefits under our other investment programs are scheduled to gradually expire starting in 2012. The termination or reduction of certain programs and tax benefits (particularly benefits available to us as a result of the Approved Enterprise and the Benefited 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.

Table of Contents

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

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

Legislative action in the United States could materially and adversely affect us from a tax perspective.

Legislative action may be taken by the U.S. Congress which, if ultimately enacted, would adversely affect our effective tax rate and/or require us to take further action, at potentially significant expense, to seek to preserve our effective tax rate. In 2009 and 2010, President Obama's administration announced budgets, which included proposed future tax legislation that could substantially modify the rules governing the U.S. taxation of certain non-U.S. affiliates. These potential changes include, but are not limited to, curbing the deferral of U.S. taxation of certain foreign earnings and limiting the ability to use foreign tax credits. Many details of the proposal remain unknown, and any legislation enacting such modifications would require Congressional support and approval. We cannot predict the outcome of any specific legislative proposals. However, if any of these proposals are enacted into law, they could significantly impact our effective tax rate.

Our stock price may be volatile so you may not be able to resell your shares of our common stock at or above the price you paid for them.

Announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results, changes in the general conditions of the highly dynamic industry in which we compete or the national economies in which we do business, and other factors could cause the price of our common stock to fluctuate, perhaps substantially. In addition, in recent years, the stock market has experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. These factors and fluctuations could have a material adverse effect on the market price of our common stock.

Table of Contents

Item 6. EXHIBITS

Exhibit

No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CEVA, INC.

Date: May 10, 2010

By: /s/ GIDEON WERTHEIZER
Gideon Wertheizer
Chief Executive Officer
(principal executive officer)

Date: May 10, 2010

By: /s/ YANIV ARIELI
Yaniv Arieli
Chief Financial Officer
(principal financial officer and principal accounting officer)